The European Union: Questions and Answers

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Specialist in European Affairs

September 19, 2016

Congressional Research Service
7-....
www.crs.gov
RS21372

Summary

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among sovereign countries. The EU 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. The EU currently consists 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. 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 capital, goods, services, and people move freely; a common trade policy; and a common agricultural policy. Nineteen EU member states use a common currency (the euro), and 22 member states 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. Member states work together through several EU institutions to set policy and to promote their collective interests.

In recent years, however, the EU has been confronted by a number of internal and external crises. Most notably, in a June 2016 public referendum, voters in the United Kingdom (UK) backed leaving the EU. This unprecedented decision by an EU member state could have substantial political, economic, and institutional implications for the EU. The looming British exit from the EU (dubbed "Brexit") comes amid multiple other challenges, including stagnant economic growth throughout much of Europe, the rise of populist and to some extent anti-EU political parties, increased migratory pressures, a heightened terrorism threat, and a resurgent Russia.

The United States has strongly supported the European integration project since its inception in the 1950s as a means to foster democratic states and strong trading partners in Europe. Today, the United States and the EU have a dynamic political partnership and share a huge trade and investment relationship. Although U.S.-EU tensions exist on certain issues (such as data protection and several long-standing trade disputes), some U.S. officials and Members of Congress are concerned that the many challenges currently facing the EU—including Brexit—could have significant repercussions 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. Despite the UK's vote to leave the EU, the UK remains a full member of the bloc until it completes withdrawal negotiations, a process that has not yet begun and is expected to take at least two years. As such, this report largely addresses the EU and its institutions as they currently exist. It also briefly describes U.S.-EU political and economic relations that may be of interest in the 114th Congress. For more information on the range of challenges confronting the EU and their possible consequences for the EU project in the longer term, see CRS Report R44249, *The European Union: Current Challenges and Future Prospects*, by (name redacted)

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What Is the European Union?

The European Union (EU) is a unique political and economic partnership that currently consists of 28 member states (see the map in the **Appendix**).[1] 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 recovery in Europe. Its founders hoped that by creating specified areas in which member states agreed to share sovereignty—initially in coal and steel production, 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 capital, goods, services, and people move freely (known as the "four freedoms"); 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 members have also taken 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). Twenty-two EU members participate in the Schengen area of free movement, which allows individuals to travel without passport checks among most European countries.

The EU is generally considered a cornerstone of European stability and prosperity, but the union currently faces a number of serious internal and external crises. Most notable is "Brexit"—the United Kingdom's (UK's) looming exit from the EU following the June 2016 public referendum in which British voters favored leaving the bloc by 52% to 48%. The UK remains a full member of the EU until it completes withdrawal negotiations, a process that has not yet begun and is expected to take at least two years. Although Brexit may have significant political, economic, and institutional implications for the EU, this report largely addresses the EU and its institutions as they currently exist. For more information on the range of challenges confronting the EU, including Brexit and issues such as terrorism and migration, see CRS Report R44249, *The European Union: Current Challenges and Future Prospects*.

How Does the EU Work?

EU member states work together through common institutions (see next question) to set policy and promote their collective interests. 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—including trade and agriculture—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), member states have agreed to cooperate, but most decisionmaking is intergovernmental and requires the unanimous agreement of all EU countries. Any one national government can veto a decision. For many years, unanimity was also largely the rule for policymaking in the Justice and Home Affairs area (formerly Pillar Three). However, the 2009 Lisbon Treaty extended the EU's

[1] The current 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.

majority voting system to most JHA issues, thus giving EU institutions a greater role in JHA policymaking (see "What Is the Lisbon Treaty?").

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 one Commissioner from each EU country, who is 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 *Council of the European Union (*also called the *Council of Ministers)* represents the 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.[2] It is the final product of an effort begun in 2002 to reform the EU's governing institutions and decisionmaking processes. It amends, rather than replaces, the EU's two core treaties—the Treaty on European Union (TEU) and the Treaty on the Functioning of the EU (TFEU). Changes introduced by the Lisbon Treaty seek to

- enable the EU to function more effectively;
- enhance the EU's role as a foreign policy actor; and
- increase democracy and transparency within the EU.

