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# The European Union: Questions and Answers

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## Summary

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among sovereign countries. The Union is the latest stage in a process of integration begun after World War II, initially by six Western European countries, to foster interdependence and make another war in Europe unthinkable. Today, the EU is composed of 28 member states, including most of the countries of Central and Eastern Europe, and has helped to promote peace, stability, and economic prosperity throughout the European continent.

The EU has been built through a series of binding treaties, and over the years, EU member states have sought to harmonize laws and adopt common policies on an increasing number of economic, social, and political issues. EU member states share a customs union; a single market in which goods, people, and capital move freely; a common trade policy; and a common agricultural policy. Nineteen EU member states use a common currency (the euro), and 22 participate in the Schengen area of free movement in which internal border controls have been eliminated. In addition, the EU has been developing a Common Foreign and Security Policy (CFSP), which includes a Common Security and Defense Policy (CSDP), and pursuing cooperation in the area of Justice and Home Affairs (JHA) to forge common internal security measures.

EU member states work together through several institutions to set policy and to promote their collective interests. Key EU institutions include the European Council, composed of EU Heads of State or Government, which acts as the strategic guide and driving force for EU policy; the European Commission, which upholds the common interest of the Union as a whole and functions as the EU's executive; the Council of the European Union (also known as the Council of Ministers), which represents the national governments; and the directly elected European Parliament, which represents the citizens of the EU.

EU decisionmaking processes and the role played by the EU institutions vary depending on the subject under consideration. For most economic and social issues, EU member states have largely pooled their national sovereignty, and EU decisionmaking has a supranational quality. Decisions in other areas, such as foreign policy, require the unanimous consensus of all 28 member states.

The United States has strongly supported the European integration project since its inception as a means to foster democratic states and strong trading partners in Europe. The United States and the EU have a dynamic political partnership and share a huge trade and investment relationship. To expand and strengthen the transatlantic economy even further, the United States and the EU are pursuing a comprehensive free trade agreement, known as the Transatlantic Trade and Investment Partnership (T-TIP); both the United States and the EU hope to conclude negotiations in 2016.

At the same time, some U.S.-EU divisions exist on a range of issues. These include how best to manage relations with Russia, the Israeli-Palestinian conflict, climate change, and several long-standing trade disputes. Data privacy and data protection have also been key sticking points, with the differences in U.S. and EU approaches highlighted most recently by the October 2015 EU court judgment invalidating the U.S.-EU Safe Harbor Agreement that had permitted the transfer of personal data between European and U.S. companies since 2000. Many U.S. officials, including some Members of Congress, are also concerned that the multiple challenges currently facing the EU—from the migration and refugee crisis to the upcoming UK referendum on EU membership to the rise of anti-EU populist political parties—may have significant implications for the EU's future and its ability to be a robust and effective U.S. partner in the years ahead.

This report serves as a primer on the EU. It also briefly describes U.S.-EU political and economic relations that may be of interest in the 114<sup>th</sup> Congress. Also see CRS Report R44249, *The European Union (EU): Current Challenges and Future Prospects in Brief*, by (name redacted)

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## What Is the European Union?

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among 28 member states (see the map in the **Appendix**).<sup>1</sup> Built through a series of binding treaties, the Union is the latest stage in a process of integration begun after World War II to promote peace and economic prosperity in Europe. Its founders hoped that by creating specified areas in which member states agreed to share sovereignty—initially in coal and steel production, economics and trade, and nuclear energy—it would promote interdependence and make another war in Europe unthinkable. Since the 1950s, this European integration project has expanded to encompass other economic sectors; a customs union; a single market in which goods, people, and capital move freely; a common trade policy; a common agricultural policy; many aspects of social and environmental policy; and a common currency (the euro) that is used by 19 member states. Since the mid-1990s, EU member states have also taken significant steps toward political integration, with decisions to develop a Common Foreign and Security Policy (CFSP) and efforts to promote cooperation in the area of Justice and Home Affairs (JHA), which is aimed at forging common internal security measures. Twenty-two EU members participate in the Schengen area of free movement, which allows individuals to travel without passport checks among most European countries.

## How Does the EU Work?

EU member states work together through common institutions (see next question) to set policy and promote their collective interests. Over the past several decades, EU members have progressively committed to harmonizing laws and adopting joint policies on an extensive and increasing number of issues. However, decisionmaking processes and the role of the EU institutions vary depending on the subject under consideration.

On a multitude of economic and social policies (previously termed Pillar One, or the European Community), EU members have essentially pooled their sovereignty and EU institutions hold executive authority. Integration in these fields—which range from trade and agriculture to health and the environment—has traditionally been the most developed and far-reaching. EU decisions in such areas often have a supranational quality because most are subject to a complex majority voting system among the member states and are legally binding.

For issues falling under the Common Foreign and Security Policy (once known as Pillar Two), EU member states have agreed to cooperate, but most decisionmaking is intergovernmental and requires the unanimous agreement of all 28 EU countries. Thus, member states retain more discretion over their participation as any one country can veto a decision. For many years, unanimous agreement among the member states was also largely the rule for policy-making in the Justice and Home Affairs area (formerly Pillar Three); recently, however, EU member states agreed to accelerate integration in the JHA field by extending the use of the EU's majority voting system to most JHA issues and giving EU institutions a greater role in JHA policy-making.

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<sup>1</sup> The 28 members of the EU are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

## How Is the EU Governed?

The EU is governed by several institutions. They do not correspond exactly to the traditional branches of government or division of power in representative democracies. Rather, they embody the EU's dual supranational and intergovernmental character:

