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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. Eighteen EU member states use a common currency (the euro). 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 common 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 decision-making 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 decision-making has a supranational quality. Decisions in other areas, such as foreign policy, require the unanimous consensus of all 28 member states. The Lisbon Treaty, which took effect in December 2009, is the EU's latest attempt to reform its governing institutions and decision-making processes in order to enable an enlarged EU to function more effectively. The Lisbon Treaty also seeks to give the EU a stronger voice in the foreign policy realm and to increase democratic transparency within the EU.

The United States has strongly supported the European integration project since its inception as a means to foster democratic states and robust trading partners. 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 and ambitious Transatlantic Trade and Investment Partnership. Nevertheless, some tensions exist in the relationship, ranging from long-standing U.S.-EU trade disputes to climate change. Data privacy also continues to be a sticking point, especially following the recent allegations of U.S. surveillance activities in Europe.

This report serves as a primer on the EU and provides a brief description of U.S.-EU relations that may be of interest in the 113<sup>th</sup> Congress. For more information, also see CRS Report RS22163, *The United States and Europe: Current Issues*, by Derek E. Mix.

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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.<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 18 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.

## 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, decision-making 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 education 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 decision-making 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 and rules 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. One Commissioner serves as Commission President; the others hold distinct portfolios (e.g., agriculture, energy, trade). On many issues, the Commission represents the EU internationally and 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. The Parliament currently consists of 766 members who are directly elected for five-year terms. Each member state 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.
- A number of other institutions also play key roles in the EU. The *Court of Justice* interprets EU laws and its rulings are binding; a *Court of Auditors* monitors the EU's financial management; the *European Central Bank* manages the euro and EU monetary policy; and a number of *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 decision-making 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 establishes two new leadership positions. The new 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 decision-making 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 Kristin Archick and Derek E. Mix.

<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 Herman Van Rompuy, a former prime minister of Belgium. Appointed by the member states in 2009 initially, Van Rompuy is the first holder of this new position, which was created by the Lisbon Treaty. In June 2012, Van Rompuy was re-appointed to a second term, which will conclude in November 2014.

The **President of the European Commission** is José Manuel Barroso, a former prime minister of Portugal. Barroso has served as Commission President since 2004, and is currently in his second five-year term, which will end in 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.

Greece holds the **Presidency of the Council of Ministers** (often termed the “EU Presidency”) from January to June 2014; Italy will hold the Presidency from July to December 2014.

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. Elected in January 2012, Schulz replaces Polish MEP Jerzy Buzek, of the center-right European People’s Party (EPP) group. Traditionally, the two largest parliamentary groups (currently the EPP and S&D) have agreed to split the position of President during each term.

The **High Representative of the Union for Foreign Affairs and Security Policy** is Catherine Ashton of the United Kingdom. Ashton served previously as the European Commissioner for Trade. 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?

Eighteen of the EU’s 28 member states belong to the EU’s Economic and Monetary Union (EMU); these 18 countries have agreed to closely coordinate their economic and monetary policies and use a common single currency, the euro.<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 began using the euro as a unit of account. Euro notes and coins replaced national currencies in participating states in January 2002. EMU participants also 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. The 18 EMU participants are often collectively referred to as “the Eurozone.”

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, which decreased considerably in 2009 amid the global financial crisis and revelations that previous Greek governments had been under-reporting the budget deficit. As investors became increasingly nervous that the Greek government’s debt was too high, markets began demanding higher interest rates for Greek bonds, which drove up Greece’s borrowing costs and further increased its debt levels. By early 2010, Greece risked defaulting on its public debt. Market concerns soon 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 have also posed a risk to the European banking system, slowed economic growth, and led to increased unemployment in many Eurozone countries.

<sup>4</sup> The 18 members of the EU that use the euro are: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

European leaders and EU institutions have 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 have received “bail-out” loans from the EU and the International Monetary Fund (IMF). Such assistance, however, has come with some strings attached, including the imposition of strict austerity measures. Spain (the Eurozone’s fourth-largest economy) has enacted significant austerity measures of its own and Eurozone leaders approved a recapitalization plan for Spanish banks. Other key 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; an EU 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.

