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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 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 faced 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. The looming British exit from the EU (dubbed "Brexit") comes amid multiple other challenges, including the rise of populist and to some extent anti-EU political parties, concerns about democratic backsliding in some member states (including Poland and Hungary), an influx of refugees and migrants, a heightened terrorism threat, and a resurgent Russia.

The United States has supported the European integration project since its inception in the 1950s as a means to prevent another catastrophic conflict on the European continent and foster democratic allies and strong trading partners. Today, the United States and the EU have a dynamic political partnership and share a huge trade and investment relationship. Despite periodic tensions in U.S.-EU relations over the years, U.S. and EU policymakers alike have viewed the partnership as serving both sides' overall strategic and economic interests.

EU leaders are anxious about the Trump Administration's commitment to the EU project, the transatlantic partnership, and free trade—especially amid the Administration's imposition of tariffs on EU steel and aluminum products since June 2018. In mid-July 2018, President Trump reportedly called the EU a "foe" on trade but subsequently reached an initial agreement with the EU later in the month aimed at de-escalating U.S.-EU tensions over trade and tariffs. Concerns also linger in Brussels about the implications of the Trump Administration's "America First" foreign policy and its positions on a range of international issues, including Russia, Iran, the Israeli-Palestinian conflict, climate change, and the role of multilateral institutions.

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 and officially exits the EU (expected to occur in March 2019). 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 115th Congress. For more information on the EU project in the longer term, see CRS Report R44249, *The European Union: Current Challenges and Future Prospects*, by Kristin Archick.

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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 faces a number of internal and external challenges. Perhaps 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 and formally exits the bloc (which is widely expected to occur in March 2019). Although Brexit may have 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 issues confronting the EU, including Brexit and concerns 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. 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 currently has 751 members who are directly elected for five-year terms (the most recent elections were in May 2014; the next elections are due in May 2019). 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 its use to policy areas previously subject to member state unanimity in the Council of Ministers. This change was intended in part to speed EU decisionmaking, 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 decides 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 invoked Article 50 in March 2017, giving effect to its June 2016 vote to leave the EU.

[2] For more information, see CRS Report RS21618, *The European Union's Reform Process: The Lisbon Treaty*, by Kristin Archick and Derek E. Mix.

[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 in December 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.

Austria holds the ***Presidency of the Council of Ministers*** (often termed the "EU Presidency") from July to December 2018; Romania will hold the Presidency from January to June 2019.

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***. In January 2017, Italian MEP Antonio Tajani was elected as President of the Parliament; Tajani is from the center-right European People's Party parliamentary group.

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 European Commission, must also be approved by the European Parliament.

What Is the Euro and the Eurozone?

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.

In 2009-2010, a serious crisis in the eurozone developed. It began in Greece due to the country's high sovereign (or public) debt load. Over the previous decade, the Greek government had 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 during 2009 about the government's debt level 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 quickly spread to several other eurozone countries with high, potentially unsustainable levels of public debt, including Ireland, Portugal, Italy, and Spain (the latter two being the eurozone's third- and fourth-largest economies, respectively). The debt problems of these countries also posed a risk to the European banking system, slowed economic growth, and led to rising 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 also enacted significant austerity measures, and eurozone leaders approved a recapitalization plan for Spanish banks. Other key initiatives included the creation of a permanent EU financial assistance facility (the European Stability Mechanism, or ESM) to provide

[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.

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 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 started to stabilize in most eurozone countries. Ireland exited the EU-IMF financial assistance program in December 2013, Portugal did so in May 2014, and Cyprus in March 2016. EU aid to Spanish banks ceased in January 2014. Nevertheless, many member states continued to experience weak economic growth and high unemployment; Greece's economy and banking system remained in particular 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 aid from its 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. In late June, Greece failed to make a payment to the IMF, and the government closed the banks and imposed capital controls. In mid-July, however, the Syriza-led government acceded to EU demands for more austerity and economic reforms in exchange for the badly needed financial assistance.[5]

Although Grexit was averted, the threat of Grexit has lingered, as have tensions between Athens, its eurozone creditors, and the IMF over the terms of Greece's assistance program and the question of debt relief. The IMF and some analysts argued that more must be done to put Greece on a realistic path to financial viability, but key EU members such as Germany were hesitant to discuss debt relief. In June 2018, Greece's creditors agreed to a degree of debt relief in the form of extending loan maturities due from 2023 by 10 years to ease Greece's repayment burden. On August 20, 2018, Greece officially exited its financial assistance plan; however, it must continue to meet stringent financial conditions and will remain subject to financial monitoring by the EU and the IMF. Despite the end of Greece's financial assistance program and some recent signs of economic recovery, experts assess that Greece's economy remains fragile, austerity measures remain in place, and concerns persist about the strength of the country's banking system. Between 2010 and 2018, Greece received a total of $330 billion in loans from the EU, the ECB, and the IMF.[6]