- The *European Council* acts as the strategic guide for EU policy. It is composed of the Heads of State or Government of the EU's member states and the President of the European Commission; it meets several times a year in what are often termed "EU summits." The European Council is headed by a President, appointed by the member states to organize the Council's work and facilitate consensus.
- The *European Commission* is essentially the EU's executive and upholds the common interest of the EU as a whole. It implements and manages EU decisions and common policies, ensures that the provisions of the EU's treaties are carried out properly, and has the sole right of legislative initiative in most policy areas. It is composed of 28 Commissioners, one from each country, who are appointed by agreement among the member states to five-year terms and approved by the European Parliament. One Commissioner serves as Commission President; the others hold distinct portfolios (e.g., agriculture, energy, trade). On many issues, the Commission handles negotiations with outside countries. The Commission is also the EU's primary administrative entity.
- The *Council of the European Union* (also called the *Council of Ministers*) represents the 28 national governments. The Council enacts legislation, usually based on proposals put forward by the Commission, and agreed to (in most cases) by the European Parliament. Different ministers from each country participate in Council meetings depending on the subject under consideration (e.g., foreign ministers would meet to discuss the Middle East, agriculture ministers to discuss farm subsidies). Most decisions are subject to a complex majority voting system, but some areas—such as foreign and defense policy, taxation, or accepting new members—require unanimity. The Presidency of the Council rotates among the member states, changing every six months; the country holding the Presidency helps set agenda priorities and organizes most of the work of the Council.
- The *European Parliament* represents the citizens of the EU. It consists of 751 members who are directly elected for five-year terms (the most recent elections were in May 2014). Each EU country has a number of seats roughly proportional to the size of its population. Although the Parliament cannot initiate legislation, it shares legislative power with the Council of Ministers in many policy areas, giving it the right to accept, amend, or reject the majority of proposed EU legislation in a process known as the "ordinary legislative procedure" or "co-decision." The Parliament also decides on the allocation of the EU's budget jointly with the Council. Members of the European Parliament (MEPs) caucus according to political affiliation, rather than nationality; there are eight political groups and a number of non-attached MEPs.
- Other institutions also play key roles. The *Court of Justice* interprets EU laws and its rulings are binding; a *Court of Auditors* monitors financial management; the *European Central Bank* manages the euro and EU monetary policy; and *advisory committees* represent economic, social, and regional interests.

## What Is the Lisbon Treaty?

On December 1, 2009, the EU's latest institutional reform endeavor—the Lisbon Treaty—came into force following its ratification by all of the EU's then-27 member states. It is the final product of an effort begun in 2002 to reform the EU's governing institutions and decisionmaking processes in order to enable an enlarged Union to function more effectively. In addition, the treaty seeks to give the EU a stronger and more coherent voice and identity on the world stage, and to increase democracy and transparency within the EU.<sup>2</sup>

To help accomplish these goals, the Lisbon Treaty established two new leadership positions. The President of the European Council, chosen by the member states for a term of two and one-half years (renewable once), now chairs the meetings of the 28 EU Heads of State or Government, serves as coordinator and spokesman for their work, seeks to ensure policy continuity, and strives to forge consensus among the member states. The Lisbon Treaty also created a dual-hatted position of High Representative of the Union for Foreign Affairs and Security Policy to serve essentially as the EU's chief diplomat. The High Representative is both an agent of the Council of Ministers—and thus speaks for the member states on foreign policy issues—as well as a Vice President of the European Commission, responsible for managing most of the Commission's diplomatic activities and foreign assistance programs (see “Does the EU Have a Foreign Policy?” for more information).

Among other key measures, the Lisbon Treaty simplifies the EU's qualified majority voting system and expands its use to policy areas previously subject to member state unanimity in the Council of Ministers; this change was intended in part to speed EU decisionmaking and improve its efficiency. Nevertheless, in practice, member states will likely still strive for consensus on sensitive policy issues (such as police cooperation, immigration, and countering terrorism) that are usually viewed as central to a nation-state's sovereignty. At the same time, the mere possibility of a vote may make member state governments more willing to compromise and reach a common policy decision.

In addition, the Lisbon Treaty increases the relative power of the European Parliament in an effort to improve democratic accountability. It strengthens the Parliament's role in the EU's budgetary process and extends the use of the “co-decision” procedure to more policy areas, including agriculture and home affairs issues.<sup>3</sup> As such, the treaty gives the Parliament a say equal to that of the member states in the Council of Ministers over the vast majority of EU legislation (with some exceptions, such as most aspects of foreign and defense policy). In addition, the Lisbon Treaty provides national parliaments with a degree of greater authority to challenge draft EU legislation and allows for the possibility of new legislative proposals based on citizen initiatives.

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<sup>2</sup> The Lisbon Treaty amends, rather than replaces, existing EU treaties. The history of the Lisbon Treaty is replete with contentious negotiations among the member states and numerous ratification hurdles; it evolved from the proposed EU constitutional treaty, which was rejected in French and Dutch national referendums in 2005. Despite the failure of the EU constitutional treaty, experts say the Lisbon Treaty preserves over 90% of the substance of the original treaty. For more information, see CRS Report RS21618, *The European Union's Reform Process: The Lisbon Treaty*, by (name redacted) and (name redacted)

<sup>3</sup> The Lisbon Treaty technically renames the “co-decision” procedure as the “ordinary legislative procedure.”

### Key EU Positions and Current Leaders

The **President of the European Council** is Donald Tusk, a former prime minister of Poland. Appointed by the member states for a two-and-one-half year term, Tusk assumed office on December 1, 2014.

The **President of the European Commission** is Jean-Claude Juncker, a former prime minister of Luxembourg. The so-called “Juncker Commission” took office in November 2014. The Commission President and the other 27 Commissioners are appointed by agreement among the member states, subject to the approval of the European Parliament. In selecting the Commission President, member states must take into account the results of the most recent European Parliament elections.

The Netherlands holds the **Presidency of the Council of Ministers** (often termed the “EU Presidency”) from January to June 2016; Slovakia will hold the Presidency from July to December 2016.

Every two-and-a-half years (twice per each five-year parliamentary term) Members of the European Parliament (MEPs) elect the **President of the European Parliament**, currently German MEP Martin Schulz, of the center-left Progressive Alliance of Socialists and Democrats (S&D) parliamentary group. Schulz was re-elected to this position in July 2014, following the most recent European Parliament elections.

The **High Representative of the Union for Foreign Affairs and Security Policy** is Federica Mogherini of Italy. The High Representative is chosen by agreement among the member states but like the other members of the Commission, must also be approved by the European Parliament.

## What Is the Euro and the Eurozone Crisis?

Nineteen of the EU’s 28 member states use a common single currency, the euro, and are often collectively referred to as “the Eurozone.”<sup>4</sup> The gradual introduction of the euro began in January 1999 when 11 EU member states became the first to adopt it and banks and many businesses started using the euro as a unit of account. Euro notes and coins replaced national currencies in participating states in January 2002. Eurozone participants share a common central bank—the European Central Bank (ECB)—and a common monetary policy. However, they do not have a common fiscal policy, and member states retain control over decisions about national spending and taxation, subject to certain conditions designed to maintain budgetary discipline. Lithuania became the most recent country to join the Eurozone on January 1, 2015.