At present, the Eurozone crisis appears to have abated to some degree, with market confidence relatively positive since late 2012. EU-IMF financial assistance to Ireland ended in December 2013, and the country has returned to the bond markets. EU aid to Spanish banks has also ceased. However, experts assert that the Eurozone remains fragile as many members continue to struggle with weak economic growth and high unemployment. Some analysts suggest that smaller Eurozone countries, such as Slovenia, may require EU financial assistance in the future, and that Greece may need additional EU-IMF “bail-out” loans.

The Eurozone crisis has also had significant political implications, resulting in the fall of some member state governments, and forcing EU leaders to grapple with both the euro’s future viability and the desirability of further EU integration. Some view EU efforts to address the crisis as too timid and too slow in part because of political differences among EU member states and between those in and outside of the Eurozone. Key points of tension have arisen over the proper balance between imposing austerity measures versus stimulating growth, and whether and to what extent the Eurozone countries should pursue closer fiscal integration. In January 2012, 25 of the EU’s then-27 member states agreed on a new “fiscal compact” aimed at strengthening fiscal discipline within the EU (in part by requiring national budgets to be in balance or in surplus), providing for a more automatic imposition of sanctions should a country breach EU fiscal rules, and improving the coordination of national economic policies; this pact entered into force in January 2013.<sup>5</sup>

## 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 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

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<sup>5</sup> For more information, see CRS Report R42377, *The Eurozone Crisis: Overview and Issues for Congress*, coordinated by Rebecca M. Nelson.



members. Bulgaria and Romania joined in 2007. Croatia became the 28<sup>th</sup> member of the EU on July 1, 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.

Five countries are currently recognized by the EU as official candidates for membership: Macedonia, Montenegro, Serbia, Turkey, and Iceland.<sup>6</sup> All are at different stages of the accession process. The remaining western Balkan states of Albania, Bosnia-Herzegovina, and Kosovo are recognized as potential future EU candidates, but most experts assess that it will likely be many years before any of them are ready to join the EU.

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.

CFSP decision-making 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.

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<sup>6</sup> Although the EU continues to recognize Iceland as an official candidate for membership, Iceland's accession negotiations have been on hold since May 2013, when a new Icelandic coalition government largely opposed to EU membership took office.

<sup>7</sup> For more information, see CRS Report RS21344, *European Union Enlargement*, by Kristin Archick, and CRS Report RS22517, *European Union Enlargement: A Status Report on Turkey's Accession Negotiations*, by Vincent L. Morelli.

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 establishes 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 seeks to marry the EU's collective political influence with the Commission's economic weight and development tools. The Lisbon Treaty also creates 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 decision-making 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 sealift, command and control systems, intelligence, and other force multipliers. Also, a relatively low percentage of European forces are deployable for expeditionary operations. Some analysts 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.

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<sup>8</sup> For more information, see CRS Report R41959, *The European Union: Foreign and Security Policy*, by Derek E. Mix.

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

## 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, immigration, asylum, border controls, fighting terrorism and other cross-border crimes such as drug trafficking, and combating racism and xenophobia. For many years, however, 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. 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, an EU-wide arrest warrant, and new tools to strengthen external EU border controls.

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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 other ones 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 EU's Lisbon Treaty gives the European Parliament "co-decision" power over the majority of JHA policy areas. The Treaty also makes most decisions on JHA issues in the Council of Ministers subject to the qualified majority voting system, rather than unanimity, in a bid to strengthen JHA further and speed EU decision-making. In practice, however, the EU will likely still seek consensus as much as possible on sensitive JHA policies. Moreover, for some issues in the JHA area, the EU has 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 JHA opt-out in some JHA areas to all JHA issues. The Lisbon Treaty technically renames JHA as the "Area of Freedom, Security, and Justice."