To help accomplish these goals, the Lisbon Treaty established two new leadership positions:

- The President of the European Council, a single individual who chairs the meetings of the 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.
- 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.

Other key measures in the Lisbon Treaty included the following:

- Simplifying the EU's qualified majority voting system and expanding the system's 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, but member states still tend to seek consensus as much as possible.
- Increasing the relative power of the European Parliament by strengthening its role in the EU's budgetary process and extending the use of the "co-decision" procedure to more policy areas, including agriculture and home affairs issues.[3] As such, the treaty gives the European 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).

For the first time in the EU's history, the Lisbon Treaty also introduced an "exit clause"—Article 50 of the TEU—which outlines procedures for a member state to leave the EU. A member state that wishes to leave would invoke Article 50 by notifying the European Council of its intentions, which would trigger a two-year period for withdrawal negotiations to be concluded; the EU may also decide to extend the time for negotiations. The UK government has not yet invoked Article 50 following its June 2016 vote to leave the EU and is not expected to do so until next year.

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[2] For more information, see CRS Report RS21618, *The European Union's Reform Process: The Lisbon Treaty*, by (name redacted) and (name redacted)

[3] 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 (renewable once), 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 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.

Slovakia holds the ***Presidency of the Council of Ministers*** (often termed the "EU Presidency") from July to December 2016; Malta will hold the Presidency from January to June 2017.

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 reelected 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 current 28 member states use a common single currency, the euro, and are often collectively referred to as "the eurozone."[4] 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

[4] 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 completed its financial assistance program in March 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 (including 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.[5]

From its start almost seven years ago, the eurozone crisis has 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 and stimulating growth and over 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. These negotiations significantly challenged the EU as an institution. Some analysts 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. Moreover, many experts assert that EU governments and leaders remain strongly committed to the euro and the broader 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 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

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

Netherlands). In 1973, Denmark, Ireland, and the United Kingdom joined what had then become 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 members. Bulgaria and Romania joined in 2007. Croatia became the EU's newest member on July 1, 2013.

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 to transform many European countries into more democratic and affluent societies. At the same time, EU enlargement is also very much a political process. Most significant steps on the path to accession require the unanimous agreement of the EU's existing member states. Thus, a prospective candidate's relationships or conflicts with individual members also may influence a country's accession prospects and timeline.

Five countries are currently recognized by the EU as official candidates for membership with active accession bids: Albania, Macedonia, Montenegro, Serbia, and Turkey.[6] These countries are all at different stages of the accession process, and it will likely be many years before any of them is ready to join the EU. Bosnia-Herzegovina and Kosovo are regarded as potential future candidates for EU membership (see the **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. Such qualms are particularly apparent with respect to Turkey, given Turkey's large size, predominantly Muslim culture, and relatively less prosperous economy. Some experts suggest that Brexit also could dampen prospects for further EU enlargement, in part because the UK had long been one of the staunchest supporters within the EU of continued expansion, including to Turkey.[7]

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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[6] Iceland formally applied for EU membership in 2009 and was recognized as a candidate country in 2010, but 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 no longer be regarded as a candidate country, although it did not formally withdraw Iceland's application for EU membership.

[7] For background, see CRS Report RS21344, *European Union Enlargement*, by (name redacted) and (name redac ted) .

CFSP decisionmaking is dominated by the member states and requires unanimous agreement of all national governments. 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 a multitude of 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.[8]

Does the EU Have a Defense Policy?

Since 1999, with political impetus initially from the UK and France, the EU has been working to develop a Common Security and Defense Policy (CSDP), formerly known as the European Security and Defense Policy (ESDP).[9] 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 sealift, command and control systems, intelligence, and other force multipliers. Also, a relatively

[8] For more information, see CRS Report R41959, *The European Union: Foreign and Security Policy*, by (name redacted)

[9] ESDP was renamed CSDP by the Lisbon Treaty.

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.