The “Eurozone crisis” began as a sovereign (or public) debt crisis in Greece in 2009-2010. Over the previous decade, the Greek government borrowed heavily from international capital markets to pay for its budget and trade deficits. This left Greece vulnerable to shifts in investor confidence. As investors became increasingly nervous in 2009 that the government’s debt was too high amid the global financial crisis, markets demanded higher interest rates for Greek bonds, which drove up Greece’s borrowing costs. By early 2010, Greece risked defaulting on its public debt. Market concerns then spread to several other Eurozone countries with high, potentially unsustainable levels of public debt, including Ireland, Portugal, Spain, and Italy. The debt problems of these countries also posed a risk to the European banking system, slowed economic growth, and led to increased unemployment in many Eurozone countries.

European leaders and EU institutions responded to the crisis and sought to stem its contagion with a variety of policy mechanisms. In order to avoid default, Greece, Ireland, Portugal, and Cyprus received “bail-out” loans from the EU and the International Monetary Fund (IMF). Such assistance, however, came with some strings attached, including the imposition of strict austerity measures. Spain (the Eurozone’s fourth-largest economy) also enacted significant austerity measures, and Eurozone leaders approved a recapitalization plan for Spanish banks. Other key

<sup>4</sup> The 19 members of the EU that use the euro are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

initiatives have included the creation of a permanent EU financial assistance facility (the European Stability Mechanism, or ESM) to provide emergency support to Eurozone countries in financial trouble; a decision to create a single bank supervisor for the Eurozone, under which the ESM would be able to inject cash directly into ailing Eurozone banks; and ECB efforts to calm the financial markets by purchasing large portions of European sovereign debt and providing significant infusions of credit into the European banking system.

The Eurozone crisis began to abate in late 2012 as market confidence became more positive, and the situation has stabilized in most Eurozone countries. Ireland exited the EU-IMF financial assistance program in December 2013, and Portugal did so in May 2014; both countries have returned to the bond markets. EU aid to Spanish banks has also ceased, and Cyprus is expected to complete its financial assistance program in spring 2016. Nevertheless, experts assert that the Eurozone remains fragile; many member states continue to experience weak economic growth and high unemployment. In particular, Greece's economy and banking system remain in distress.

In the first half of 2015, prospects grew that Greece might exit the Eurozone (dubbed "Grexit") as the Greek government—led by the leftist, anti-austerity Syriza party—sought further financial assistance from Greece's Eurozone creditors but also demanded debt relief and an easing of austerity. For months, negotiations foundered. While France and Italy emphasized the political importance of the Eurozone, Germany (and others such as the Netherlands, Finland, Slovakia, and Slovenia) stressed that all members, including Greece, must adhere to Eurozone fiscal rules. By the end of June, Greece failed to make a payment to the IMF, and the government closed the banks and imposed capital controls. On July 5, Greek voters rejected calls from fellow Eurozone members for further austerity in a public referendum, seemingly increasing the possibility of "Grexit." On July 12-13, however, the Syriza-led government acceded to EU demands for more austerity and economic reforms in exchange for the badly needed financial assistance. Although "Grexit" appears to have been averted for now, Greece still faces a long road toward economic recovery, and the threat of "Grexit" may still loom in the longer term.<sup>5</sup>

The most recent crisis over Greece significantly challenged the EU as an institution and the future of the EU integration project. From its start six years ago, the Eurozone crisis forced EU leaders to grapple with weaknesses in the Eurozone's structure and the common currency's future viability. It also generated tensions among member states over the proper balance between imposing austerity measures versus stimulating growth and whether greater EU fiscal integration was necessary. The fraught negotiations with Greece in 2015 produced an even higher degree of acrimony and a serious lack of trust among EU member states. Many analysts suggest that the crisis has threatened the core EU principle of solidarity and point to it as an indication that member states are increasingly prioritizing narrow national agendas. Some suggest that given how very close the EU came to "Grexit," the crisis has undermined the integrity of the Eurozone and raised questions about its irreversibility. Others contend that the EU has taken steps over the last few years to strengthen the Eurozone's architecture and improve fiscal discipline and that EU governments and leaders remain strongly committed to the EU project.

## Why and How Is the EU Enlarging?

The EU views the enlargement process as an extraordinary opportunity to promote stability and prosperity in Europe. Since 2004, EU membership has grown from 15 to 28 countries, bringing in

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<sup>5</sup> For more information, see CRS Report R44155, *The Greek Debt Crisis: Overview and Implications for the United States*, coordinated by (name redacted) .



most states of Central and Eastern Europe. The EU began as the European Coal and Steel Community in 1952 with six members (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands). In 1973, Denmark, Ireland, and the United Kingdom joined what had then become known as the European Community. Greece joined in 1981, followed by Spain and Portugal in 1986. In 1995, Austria, Finland, and Sweden acceded to the present-day European Union. In 2004, the EU welcomed eight former communist countries—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia—plus Cyprus and Malta as new members. Bulgaria and Romania joined in 2007. Croatia became the 28<sup>th</sup> member in July 2013.

In order to be eligible for EU membership, countries must first meet a set of established criteria, including having a functioning democracy and market economy. Once a country becomes an official candidate, accession negotiations are a long and complex process in which the applicant must adopt and implement a massive body of EU laws and regulations. Analysts contend that the carefully managed process of enlargement is one of the EU's most powerful policy tools, and that, over the years, it has helped transform many European countries into functioning democracies and more affluent societies.

Six countries are currently recognized by the EU as official candidates for membership: Albania, Macedonia, Montenegro, Serbia, Turkey, and Iceland.<sup>6</sup> All are at different stages of the accession process. For example, while Albania was just named as an official candidate in June 2014, accession negotiations have been underway with Turkey since 2005. It will likely be many years before most of the current candidates are ready to join the EU. Bosnia-Herzegovina and Kosovo are also recognized as potential future EU candidates (see **Appendix**).

The EU maintains that the enlargement door remains open to any European country that fulfills the EU's political and economic criteria for membership. Nevertheless, some European leaders and many EU citizens are cautious about additional EU expansion, especially to Turkey or countries farther east, such as Georgia or Ukraine, in the longer term. Worries about continued EU enlargement range from fears of unwanted migrant labor to the implications of an ever-expanding Union on the EU's institutions, finances, and overall identity. Observers note that such qualms are particularly apparent with respect to Turkey's possible EU accession, given Turkey's large size, predominantly Muslim culture, and relatively less prosperous economy.<sup>7</sup>

## Does the EU Have a Foreign Policy?

The EU has a Common Foreign and Security Policy (CFSP), in which member states adopt common policies, undertake joint actions, and pursue coordinated strategies in areas in which they can reach consensus. CFSP was established in 1993; the eruption of hostilities in the Balkans in the early 1990s and the EU's limited tools for responding to the crisis convinced EU leaders that the Union had to improve its ability to act collectively in the foreign policy realm. Previous EU attempts to further such political integration had foundered for decades on member state concerns about protecting national sovereignty and different foreign policy prerogatives.