## 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 apprized of its progress and the Council and the Parliament may take the opportunity to voice their respective views and concerns. 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>12</sup> If the Council approves the accord, it authorizes the Commission to formally sign the agreement.

Once the new trade accord is officially signed by both parties, the Council submits a draft decision to conclude negotiations 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 indicate that it would not support the agreement should it find fault with any of its provisions, and can ask the Commission to review or address its 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>13</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>14</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, such as passport- and visa-free travel within the EU (UK and Ireland), the euro (UK, Denmark, and Sweden), Justice and Home Affairs issues (UK, Ireland, and Denmark), and the common defense policy (Denmark). 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 decision-making. In addition, the EU’s enlargement to the east has brought in many new members with histories of Soviet control, which may color their views on issues ranging from EU reform to relations with Russia or the Middle East; at times, such differences have caused frictions with older EU member states.

The prevailing view among European publics has likewise been historically favorable toward the EU. Despite the EU’s recent financial troubles and a drop in public support for the EU’s single currency, surveys indicate that the majority of EU citizens continue to consider EU membership as good for their countries overall.<sup>15</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 “Euro-skepticism” among some segments of the European public. Traditionally, such skepticism 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

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<sup>12</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.

<sup>13</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>14</sup> For more on the EU process for concluding new trade agreements, see European Commission, “Factsheet: Trade Negotiations Step By Step,” June 2012, [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>15</sup> See for example, the German Marshall Fund of the United States, *Transatlantic Trends 2013*.

in far-away Brussels. Recently, however, the Eurozone crisis has helped increase the degree of Euro-skepticism in some countries, such as the UK, and along with fears about immigration and globalization, has contributed to the rise of anti-EU populist parties in a number of member states, including Austria, France, Finland, Sweden, and the Netherlands.

## **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 supported the European integration project since its inception as a way to foster democratic allies and strong trading partners in Europe. During the Cold War, the EU project was viewed as central to deterring the Soviet threat. Today, the United States often looks to the EU for partnership on an extensive range of common foreign policy challenges—from countering terrorism and weapons proliferation to ensuring the stability of international financial markets—and the two sides have a proven track record of close cooperation on a multitude of global concerns. Over the last decade, for example, the United States and the EU have promoted peace and stability in the Balkans and Afghanistan, worked together to contain Iran's nuclear ambitions, and have significantly strengthened their law enforcement and counterterrorism

cooperation. In recent years, U.S. and EU policies have been largely aligned in response to the changes in the Middle East and North Africa resulting from the “Arab Spring,” and the United States and the EU have sought to exert diplomatic pressure and impose sanctions on Syria in an effort to end that country’s bloody civil war.

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. In the aftermath of that crisis, the former George W. Bush Administration sought to improve cooperation and emphasize areas of partnership with the EU. U.S.-EU tensions on several key issues, such as Iran and the Israeli-Palestinian conflict, began to dissipate. The Obama Administration has also worked to bolster ties with the EU and has expanded cooperation on other issues, such as cybersecurity and energy security.

Nevertheless, U.S.-EU differences persist in other areas. Data privacy has been and continues to be a key U.S.-EU sticking point. Some European officials, including many Members of the European Parliament (MEPs), have long worried that several U.S.-EU law enforcement and counterterrorism information-sharing arrangements do not sufficiently protect European citizens’ data privacy rights. European concerns have been heightened since the June 2013 revelations of U.S. National Security Agency surveillance programs, press reports suggesting that U.S. intelligence agencies have monitored EU diplomatic offices, and subsequent allegations of other U.S. intelligence operations in Europe (including reported phone record collection efforts in France and Spain as well as the past monitoring of German Chancellor Angela Merkel’s mobile phone). In response, some MEPs are now demanding stronger safeguards for personal data transferred outside of the EU, and many experts contend that the purported U.S. surveillance activities will likely make concluding future U.S.-EU information-sharing agreements more difficult. Analysts also worry that such alleged U.S. activities could foster mistrust between the two sides and negatively affect the broader U.S.-EU relationship, including the prospects for a comprehensive Transatlantic Trade and Investment Partnership (see below).<sup>16</sup>