Recently, some EU officials and national leaders have advocated for further EU defense integration and revived the idea of establishing a common EU army. Such calls have been driven by both the new security challenges facing Europe, including a resurgent Russia, and a desire to bolster the EU project in the wake of the UK vote to leave the bloc. Some analysts suggest that Brexit could make closer EU defense cooperation more likely because the UK traditionally opposed certain measures—such as an EU military headquarters—that it viewed as infringing too much on national sovereignty or the primacy of NATO as the main guarantor of European security. Many experts, however, remain skeptical about the prospects for further EU defense integration and strongly doubt that an EU army is a realistic possibility, noting that other EU member states also would likely hesitate to cede sovereignty over defense issues to Brussels.[10]

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 currently belong to both NATO and the EU.[11] 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. 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.

At the same time, NATO-EU relations have been somewhat strained for years. More extensive NATO-EU cooperation at the political level on a range of issues—from 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).[12] Bureaucratic rivalry and varying views on both sides of the Atlantic regarding the future roles of NATO and the EU's CSDP also have contributed to frictions between the two organizations.

The emergence of new security threats in Europe and improved prospects for a political settlement to the Cyprus conflict in 2016, however, have prompted some recent progress toward

[10] Sophia Besch, "Waging War on the Myth of an EU Army," *Politico Europe*, June 8, 2016; Jonathan Marcus, "Brexit Vote Revives Dream of EU Army," BBC News, September 9, 2016.

[11] Six countries belong to the EU, but not to NATO (Austria, Cyprus, Finland, Ireland, Malta, and Sweden); six others belong to NATO but not the EU (Albania, Canada, Iceland, Norway, Turkey, and the United States).

[12] Turkey has long objected 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. Meanwhile, Cyprus has reportedly blocked EU proposals for enhancing cooperation with the EU over the years.

enhanced NATO-EU cooperation. In February 2016, NATO and the EU concluded two new formal arrangements, one on countering migrant smuggling in the Aegean Sea and another on cyber defense. In July 2016, the EU and NATO issued a joint declaration to "give new impetus and new substance to the NATO-EU strategic partnership."[13] Among other measures outlined, NATO and the EU agreed to boost their common ability to counter hybrid threats, expand operational cooperation on migration (especially in the Mediterranean), and further strengthen coordination on cybersecurity and cyber defense. Although this declaration sets out broad goals of a largely technical and operational nature that remain to be implemented, analysts observe that the agreement could represent the first step toward closer NATO-EU relations.

Some U.S. experts remain concerned that a minority of EU member states (traditionally led by France) would like to build an EU defense arm more independent from NATO in the longer term. These experts note that the EU's new global security strategy, released in June 2016, reaffirmed the EU's ambition to be able to act "autonomously" (although it also stressed the need for continued cooperation with NATO and the United States).[14] Given that the UK has long been key to ensuring that any EU defense efforts remained closely tied to NATO, some U.S. analysts worry that Brexit could embolden the EU to develop a more autonomous EU defense identity.

What Is Justice and Home Affairs?

The Justice and Home Affairs (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. 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, Belgium, and elsewhere over the past two years 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.[15]

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, member states largely continue to strive for consensus 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

[13] NATO, "Joint Declaration by the President of the European Council, the President of the European Commission, and the Secretary-General of the North Atlantic Treaty Organization," press release, July 8, 2016, at http://www.nato.int/cps/en/natohq/official_texts_133163.htm.

[14] See European Union, *Shared Vision, Common Action: A Stronger Europe*, June 2016, at https://europa.eu/globalstrategy/en/global-strategy-foreign-and-security-policy-european-union.

[15] For more information, see CRS Report RS22030, *U.S.-EU Cooperation Against Terrorism*, by (name redacted)

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.[16] 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.

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. 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.[17]

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

[16] 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.

[17] For more information, see EUR-Lex, "The Schengen Area and Cooperation," at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3AI33020.

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 any trade protection or retaliation measures. 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. 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. 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. 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. 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.[18] 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 it to the Parliament for its consent. 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.[19] 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.[20]

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

[18] 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.

[19] 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.

[20] 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.

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. Many 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, antiestablishment parties throughout Europe. Many of these parties also are considered euroskeptic, although they are not monolithic. Although most of these parties are on the far right of the political spectrum, a few are on the left or far left. Moreover, they hold a range of views on the future of the EU, with some advocating for EU reforms and others calling for an end to the eurozone or even the EU itself.