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<sup>6</sup> The EU officially continues to recognize Iceland as a candidate for membership, but Iceland's accession negotiations have been on hold since May 2013, when a new Icelandic coalition government largely opposed to EU membership took office. In March 2015, Iceland's government requested that Iceland should no longer be regarded as a candidate country, although it did not formally withdraw Iceland's application for EU membership.

<sup>7</sup> For background, see CRS Report RS21344, *European Union Enlargement*, by (name redacted) and (name redacted).

CFSP decisionmaking is dominated by the member states and requires the unanimous agreement of all 28. Member states must also ensure that national policies are in line with agreed EU strategies and positions (e.g., imposing sanctions on a country). However, CFSP does not preclude individual member states pursuing their own national foreign policies or conducting their own national diplomacy.

CFSP remains a work in progress. Although many view the EU as having made considerable strides in forging common policies on a range of international issues, from the Balkans to the Middle East peace process to Iran, others argue that the credibility of CFSP too often suffers from an inability to reach consensus. The launch of the U.S.-led war in Iraq in 2003, for example, was extremely divisive among EU members, and they were unable to agree on a common EU position. Others note that some differences in viewpoint are inevitable among 28 countries that still retain different approaches, cultures, histories, and relationships—and often different national interests—when it comes to foreign policy.

The EU's Lisbon Treaty seeks to bolster CFSP by increasing the EU's visibility on the world stage and making the EU a more coherent foreign policy actor. As noted above, the treaty established a High Representative of the Union for Foreign Affairs and Security Policy to serve essentially as the EU's chief diplomat. This post combines into one position the former responsibilities of the Council of Ministers' High Representative for CFSP and the Commissioner for External Relations, who previously managed the European Commission's diplomatic activities and foreign aid programs. In doing so, the High Representative position aims to marry the EU's collective political influence with the Commission's economic weight and development tools. The Lisbon Treaty also created a new EU diplomatic corps (the European External Action Service) to support the High Representative.<sup>8</sup>

## **Does the EU Have a Defense Policy?**

Since 1999, the EU has been working to develop a Common Security and Defense Policy (CSDP), formerly known as the European Security and Defense Policy (ESDP).<sup>9</sup> CSDP seeks to improve the EU's ability to respond to crises, enhance European military capabilities, and give the EU's common foreign policy a military backbone. The EU has created three defense decisionmaking bodies, has set targets for improving defense capabilities, and has developed a rapid reaction force and multinational "battlegroups." Such EU forces are not a standing "EU army," but rather a catalogue of troops and assets at appropriate readiness levels that may be drawn from existing national forces for EU operations.

CSDP operations focus largely on tasks such as peacekeeping, crisis management, and humanitarian assistance. Many CSDP missions to date have been civilian, rather than military, in nature, with objectives such as police and judicial training ("rule of law") or security sector reform. The EU is or has been engaged in CSDP missions in regions ranging from the Balkans and the Caucasus to Africa and the Middle East.

However, improving European military capabilities has been difficult, especially given flat or declining European defense budgets. Serious capability gaps continue to exist in strategic air- and seairlift, command and control systems, intelligence, and other force multipliers. Also, a relatively low percentage of European forces are deployable for expeditionary operations. Some analysts

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<sup>8</sup> For more information, see CRS Report R41959, *The European Union: Foreign and Security Policy*, by (name redacted)

<sup>9</sup> ESDP was renamed CSDP by the Lisbon Treaty.

have suggested pooling assets among several member states and the development of national niche capabilities as possible ways to help remedy European military shortfalls. In 2004, the EU established the European Defense Agency to help coordinate defense-industrial and procurement policy in an effort to stretch European defense funds farther.

## **What Is the Relationship of the EU to NATO?**

Since its inception, the EU has asserted that CSDP is intended to allow the EU to make decisions and conduct military operations “where NATO as a whole is not engaged,” and that CSDP is not aimed at usurping NATO’s collective defense role. The United States has supported EU efforts to develop CSDP provided that it remains tied to NATO, does not rival or duplicate NATO structures or resources, and does not weaken the transatlantic alliance. Advocates of CSDP argue that building more robust EU military capabilities will also benefit NATO given that 22 countries belong to both NATO and the EU.<sup>10</sup> The Berlin Plus arrangement—which was finalized in 2003 and allows EU-led military missions access to NATO planning capabilities and common assets—was designed to help ensure close NATO-EU links and prevent a wasteful duplication of European defense resources. Since then, two Berlin Plus missions have been conducted in the Balkans, and NATO and the EU have sought to coordinate their activities on the ground in operations in Afghanistan and various hot spots in Africa.

Nevertheless, NATO-EU relations remain somewhat strained. Closer and more extensive NATO-EU cooperation at the political level on a range of issues—from discussions on countering terrorism or weapons proliferation to improving coordination of crisis management planning and defense policies—has been stymied largely by EU tensions with Turkey (in NATO but not the EU) and the ongoing dispute over the divided island of Cyprus (in the EU but not NATO).<sup>11</sup> Many analysts argue that until a political settlement is reached over Cyprus, enhanced NATO-EU cooperation is unlikely. Others suggest that additional reasons exist for frictions in the NATO-EU relationship, including bureaucratic rivalry and competition between the two organizations and varying views on both sides of the Atlantic regarding the future roles and missions of both NATO and the EU’s CSDP. Some U.S. officials still worry that a minority of EU member states would like to build an EU defense arm more independent from NATO in the longer term.

## **What Is Justice and Home Affairs (JHA)?**

The JHA field seeks to foster common internal security measures while protecting the fundamental rights of EU citizens and promoting the free movement of persons within the EU zone. JHA encompasses police and judicial cooperation, migration and asylum policies, fighting terrorism and other cross-border crimes, and combating racism and xenophobia. JHA also includes border control policies and rules for the Schengen area of free movement.

For many years, EU efforts to harmonize policies in the JHA field were hampered by member states’ concerns that such measures could infringe on their legal systems and national sovereignty.

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<sup>10</sup> Six countries belong to the EU, but not to NATO (Austria, Cyprus, Finland, Ireland, Malta, and Sweden); six others currently belong to NATO but not the EU (Albania, Canada, Iceland, Norway, Turkey, and the United States).