In addition, some European leaders have recently expressed concerns about the U.S. “pivot” or rebalancing toward Asia. U.S. officials stress that this rebalancing will not come at the expense of the transatlantic relationship and that the United States hopes to engage more closely with Europe in the future on issues of economic and strategic importance in Asia. Meanwhile, some U.S. policymakers continue to worry that the Eurozone crisis could lead to a more inward-focused EU, preoccupied with its own economic and political problems, and less able to be a robust partner for the United States in tackling common international challenges.

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

The United States and the EU share the largest trade and investment relationship in the world. Despite the 2008-2009 global economic downturn, the combined U.S. and EU economies account for over 50% of global gross domestic product, roughly 25% of global exports, and 31% of global imports. According to one recent study, the transatlantic economy generates over \$5 trillion in commercial sales a year and employs up to 15 million workers on both sides of the Atlantic. Of

<sup>16</sup> James Fontanella-Khan, “MEPs Call for Clause to Limit American Internet Snooping,” *Financial Times*, June 19, 2013; Michael Bimbaum, “EU Fury on Allegations of U.S. Spying,” *Washington Post*, June 30, 2013; Alison Smale, “Indignation Over U.S. Spying Spreads in Europe,” *New York Times*, October 24, 2013.

particular importance is the fact that U.S. and European companies are the biggest investors in each other's economies (total stock of two-way direct investment was almost \$3.7 trillion as of 2011) and the United States and Europe remain each other's most profitable markets.<sup>17</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 has become increasingly difficult, in part 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. 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.

Over the last few years, the global economic downturn and the Eurozone crisis have also challenged the U.S.-EU relationship. Given the extensive transatlantic economic ties, U.S. officials worried that the EU's debt crisis could adversely affect U.S. exports to and sales of U.S. companies in Europe, or that ripple effects could weaken U.S. financial institutions and push the United States back into recession should any Eurozone member default. In response, the Obama Administration urged the EU to take forceful action to address the debt crisis and advocated for more substantial financial assistance for struggling Eurozone economies. Although U.S. concerns about the Eurozone crisis have diminished amid U.S. economic growth and increasing market stability in Europe, some U.S. policymakers continue to question what they view as the EU's emphasis on austerity measures, believing that greater efforts are needed to promote growth.

In light of the fiscal and economic difficulties on both sides of the Atlantic, in November 2011, U.S. and EU leaders directed the TEC to establish a High Level Working Group (HLWG) on Jobs and Growth. The HLWG was charged with considering ways to increase U.S.-EU trade and investment to stimulate more job creation and economic growth on both sides of the Atlantic. Based on the recommendations in the HLWG's final report, the United States and the EU launched negotiations in July 2013 on an ambitious, high-standard free trade agreement, known as the Transatlantic Trade and Investment Partnership (TTIP). Both sides hope that the TTIP negotiations will result in an agreement that further opens markets and increases U.S. and EU exports; strengthens rules-based investment; tackles costly non-tariff barriers; reduces regulatory barriers; and enhances cooperation on trade issues of global concern.<sup>18</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. U.S. and EU leaders have sought to pursue a coordinated response to the global financial crisis through the G-20, which brings together industrialized and developing countries. And many 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

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<sup>17</sup> Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2013: Annual Survey of Jobs, Trade, and Investment between the United States and Europe*, Center for Transatlantic Relations, 2013. Also see CRS Report RL30608, *EU-U.S. Economic Ties: Framework, Scope, and Magnitude*, by William H. Cooper.

<sup>18</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. Also see CRS Report R43158, *Proposed Transatlantic Trade and Investment Partnership (TTIP): In Brief*, by Shayerah Ilias Akhtar and Vivian C. Jones.



policy areas. U.S.-EU disagreement over agricultural subsidies, for example, has contributed to the stalemated Doha Round of multilateral trade negotiations. U.S.-European differences also persist about 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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