From its start, the eurozone crisis forced EU leaders to grapple with weaknesses in the eurozone's structure and the common currency's future viability. It also generated tensions among member states over the proper balance between imposing austerity measures and stimulating growth and over whether greater EU fiscal integration was necessary. The fraught negotiations with Greece in 2015 significantly challenged the EU as an institution but EU governments and leaders appear to remain committed to the euro and the broader EU project. Some experts contend that the eurozone's recent economic recovery and more positive economic prospects in 2018 are due, in part, to EU efforts over the last several years to strengthen the eurozone's architecture and improve fiscal discipline among member states.

[5] For more information, see CRS Report R44155, *The Greek Debt Crisis: Overview and Implications for the United States*, coordinated by Rebecca M. Nelson.

[6] Bjarke Smith-Meyer, "Greek Deal Paves Way for August Bailout Exit," *Politico Europe*, June 22, 2018; Bart Oosterveld and Alexatrini Tsiknia, "This Greek Tragedy Is Not Over Just Yet," Atlantic Council, August 21, 2018.

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 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.[7] 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. In May 2018, EU leaders at a summit with their Western Balkans counterparts reaffirmed the EU's "unequivocal support for the European perspective" of the countries of the Western Balkans.[8] Nevertheless, some European officials 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.[9]

[7] 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.

[8] European Council, "Sofia Declaration of the EU-Western Balkans Summit," press release, May 17, 2018.

[9] For background, see CRS Report RS21344, *European Union Enlargement*, by Kristin Archick and Vincent L. Morelli.

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 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.[10]

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).[11] CSDP seeks to improve the EU's ability to respond to security crises and to enhance European military capabilities. The EU has created three defense decisionmaking bodies 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.

[10] For more information, see CRS Report R41959, *The European Union: Foreign and Security Policy*, by Derek E. Mix.

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

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 many years of flat or declining European defense budgets. Serious capability gaps 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.

Recently, many EU officials and national leaders have supported increased defense spending and advocated for further EU defense integration. 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 contend 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. Commentators also suggest that European concerns about the Trump Administration's commitment to NATO and transatlantic security could provide additional impetus to greater EU defense integration in the years ahead.

Since 2016, EU leaders have announced several new initiatives to bolster EU security and defense cooperation, including a European Defense Fund to support joint defense research and development activities. EU leaders insist that such efforts do not represent the first steps toward an EU army and that member states will retain full control over national military assets and over defense procurement and investment decisions. In December 2017, 25 member states launched a new EU defense pact (known officially as Permanent Structured Cooperation, or PESCO) aimed at spending defense funds more efficiently, jointly developing military capabilities, and increasing military interoperability. The EU also has identified a more robust partnership with NATO as a key pillar of its strategy to improve European defense capabilities and EU security cooperation (see next question). Although some observers are encouraged by these recent measures, they note that the EU and national governments will continue to face decisionmaking and procurement challenges that could limit PESCO's effectiveness.[12]

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 and does not rival or duplicate NATO structures or resources. Advocates of CSDP argue that more robust EU military capabilities will

[12] Sophia Besch, "Waging War on the Myth of an EU Army," *Politico Europe*, June 8, 2016; European Commission Fact Sheet, "European Defense Action Plan—FAQs," November 30, 2016; Council of the EU, "Defense Cooperation: Council Establishes Permanent Structured Cooperation (PESCO), with 25 Member States Participating," press release, December 11, 2017.

also benefit NATO given that 22 countries currently belong to both organizations.[13] 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).[14] 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, however, has prompted some recent progress toward enhanced NATO-EU cooperation. In 2016, NATO and the EU concluded two new arrangements—one on countering migrant smuggling in the Aegean Sea and another on cyber defense—and issued a joint declaration to "give new impetus and new substance" to their strategic partnership.[15] 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. In July 2018, NATO leaders reaffirmed the importance of the NATO-EU partnership and both organizations pledged to improve military mobility in Europe. Despite the apparent momentum toward closer NATO-EU relations, some analysts worry that political uncertainty on both sides of the Atlantic and ongoing tensions with Turkey could derail these efforts.