<sup>11</sup> Turkey continues to formally object to Cypriot participation in NATO-EU meetings on the grounds that Cyprus is not a member of NATO’s Partnership for Peace (PfP) and thus does not have a security relationship with the alliance. The absence of Cyprus from PfP also hinders NATO and the EU from sharing sensitive intelligence information. In the current political climate, Cyprus essentially cannot join PfP because it would require the consent of all NATO allies, including Turkey.

The 2001 terrorist attacks on the United States, the subsequent revelation of Al Qaeda cells in Europe, and the terrorist bombings in Madrid and London in 2004 and 2005, however, helped give new momentum to many initiatives in the JHA area. Among other measures, the EU has established a common definition of terrorism and an EU-wide arrest warrant. Recent terrorist attacks in France, Denmark, and Belgium over the past year and a half have also led the EU to devote significant attention to combating the so-called “foreign fighter phenomenon” and those inspired by terrorist groups such as the Islamic State in Syria and Iraq.<sup>12</sup>

The EU’s Lisbon Treaty gave the European Parliament “co-decision” power over the majority of JHA policy areas. The Treaty also made most decisions on JHA issues in the Council of Ministers subject to the qualified majority voting system, rather than unanimity, in a bid to speed EU decisionmaking. In practice, however, the EU strives for consensus as much as possible on sensitive JHA policies. Moreover, for some issues in the JHA area, the EU added an “emergency brake” that allows any member state to halt a measure it believes could threaten its national legal system and ultimately, to opt out of it. Despite these safeguards, the UK and Ireland negotiated the right to choose those JHA policies they want to take part in and to opt out of all others; Denmark extended its previous opt-out in some JHA areas to all JHA issues. The Lisbon Treaty technically renamed JHA as the “Area of Freedom, Security, and Justice.”

## What Is the Schengen Area?

The Schengen area of free movement encompasses 22 EU member states plus four non-EU countries.<sup>13</sup> Within the Schengen area, internal border controls have been eliminated, and individuals may travel without passport checks among participating countries. In effect, Schengen participants share a common external border where immigration checks for individuals entering or leaving the Schengen area are carried out. The Schengen area is founded upon the Schengen Agreement of 1985 (Schengen is the town in Luxembourg where the agreement was signed, originally by five countries). In 1999, the Schengen Agreement was incorporated into EU law. The Schengen Borders Code comprises a detailed set of rules governing both external and internal border controls in the Schengen area, including common rules on visas, asylum requests, and border checks. Provisions also exist that allow participating countries to reintroduce internal border controls for a limited period of time in cases of a serious security threat or exceptional circumstances, such as a conference of world leaders or a major international sporting event.

Along with the abolition of internal borders, Schengen participants agreed to strengthen cooperation and coordination between their police and judicial authorities in order to safeguard internal security and fight organized crime. As part of these efforts, they established the Schengen Information System (SIS), a large-scale information database that enables police, border guards, and other law enforcement and judicial authorities to enter and consult alerts on certain categories of persons and objects. Such categories include persons wanted for arrest, missing persons (including children), criminal suspects, individuals who do not have the right to enter or stay in Schengen territory, stolen vehicles and property, lost or forged identity documents, and firearms.

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<sup>12</sup> For more information, see CRS Report RS22030, *U.S.-EU Cooperation Against Terrorism*, by (name redacted) and CRS Report R44003, *European Fighters in Syria and Iraq: Assessments, Responses, and Issues for the United States*, coordinated by (name redacted)

<sup>13</sup> The 22 EU members that belong to the Schengen area of free movement are Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, and Sweden. The four non-EU members of the Schengen area are Iceland, Liechtenstein, Norway, and Switzerland.

Four EU countries (Bulgaria, Croatia, Cyprus, and Romania) are not yet full Schengen members, but are bound to join once they meet the required security conditions. EU members Ireland and the UK have opt-outs from the Schengen free movement area but take part in some aspects of the Schengen Agreement related to police and judicial cooperation, including access to the SIS.<sup>14</sup>

## **Does the EU Have a Trade Policy and Process?**

The EU has a common external trade policy, which means that trade policy is an exclusive competence of the EU and no member state can negotiate its own international trade agreement. The EU's trade policy is one of its most well-developed and integrated policies. It evolved along with the common market—which provides for the free movement of goods within the EU—to prevent one member state from importing foreign goods at cheaper prices due to lower tariffs and then re-exporting the items to another member with higher tariffs. The scope of the common trade policy has been extended partially to include trade in services, the defense of intellectual property rights, and foreign direct investment. The European Commission and the Council of Ministers work together to set the common customs tariff, guide export policy, and decide on trade protection or retaliation measures where necessary. EU rules allow the Council to make trade decisions with qualified majority voting, but in practice the Council tends to employ consensus.

The European Commission negotiates trade agreements with outside countries and trading blocs on behalf of the Union as a whole. As a result of the Lisbon Treaty, both the Council of Ministers and the European Parliament must approve all such trade agreements before they can enter into force. The process for negotiating and concluding a new international trade agreement begins with discussions among all three EU institutions and a Commission impact assessment, including a public consultation on the content and options for any future trade accord. Provided there is a general agreement to proceed, the Commission initiates an informal scoping exercise with the potential partner country or trade bloc on the range and extent of topics to be considered in the negotiations. Following this dialogue, the Commission then formulates what are known as “negotiating directives” (sometimes termed the “negotiating mandate”), which sets out the Commission's overall objectives for the future agreement. The “directives” are submitted to the Council for its approval, and shared with the European Parliament.

Provided the Council approves the “negotiating directives,” the Commission then launches formal negotiations for the new trade agreement on behalf of the EU. Within the Commission, the department that handles EU trade policy—the Directorate General for Trade (DG Trade)—leads the negotiations but draws on expertise from across the Commission. Typically, there are a series of negotiation rounds; the duration of the negotiations varies but can range from two to three years or longer. During the course of negotiations, the Commission is expected to keep both the Council and the Parliament apprised of its progress. The Parliament may conduct its own oversight hearings through its International Trade Committee (INTA). When negotiations reach the final stage, both parties to the agreement initial the proposed accord. It is then submitted to the Council and the Parliament for review.<sup>15</sup> If the Council approves the accord, it authorizes the Commission to formally sign the agreement.

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<sup>14</sup> For more information, see EUR-Lex, “The Schengen Area and Cooperation,” available at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3AI33020>.

<sup>15</sup> Some trade agreements submitted for Council and Parliament approval are accompanied by Commission legislative proposals needed to implement the new accord; these legislative proposals must also be adopted by both the Council and the Parliament.