Austria, Denmark, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Sweden, and the UK are among those EU countries with increasingly successful populist and, to at least some extent, euroskeptic parties. The decision to hold the June 2016 public referendum in the UK on EU membership was driven largely by increasing pressure from hard-line euroskeptics, both within and outside of the UK's governing Conservative Party. The outcome of the referendum, in which UK voters favored leaving by 52% to 48%, sent shockwaves throughout the EU. Many EU officials and analysts fear it could encourage euroskeptic parties in other countries to push for similar referendums or prompt other members to demand special conditions or policy opt-outs to satisfy their own discontented publics. Moreover, should euroskeptic parties in other countries gain enough support in upcoming elections to lead their national governments, this could cast further doubt on the EU project.

What Does the UK Vote to Leave Mean for the EU?

Although the UK government has not yet enacted the results of its June 2016 referendum by invoking Article 50—the so-called exit clause—of the Treaty on European Union, new UK Prime Minister Theresa May has asserted that "Brexit means Brexit."[21] Despite continued debate within the UK government on the timeline and goals for its withdrawal negotiations, EU officials appear

[21] For information on the outcome of the UK referendum and its implications for the United Kingdom, see CRS Insight IN10513, *United Kingdom Votes to Leave the European Union*, by (name redacted), and CRS Insight IN10528, *The Brexit Vote: Political Fallout in the United Kingdom*, by (name redacted)

braced for Brexit. EU leaders assert that "the Union of 27 countries will continue,"[22] but the UK's departure likely will have significant political and economic implications for the EU (the UK is the bloc's second-largest economy) and for the future of the European integration project.

In the short term, the EU is expected to be preoccupied with negotiating the "divorce terms" of Brexit and the contours of a future UK-EU relationship. Many believe the EU will take a tough line in Brexit negotiations, in part to discourage other member states and euroskeptic publics from contemplating a break with the EU that would further fracture the bloc. Some analysts suggest that the time and resources that the EU will be forced to devote to managing the UK's exit could decrease the EU's capacity for dealing with other simultaneous and pressing challenges, including migration, terrorism, and weak economic growth in many EU countries. They also argue that Brexit could call into question additional EU enlargement and reduce the EU's role and influence on the world stage, given that the EU will find itself without the UK's diplomatic, military, and economic clout.

In light of Brexit, EU leaders assert that it cannot be "business as usual," especially given the extent of public dissatisfaction, both with the EU itself and with Europe's generally pro-EU political establishment. Following the UK vote, the leaders of the 27 other member states announced that they were launching a "political reflection" to consider further EU reforms and how best to tackle key security and economic challenges.[23] Germany, France, and Italy are spearheading this effort and likely will be influential in determining the EU's future direction. In September 2016, the EU-27 leaders (meeting informally) held an initial discussion in Slovakia. The resulting Bratislava Declaration asserts that "although one country has decided to leave, the EU remains indispensable for the rest of us"; EU leaders also pledged to find "common solutions" to current challenges and improve communication between the EU and its citizens. The accompanying Bratislava Roadmap sets out "concrete measures" for addressing some aspects of the migration crisis, countering terrorism, strengthening EU security and defense cooperation, and improving economic opportunities, especially for young people.[24]

In the longer term, the EU likely faces a fundamental choice between those supporting further integration as the solution to the bloc's woes and those contending that integration has gone too far and should be put on hold (or possibly even reversed in certain areas). Although some experts argue that "more EU" is necessary to deliver economic growth and ensure security, others are skeptical that national governments will be inclined to cede more authority to a Brussels bureaucracy viewed as opaque and out of touch with the problems of average Europeans. At the same time, some contend that Brexit could ultimately lead to a more like-minded EU, able to pursue deeper integration without UK opposition.

At present, there appears to be little consensus—both among the member states and among the EU institutions—on what a post-Brexit EU should look like or how to restore public confidence in the European project. Despite the attempt to demonstrate unity in Bratislava, some EU leaders were reportedly disappointed that measures proposed were not bold enough, did not offer a strategic vision for the EU going forward, and were mostly focused on tactical responses to specific crises or on recommitting support to existing initiatives.[25] At the same time, observers

[22] European Council, "Statement by the EU Leaders and the Netherlands Presidency on the Outcome of the UK Referendum," press release, June 24, 2016.