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).[16] 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. U.S. officials have voiced support for the EU's new defense pact, PESCO, but assert that it must not distract European allies from their NATO commitments.[17]

[13] Currently, six countries belong to the EU, but not to NATO (Austria, Cyprus, Finland, Ireland, Malta, and Sweden); seven other countries belong to NATO but not the EU (Albania, Canada, Iceland, Montenegro, Norway, Turkey, and the United States).

[14] 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 various proposals over the years for enhancing NATO-EU cooperation.

[15] 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.

[16] 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.

[17] Aaron Mehta, "U.S. Cautiously Watching EU Military Proposal," DefenseNews.com, February 13, 2018.

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. 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 and subsequent attacks in Europe in the 2000s galvanized progress in the JHA area. Among other measures, the EU has established a common definition of terrorism, an EU-wide arrest warrant, and enhanced tools to stem terrorist financing. The EU also has worked to bolster Europol, its joint agency for police cooperation. Recent terrorist attacks in France, Belgium, Germany, Spain, the United Kingdom, and elsewhere have led the EU to devote significant attention to combating the so-called foreign fighter phenomenon and individuals inspired by terrorist groups such as the Islamic State.[18]

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 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.[19] 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.

[18] For more information, see CRS Report RS22030, *U.S.-EU Cooperation Against Terrorism*, by Kristin Archick, and CRS In Focus IF10561, *Terrorism in Europe*, by Kristin Archick.

[19] 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.

Along with the abolition of internal borders, Schengen participants agreed to strengthen cooperation 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 legally obliged 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.

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 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. 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.[20] If the Council approves the accord, it authorizes the Commission to formally sign the agreement.

[20] Some trade agreements submitted for Council and Parliament approval are accompanied by Commission legislative proposals needed for implementation, which must also be adopted by both the Council and the Parliament.

Once the new trade accord is officially signed by both parties, the Council submits it to the Parliament for its consent. 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. 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.[21]

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

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

The prevailing view among European publics has likewise been historically favorable toward the EU. Many EU citizens value the freedom to easily travel, work, and live in other EU countries. At the same time, there has always been a degree 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 the EU's "democratic deficit"—a feeling that ordinary citizens have no say over decisions taken in faraway Brussels.

Over the last few years, however, Europe's economic difficulties and worries 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. Most of these parties are on the far right of the political spectrum, but 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 prominent populist and, to at least some extent, euroskeptic parties. Following Italian elections in March 2018, a new coalition government was formed that consists of two anti-establishment, euroskeptic parties. Such parties also lead the government or are part of coalition governments in Austria, Finland, Poland, and Hungary. In Germany, the euroskeptic, anti-immigrant, right-wing Alternative for Germany party secured enough support in federal elections in September 2017 to enter parliament, becoming the first far-right German political party to do so since the end of the Second World War.

[21] For more on the EU process for concluding new trade agreements, see European Commission, "Negotiating EU Trade Agreements," http://trade.ec.europa.eu/doculib/docs/2012/june/tradoc_149616.pdf.

Such euroskeptic parties are challenging the generally pro-European establishment parties and have put pressure on mainstream leaders to embrace some of their positions on issues such as immigration and further European integration. The UK government's decision to hold the June 2016 public referendum on continued EU membership was driven largely by increasing pressure from hard-line euroskeptics, both within and outside of the governing Conservative Party. Euroskeptic parties also may seek to influence the formation of EU policies. Some analysts suggest that Italy's new euroskeptic government may push back against certain eurozone rules that it views as constraining growth or oppose certain elements of EU trade deals.[22]

At the same time, opinion polls indicate that a majority of EU citizens remain supportive of the EU.[23] Some observers note that many of the most stridently anti-EU parties, such as France's former National Front party (recently renamed National Rally) and the Netherlands' Freedom Party, did not do as well as expected in elections in 2017 and are not part of national governments. Although a range of anti-establishment and euroskeptic parties hold up to 25% of seats in the current European Parliament—and may increase their share of seats in the upcoming 2019 elections—such parties have struggled to form a cohesive opposition and thus far have failed to exert significant influence on the EU's legislative process.[24]

What Does the UK Vote to Leave Mean for the EU?[25]

In a June 2016 public referendum, UK voters favored leaving the EU by 52% to 48%. The UK government enacted the results of this "Brexit" referendum in March 2017, when it invoked Article 50—the so-called *exit clause*—of the Treaty on European Union. The EU is currently engaged in complex negotiations with the UK on its pending withdrawal, which is widely expected to occur in March 2019. In December 2017, the EU and the UK reached an agreement in principle covering main aspects of three priority withdrawal issues (the Irish border, the rights of UK and EU citizens, and the financial settlement), and talks began in March 2018 on the UK's future relationship with the EU.