Once the new trade accord is officially signed by both parties, the Council submits it to the Parliament for its consent. The Parliament reviews the signed agreement both in the INTA Committee and in plenary session. Although the Parliament is limited to voting “yes” or “no” to the new accord, it can ask the Commission to review or address any concerns. If parts of the trade agreement fall under member state competence, all EU countries must also ratify the agreement according to their national ratification procedures.<sup>16</sup> After Parliament gives its consent and following ratification in the member states (if required), the Council adopts the final decision to conclude the agreement. It may then be officially published and enter into force.<sup>17</sup>

## How Do EU Countries and Citizens View the EU?

EU member states have long believed that the Union magnifies their political and economic clout (i.e., the sum is greater than the parts). Nevertheless, tensions have always existed within the EU between those members that seek an “ever closer union” through greater integration and those that prefer to keep the Union on a more intergovernmental footing in order to better guard their national sovereignty. As a result, some member states over the years have “opted out” of certain aspects of integration, including the Eurozone and the Schengen area. Another classic divide in the EU falls along big versus small state lines; small members are often cautious of initiatives that they fear could allow larger countries to dominate EU decisionmaking.

In addition, different histories and geography may influence member states’ policy preferences. The EU’s enlargement to the east has brought in many members with histories of Soviet control, which may color their views on issues ranging from EU reform to relations with Russia to migration; at times, such differences have caused frictions with older EU member states. Meanwhile, southern EU countries that border the Mediterranean may have greater political and economic interests in North Africa than EU members located farther north.

The prevailing view among European publics has likewise been historically favorable toward the EU. Despite the EU’s financial troubles and a drop in public support for the EU’s single currency in recent years, surveys indicate that the majority of EU citizens continue to consider EU membership as good for their countries overall.<sup>18</sup> EU citizens also value the freedom to easily travel, work, and live in other EU countries.

At the same time, there has always been a certain amount of “euroskepticism”—or anti-EU sentiments—among some segments of the European public. Traditionally, such euroskepticism has been driven by fears about the loss of national sovereignty or concerns about what some view as a “democratic deficit” in the EU—a feeling that ordinary citizens have no say over decisions taken in far-away Brussels. Recently, however, Europe’s economic stagnation and the Eurozone crisis, along with fears about immigration and globalization, have contributed to growing support for populist and euroskeptic parties throughout Europe. Such parties, however, are not monolithic. Most are on the far right of the political spectrum, but a few are on the left or far left.

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<sup>16</sup> With the entrance into force of the Lisbon Treaty, most policy areas usually included in trade agreements are now considered areas of exclusive EU competence; thus, most experts judge that member state ratification may be unnecessary, or required only for small parts of new EU trade agreements. See Stephen Woolcock, “EU Trade and Investment Policymaking After the Lisbon Treaty,” *Intereconomics*, 2010.

<sup>17</sup> For more on the EU process for concluding new trade agreements, see European Commission, “Factsheet: Trade Negotiations Step By Step,” September 2013, [http://trade.ec.europa.eu/doculib/docs/2012/june/tradoc\\_149616.pdf](http://trade.ec.europa.eu/doculib/docs/2012/june/tradoc_149616.pdf).

<sup>18</sup> See, for example, German Marshall Fund of the United States, *Transatlantic Trends 2014*; and Bruce Stokes, “Faith in European Project Reviving,” Pew Research Center, June 2, 2015.

Moreover, they hold a range of views on the future of the EU, with some advocating for EU reforms while others call for an end to the Eurozone or even the EU itself.

Austria, Denmark, Finland, France, Greece, Hungary, Italy, the Netherlands, Poland, Sweden, and the United Kingdom are among those EU countries with increasingly successful populist, and to at least some extent, euroskeptic parties. Partly as a result of increasing pressure from hardline euroskeptics to reconsider the UK's relationship with the EU, UK Prime Minister David Cameron is seeking to renegotiate the UK's membership conditions with the EU and to hold an "in-or-out" public referendum by the end of 2017 at the latest (and possibly as early as mid-2016). With current polls indicating an almost even split among voters on staying in or leaving the EU, a British exit from the EU (a so-called "Brexit") could be a distinct possibility.<sup>19</sup>

## Does the United States Have a Formal Relationship with the EU?

For decades, the United States and the EU (and its progenitors) have maintained diplomatic and economic ties. Despite some frictions, the United States and the EU share a dynamic political partnership on an increasing number of foreign policy issues, and U.S.-EU trade and investment relations are close and extensive. The 1990 U.S.-EU Transatlantic Declaration set out principles for greater consultation, and established regular summit and ministerial meetings. In 1995, the New Transatlantic Agenda (NTA) and the EU-U.S. Joint Action Plan provided a framework for promoting stability and democracy together, responding to global challenges, and expanding world trade. The NTA also sought to strengthen individual, people-to-people ties across the Atlantic, and launched a number of dialogues, including ones for business leaders and legislators. The Transatlantic Legislators' Dialogue (TLD) has been the formal mechanism for engagement and exchange between the U.S. House of Representatives and the European Parliament since 1999, although inter-parliamentary exchanges between the two bodies date back to 1972.

## Who Are U.S. Officials' Counterparts in the EU?

U.S.-EU summits usually occur at least once a year; under the Lisbon Treaty, the U.S. President meets with the President of the European Commission and the President of the European Council. The U.S. Secretary of State's most frequent interlocutor in the EU context is the High Representative for the Union's Foreign Affairs and Security Policy. The U.S. Trade Representative's key interlocutor is the European Commissioner for Trade, who directs the EU's common external trade policy. Other U.S. Cabinet-level officials interact with Commission counterparts or member state ministers in the Council of Ministers formation as issues arise. Many working-level relationships between U.S. and EU officials also exist. A delegation in Washington, DC, represents the European Union in its dealings with the U.S. government, while the U.S. Mission to the European Union represents Washington's interests in Brussels.

## How Are U.S.-EU Political Relations Doing?

The United States has long supported European integration as a way to foster democratic allies and strong trading partners in Europe. During the Cold War, the EU project was viewed as central

<sup>19</sup> George Parker, "Polls Suggest Potential 50:50 Split on Britain Leaving the EU," *Financial Times*, December 16, 2015.

to deterring the Soviet threat. Since then, the United States has backed EU efforts to extend the political and economic benefits of membership to Central and Eastern Europe, and continues to support the EU aspirations of Turkey and the Western Balkan states.