[23] European Council, "Statement from the Informal Meeting of the 27 Heads of State or Government," June 29, 2016.

[24] European Council, *The Bratislava Declaration and the Bratislava Roadmap*, September 16, 2016.

[25] David M. Herszenhorn and Tara Palmeri, "EU Leaders Promise New Push to Overcome Crisis," *Politico Europe*, September 16, 2016.

point out that, as noted in the Bratislava documents, the discussion represented the "beginning of a process," which will likely be a years-long endeavor to consider the EU's future.

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 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 pursued cooperation on cybersecurity, energy security, and development assistance. 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 Ukraine.

The EU has been increasingly alarmed by the ongoing conflict in Syria and Iraq, the rise of the Islamic State terrorist group, and the significant number of Europeans who have sought to join the fighting in the Syria-Iraq region. The spate of recent terrorist attacks in Europe—especially in France and Belgium—has heightened concerns on both sides of the Atlantic, given that many of the perpetrators were Europeans who have fought with or been inspired by the Islamic State. U.S. and EU authorities have worked together in the United Nations and other international forums on combatting 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 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).[26]

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 (including the reported past monitoring of EU diplomatic offices and German Chancellor Angela Merkel's mobile phone). U.S. policymakers hope that the recently concluded U.S.-EU Umbrella Data Privacy and Protection Agreement (DPPA)—aimed at better protecting personal information exchanged in a law-enforcement context—and the U.S. Judicial Redress Act (P.L. 114-126), passed in February 2016—which extends 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.[27]

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[26] 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)

[27] Negotiators finalized and initialed the text of the Data Privacy and Protection Agreement (DPPA, also termed "the Umbrella Agreement") in early September 2015. The EU asserted that the DPPA would not be signed until U.S. judicial redress legislation was adopted. The enactment of the U.S. Judicial Redress Act (P.L. 114-126) in February 2016 paved the way for the signature of the DPPA in June 2016. The DPPA now must be officially approved by the EU member states acting in the Council of Ministers and by the European Parliament. Congressional approval of the DPPA (continued...)

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 Brexit to the rise of anti-EU populist parties to weak economic growth, migratory pressures, and the latent but still simmering Greek crisis—are unprecedented and that how the EU responds could have lasting implications for the EU's role as an international actor. The Obama Administration consistently asserted its opposition to both Grexit and Brexit, viewing such possibilities as significant threats to the credibility and integrity of the EU.

Following the UK referendum, President Obama stressed that both the UK and the EU would remain "indispensable" U.S. partners.[28] Some observers suggest that the United States is losing its best advocate within the EU for policies that bolster U.S. goals and protect U.S. interests. Those of this view are concerned that in the longer term, the UK's absence could lead to greater U.S.-EU divergence on issues such as policies toward Russia or the centrality of NATO to European security. Others contend that in recent years, Germany has increasingly played a major role as a key U.S. interlocutor on EU issues, and U.S.-EU relations will remain strong given the multitude of common international challenges.[29]

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 47% 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 2014) and that the United States and Europe remain each other's most profitable markets.[30]

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.

(...continued)

itself is not required because the United States negotiated the DPPA as an executive agreement.

[28] White House, "Statement by the President on the UK Referendum," press release, June 24, 2016.

[29] David E. Sanger, "With Brexit, Washington's Direct Line to the Continent Suddenly Frays," *New York Times*, June 26, 2016; Benjamin Oreskes, "Germany: America's Real Special Relationship," *Politico Europe*, June 30, 2016.

[30] CRS In Focus IF10120, *Transatlantic Trade and Investment Partnership (T-TIP)*, by (name redacted) and (name redacted); Daniel S. Hamilton and Joseph P. Quinlan, The Transatlantic Economy 2016, Center for Transatlantic Relations, 2016.