EU-UK negotiations, however, remain contentious. Despite the December 2017 agreement with the EU, the UK remains largely divided on whether it wants a *hard* or *soft* Brexit. As such, many details—including on customs arrangements, trade relations, and ensuring no *hard border* between Northern Ireland and Ireland—still m be fleshed out with the EU. These difficulties have increased speculation of a "no deal" scenario in which the UK "crashes out" of the EU in March 2019 without settled arrangements in place. Other analysts remain confident that the EU and UK will come to an agreement that avoids a no deal situation because such an outcome would serve neither side's political or economic interests.

EU leaders assert that despite Brexit, "the Union of 27 countries will continue."[26] However, the UK is the bloc's second-largest economy and, along with Germany and France, long has been viewed as one of the EU's "big three." As such, the UK's departure could have significant political and economic implications for the EU and for the future of the EU integration project.

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[22] Jacopo Barigazzi, "How Italy Plans to Blow Up Brussels," *Politico Europe*, June 18, 2018.

[23] See, for example, Bruce Stokes, Richard Wike, and Dorothy Manevich, *Post-Brexit, Europeans More Favorable Toward the EU*, Pew Research Center, June 15, 2017.

[24] Maia de la Baume, "Populist Plan for 2019 Election Puts EU in Crosshairs," *Politico Europe*, June 4, 2018.

[25] Also see CRS Report RL33105, *The United Kingdom: Background, Brexit, and Relations with the United States*, by Derek E. Mix.

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

Many observers view the EU as taking a tough line in Brexit negotiations—refusing to allow the UK to cherry-pick the benefits of the EU without taking on the required obligations—in part to discourage other member states and euroskeptic publics from contemplating a break with the EU that would further fracture the bloc. Some experts 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 the longer term, various analysts suggest that the EU 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 better address political and economic challenges, 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 ultimately could lead to a more like-minded EU, able to pursue deeper integration without UK opposition. Considerable attention has focused recently on developing a "multispeed EU," in which some member states could agree to greater integration in certain areas and others could choose to opt out.

In March 2017, the EU-27 leaders met in Rome to commemorate the 60th anniversary of the Treaties of Rome (two treaties agreed in 1957 that are regarded as key founding blocks of the present-day EU) and to conclude a "reflection process" launched in the wake of the UK's Brexit referendum. EU-27 leaders issued the Rome Declaration, in which they reasserted their continued commitment to the EU project.[27] Press reports indicate, however, that efforts led by Germany to mention explicitly developing a multispeed EU were watered down because of concerns from Poland and possibly others that such an arrangement could lead to different classes of EU membership (essentially, one for richer, more prosperous EU countries in the west and another for relatively poorer EU members in the east).[28]

Regardless of a formal decision to move toward a multispeed EU, the union appears to be pursuing greater integration in certain areas, especially defense. EU leaders have announced several new initiatives to bolster security and defense cooperation (as discussed in "Does the EU Have a Defense Policy?"). Germany and France—which are regarded as key countries in determining the EU's future direction—also have called for strengthening the eurozone's economic governance. In June 2018, Germany and France proposed a road map for eurozone reforms, but other eurozone members subsequently voiced reservations about some aspects of the plan, including a potential common eurozone budget.[29] Discussion and debate within the EU on its future structure and purpose likely will continue to preoccupy EU governments and leaders for the foreseeable future.[30]

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

For decades, the United States and the EU (and its predecessor institutions) have maintained diplomatic and economic ties. The 1990 U.S.-EU Transatlantic Declaration set out principles for greater consultation, and established regular summit and ministerial meetings. In 1995, the New

[27] European Council, The Rome Declaration, March 25, 2017.

[28] Matthew Karnitschinig, "With Plenty of Pomp, Europe's Leaders Renew Vows," *Politico Europe*, March 24, 2017.

[29] "Differences Persist on Eurozone Budget Ahead of Key EU Summit," EurActiv.com, June 26, 2018.

[30] Also see CRS Report R44249, *The European Union: Current Challenges and Future Prospects*, by Kristin Archick.

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?