The United States often looks to the EU for partnership on an extensive range of common foreign policy concerns. Over the last two decades, the United States and the EU have promoted peace and stability in the Balkans and Afghanistan, enhanced law enforcement and counterterrorism cooperation, and worked together to contain Iran's nuclear ambitions. In recent years, the two sides have expanded cooperation on new challenges, such as cybersecurity, energy security, and international development. Like the United States, the EU has sought to support Ukraine's political transition and imposed a series of sanctions on Russia (including those targeting key sectors of the Russian economy) in response to Russia's annexation of Crimea and its support for separatists in eastern and southern Ukraine.

The EU has been increasingly alarmed about the ongoing conflict in Syria and Iraq, the threat posed by the Islamic State terrorist group, and the growing number of European citizens fighting in the region. The spate of terrorist attacks in Europe since mid-2014—especially in France, Belgium, and Denmark—have heightened concerns on both sides of the Atlantic, given that many of the perpetrators appear to have fought with or been inspired by the Islamic State. U.S. and EU authorities have been working together to better combat radicalization and the foreign fighter phenomenon. The EU provides significant humanitarian assistance to Syria and Iraq, and several EU countries are participating militarily in the U.S.-led air campaign against the Islamic State.

At times, however, the U.S.-EU political relationship has faced serious challenges. U.S.-EU relations hit a historic low in 2003 over the U.S.-led invasion of Iraq, which some EU members supported and others strongly opposed. Although U.S.-EU relations have largely rebounded since then, some tensions exist. Despite close U.S.-EU cooperation on the crisis in Ukraine, differences remain over how best to manage relations with Russia in the longer term. Strategic and tactical divisions often arise on other issues, ranging from climate change to the Israeli-Palestinian conflict to addressing the rise of China and dealing with instability in North Africa.

Recently, U.S.-EU visa waiver arrangements have been controversial. In light of the potential threat posed by returning fighters, Congress passed legislation in December 2015 (P.L. 114-113, the 2016 Consolidated Appropriations Act) that includes provisions aimed at strengthening the security of the U.S. Visa Waiver Program (VWP). The VWP allows short-term visa-free travel to the United States for citizens of 38 countries, most of which are in Europe. EU officials are concerned that the new VWP requirements could constitute a de facto visa regime and discriminate against European citizens who have traveled to Syria, Iraq, Sudan, and Iran for legitimate business or personal reasons, or those who are dual nationals of these specified countries. EU leaders have warned about the possibility of “reciprocal measures” (i.e., restricting visa-free travel to Europe for certain U.S. citizens).<sup>20</sup>

Data protection and balancing privacy and security also remain key U.S.-EU sticking points. Some European officials, including many Members of the European Parliament (MEPs), have long worried that several U.S.-EU counterterrorism information-sharing arrangements do not sufficiently protect European citizens' data privacy rights. European concerns have been heightened since the unauthorized disclosures in June 2013 of U.S. National Security Agency surveillance programs and subsequent allegations of other U.S. intelligence operations in Europe

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<sup>20</sup> EU Ambassador to the United States David O'Sullivan and the Ambassadors to the U.S. of the 28 EU Member States, “What the Visa Waiver Program Means to Europe,” *TheHill.com*, December 14, 2015. For more information on the VWP, also see CRS Report RL32221, *Visa Waiver Program*, by (name redacted)



(including the reported past monitoring of EU diplomatic offices and German Chancellor Angela Merkel’s mobile phone). In response, MEPs have demanded stronger safeguards for personal data transferred outside of the EU. Some experts suggest that new EU data protection rules could impede U.S.-EU law enforcement cooperation. Others hope that the recently concluded U.S.-EU Data Privacy and Protection Agreement (DPPA)—aimed at better protecting personal information exchanged in a law enforcement context—and the proposed U.S. Judicial Redress Act (H.R. 1428 and S. 1600)—which would extend the core of the judicial redress provisions in the U.S. Privacy Act of 1974 to EU citizens—could help ease at least some concerns about U.S. data protection standards and U.S. government access to personal data.<sup>21</sup>

Meanwhile, some U.S. officials worry that an EU preoccupied with its own internal problems may be a less robust and effective partner for the United States. Many analysts contend that the breadth and scale of the multiple challenges currently facing the EU—from the Greek crisis and the upcoming UK referendum on EU membership to migratory pressures and the rise of anti-EU populist parties—are unprecedented, and how the EU responds could have lasting implications for the EU’s role as an international actor. The Obama Administration has consistently asserted its opposition to both “Grexit” and “Brexit,” viewing such possibilities as significant threats to the credibility of the EU and to a strong U.S.-EU relationship.<sup>22</sup>

## How Are U.S.-EU Economic Relations Doing?

The United States and the EU share the largest trade and investment relationship in the world. The combined U.S. and EU economies account for 46% of global gross domestic product, roughly 25% of global exports, and 30% of global imports. According to one recent study, the transatlantic economy generates \$5.5 trillion in commercial sales a year and employs up to 15 million workers on both sides of the Atlantic. Of particular importance are the facts that U.S. and European companies are the biggest investors in each other’s economies (total stock of two-way direct investment was over \$4 trillion in 2013) and that the United States and Europe remain each other’s most profitable markets.<sup>23</sup>

Although the vast majority of the U.S.-EU economic relationship is harmonious, some tensions exist. U.S.-EU trade disputes persist over poultry, bio-engineered food products, protection of geographical indications, and subsidies to Boeing and Airbus. Many analysts note that resolving U.S.-EU trade disputes is difficult partly because both sides are of roughly equal economic strength and neither has the ability to impose concessions on the other. Another factor may be that many disputes involve differences in domestic values, political priorities, and regulatory frameworks. The United States and the EU have made a number of attempts to reduce remaining non-tariff and regulatory barriers to trade and investment. For example, the Transatlantic Economic Council (TEC) was created at the 2007 U.S.-EU summit and tasked with advancing the process of regulatory cooperation and trade barrier reduction.

In an effort to stimulate more job creation and economic growth on both sides of the Atlantic, the United States and the EU launched negotiations in July 2013 on an ambitious, high-standard free

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<sup>21</sup> Negotiators finalized and initialed the text of the DPPA in early September 2015. The EU asserts that the DPPA will not be signed until U.S. judicial redress legislation is adopted. H.R. 1428 passed the House on October 20, 2015.