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 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.[31] 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 had hoped to complete the T-TIP negotiations in 2016, but most 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.[32]

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 were required to implement alternative measures, and the CJEU judgment created legal uncertainties for many U.S. companies. The court's decision gave added impetus to U.S.-EU negotiations under way since late 2013 aimed at "making Safe Harbor safer." In February 2016, U.S. and EU negotiators announced a follow-on agreement, dubbed Privacy Shield, to replace Safe Harbor. U.S. and EU officials assert that the new accord addresses the CJEU's concerns and stress that the accord contains significantly stronger privacy protections as well as safeguards related to U.S. government access to personal data. Privacy Shield received final approval in July 2016 and is now in effect.[33]

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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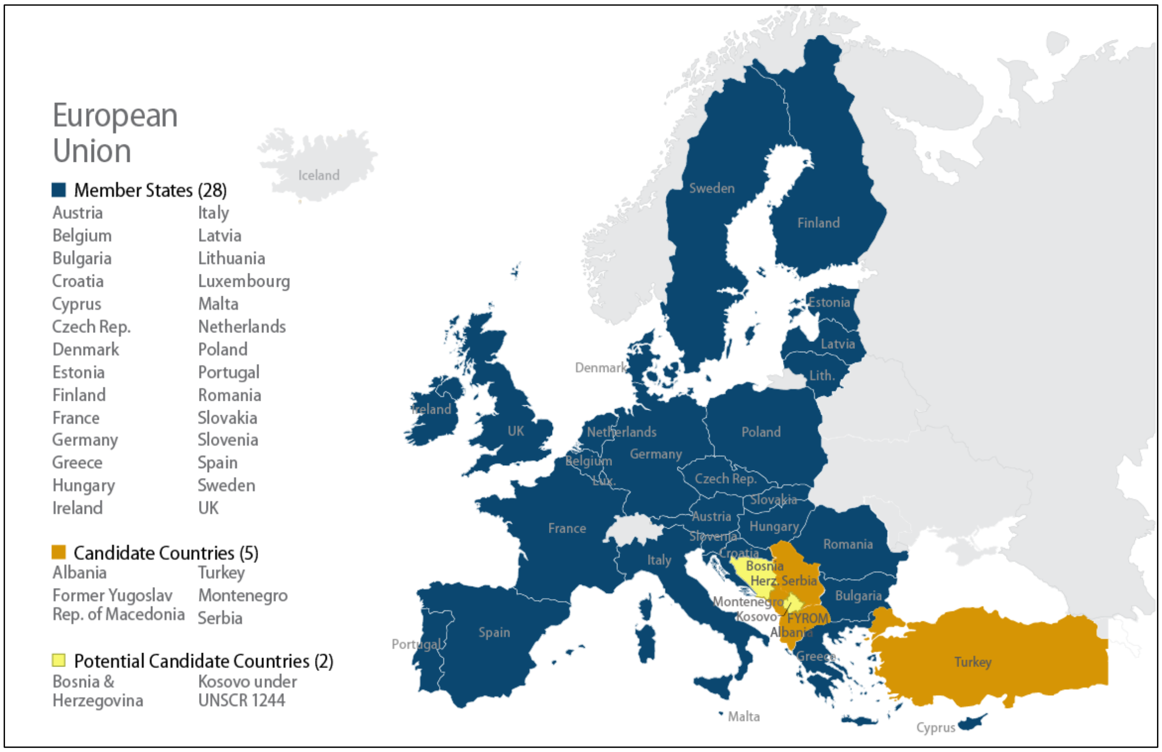
[31] Office of the United States Trade Representative, "Fact Sheet: United States to Negotiate Transatlantic Trade and Investment Partnership with the European Union," February 13, 2013.

[32] For more information, see CRS Report R43387, *Transatlantic Trade and Investment Partnership (T-TIP) Negotiations*, by (name redacted), (name redacted), and (name redacted) .

[33] For background, see CRS Report R44257, *U.S.-EU Data Privacy: From Safe Harbor to Privacy Shield*, by (name reda cted) 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.

Notes: Despite the June 2016 public referendum in the United Kingdom in which voters favored leaving the EU, the United Kingdom remains a full member of the bloc until it completes withdrawal negotiations, a process that has not yet begun and is expected to take at least two years.

Iceland formally applied for EU membership in 2009 and was recognized as a candidate country in 2010, but accession negotiations have been on hold since May 2013. In March 2015, Iceland's government requested that Iceland no longer be regarded as a candidate country, although the government did not formally withdraw Iceland's application for EU membership.

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