<sup>22</sup> Also see CRS Report R44249, *The European Union (EU): Current Challenges and Future Prospects in Brief*, by (name redacted)

<sup>23</sup> Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2015*, Center for Transatlantic Relations, 2015.

trade agreement, known as the Transatlantic Trade and Investment Partnership (T-TIP). U.S. and EU policymakers hope that the T-TIP negotiations will result in an agreement that further increases market access and exports; strengthens rules-based investment; tackles costly non-tariff barriers; reduces regulatory barriers; and enhances cooperation on trade issues of global concern.<sup>24</sup> Many in the United States and Europe also view T-TIP as a concrete reaffirmation of the importance of close transatlantic ties, both politically and economically. Negotiators hope to complete the T-TIP negotiations in 2016, but some observers doubt the feasibility of this timeline. Sensitive issues in the negotiations reportedly include agriculture, investor-state dispute settlement, energy and raw materials, financial services, and government procurement.<sup>25</sup>

Meanwhile, data protection has resurfaced as a key issue in the U.S.-EU commercial relationship. In the late 1990s, EU concerns about the U.S. approach to data privacy led to the U.S.-EU Safe Harbor Agreement of 2000. This accord allowed personal data to be legally transferred between EU member countries and the United States and was used by a wide range of businesses and organizations that collect and hold personal data. In October 2015, however, the Court of Justice of the European Union (CJEU, which is also known as the European Court of Justice, or ECJ) invalidated the Safe Harbor Agreement. The CJEU essentially found that Safe Harbor did not provide “adequate” protection for personal data as required by EU law, in large part because of the U.S. surveillance programs disclosed in mid-2013.

Given that roughly 4,500 U.S. companies participated in Safe Harbor and that digital trade flows are an important segment of the transatlantic economy, U.S. officials and trade and industry groups were deeply dismayed by the CJEU’s ruling. Companies that were using Safe Harbor as a legal basis for transatlantic data transfers must now implement alternative measures. Experts suggest that the CJEU judgment creates legal uncertainties for many U.S. companies and could raise operating costs (especially for small- and medium-size businesses). The court’s decision has given added impetus to U.S.-EU negotiations underway since late 2013 aimed at “making Safe Harbor safer.” While U.S. and EU officials assert that substantial progress has been made on a revised agreement, EU demands to ensure only limited access to Safe Harbor data for national security purposes reportedly remains a key hurdle.<sup>26</sup>

Historically, U.S.-EU cooperation has been a driving force behind efforts to liberalize world trade and ensure the stability of international financial markets. Many also view U.S.-EU cooperation as crucial to managing emerging economies such as China, India, and Brazil in the years ahead. At the same time, divisions exist both among EU countries and between the EU and the United States in some policy areas. U.S.-EU disagreement over agricultural subsidies, for example, has contributed to the stalemated Doha Round of multilateral trade negotiations. In addition, U.S.-European differences persist regarding how to curb large global trade imbalances viewed as posing serious risks to economic growth and an open international trading system.

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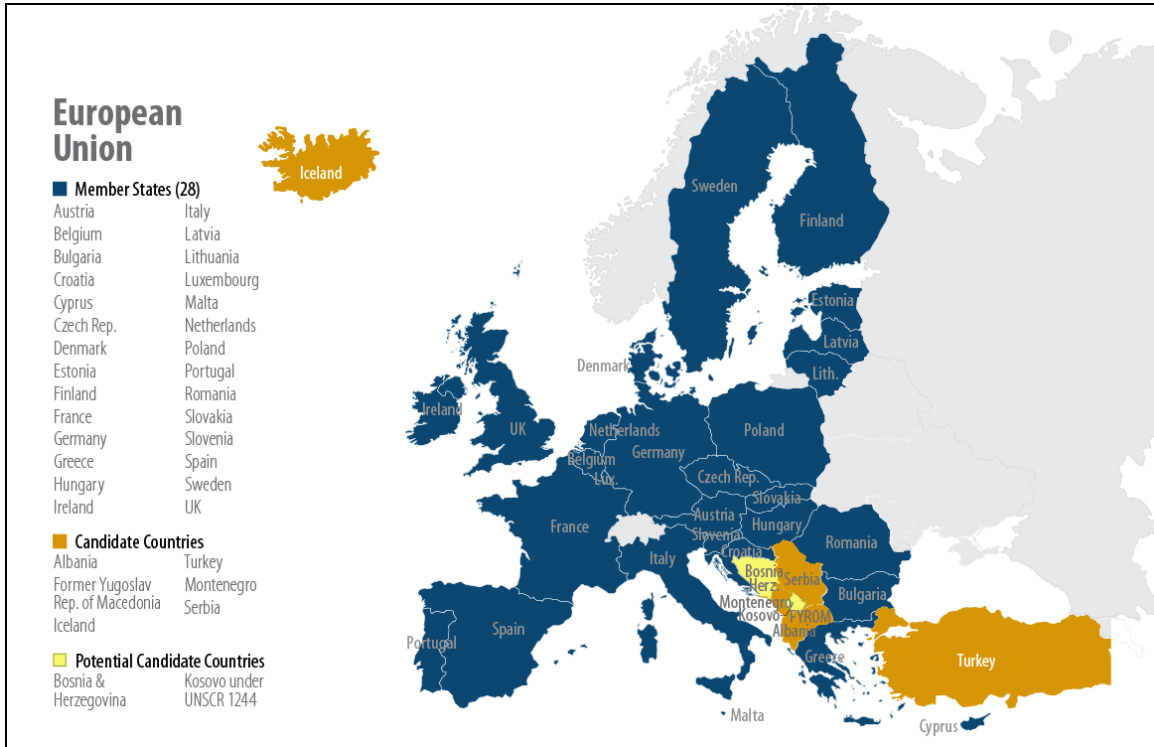
<sup>24</sup> Office of the United States Trade Representative, “Fact Sheet: United States to Negotiate Transatlantic Trade and Investment Partnership with the European Union,” February 13, 2013.

<sup>25</sup> For more information, see CRS Report R43387, *Transatlantic Trade and Investment Partnership (T-TIP) Negotiations*, by (name redacted), (name redacted), and (name redacted).

<sup>26</sup> For more information, see CRS Report R44257, *The EU-U.S. Safe Harbor Agreement on Personal Data Privacy: In Brief*, by (name redacted) and (name redacted).

# Appendix. Map of the EU and Aspirant Countries

Figure A-1. Member States and Candidates



**Source:** Delegation of the European Union to the United States, “On the Path to EU Membership: The EU Enlargement Process,” *EU Insight*, December 2010; adapted and updated by CRS.

**Note:** Although the EU continues to recognize Iceland as a candidate country, accession negotiations have been on hold since May 2013. In March 2015, Iceland requested that it should not be considered a candidate for EU membership, but did not formally withdraw its application.

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