During U.S.-EU summits, 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 in the 1950s as a way to help keep European nationalism in check, promote political reconciliation (especially between France and Germany), and prevent another catastrophic war on the European continent. Successive U.S. Administrations and many Members of Congress have long viewed European integration as a way to foster democratic allies and strong trading partners in Europe. During the Cold War, the EU project—and the peace and prosperity it helped to engender in Western Europe—was considered central to deterring the Soviet threat. With the end of the Cold War, the United States strongly backed EU efforts to extend the political and economic benefits of membership to Central and Eastern Europe, and it has supported 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. Although strategic and tactical differences surface periodically, many analysts assert that the United States and the EU have a strong track record of cooperation. The United States and the EU have promoted peace and stability in various regions and countries (including the Balkans, Afghanistan, and Africa), enhanced law enforcement and counterterrorism cooperation, and sought to tackle cross-border challenges, such as cybersecurity. During the Obama Administration, the two sides worked together to contain Iran's nuclear ambitions and address climate change. Since 2014, the United States and the EU also have imposed 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.

At times, 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. U.S.-EU differences on how best to promote a political settlement to the Israeli-Palestinian conflict often have posed a stumbling block. Data protection and balancing privacy and security also have been key U.S.-EU sticking points for years. Frictions on such

issues resurfaced following the unauthorized disclosures in 2013 of U.S. surveillance programs and allegations of U.S. intelligence-collection operations in Europe. EU worries about U.S. data privacy safeguards put pressure on U.S.-EU information-sharing arrangements, in both law-enforcement and commercial contexts. The Obama Administration and Congress took several steps to try to assuage European data protection concerns and ensure continued U.S.-EU information sharing. Nevertheless, some in the EU remain apprehensive about whether U.S. laws and regulations sufficiently protect EU citizens' personal data.[31]

Despite the ups and downs in U.S.-EU relations over the years, U.S. and EU policymakers alike traditionally have valued the partnership as serving their respective overall strategic and economic interests. Given long-standing U.S. support for the EU, many EU leaders have been taken aback by what they perceive as President Trump's hostility toward the bloc. President Trump has repeatedly singled out the EU's trade practices as harmful to U.S. commercial interests. Several commentators contend that the Trump Administration views the EU through an economic prism and is less inclined to regard the EU as an important political and security partner. President Trump's criticisms of the EU have prompted significant and growing concerns in Europe about the future trajectory of U.S.-EU relations and the broader transatlantic partnership.

EU officials and many European governments also are uneasy with elements of the Trump Administration's "America First" foreign policy, and U.S.-EU divisions have emerged on a number of issues. The EU is particularly concerned by President Trump's decision to withdraw from the 2015 multilateral nuclear agreement with Iran (the Joint Comprehensive Plan of Action, or JCPOA). The EU believes the JCPOA has been effective in preventing Iran from developing nuclear weapons and contends that the U.S. withdrawal could destabilize the region. Moreover, the EU considers the JCPOA to be a major foreign policy achievement and a high point for U.S.-EU cooperation. As such, many in the EU view the U.S. withdrawal as undermining these accomplishments. The EU also is apprehensive that the reimposition of U.S. sanctions on Iran will threaten EU business interests in Iran. The EU is seeking to work with Iran and other international partners to preserve the JCPOA, in part by trying to insulate European companies engaged in Iran from U.S. secondary sanctions.

In addition, many EU leaders were dismayed by President Trump's decisions to withdraw the United States from the Paris climate agreement and to recognize Jerusalem as the capital of Israel (which they view as unhelpful to resolving the Israeli-Palestinian conflict). Some in the EU are distrustful about possible Trump Administration efforts to improve relations with Russia, arguing that any such efforts must not come at the expense of European security and transatlantic coherence. EU policymakers also express concerns about what they regard as the Administration's ambivalence toward multilateral organizations such as the United Nations and the World Trade Organization (WTO).

[31] Obama Administration efforts to address EU concerns about U.S.-EU data flows and U.S. data protection standards included working with Congress to pass the U.S. Judicial Redress Act (P.L. 114-126) in 2016, extending the core of the judicial redress provisions in the U.S. Privacy Act of 1974 to EU citizens; this legislation was passed to facilitate the conclusion of the U.S.-EU Umbrella Agreement on data protection, which seeks to better protect personal information exchanged between U.S. and EU authorities for law-enforcement purposes. In addition, the Obama Administration negotiated a new agreement with the EU in 2016 to enable the legal transfer of personal data between EU member countries and U.S. businesses and organizations; the resulting Privacy Shield replaces the former Safe Harbor accord, which was invalidated by the Court of Justice of the European Union (CJEU, which is also known as the European Court of Justice, or ECJ) in 2015 because of concerns about U.S. data protection standards in the wake of the unauthorized disclosure of the U.S. surveillance programs.

Some European and EU officials increasingly question whether the United States will remain a reliable partner in the years ahead. Various commentators suggest that there is a risk of U.S. disengagement and the EU must be better prepared to address both regional and global challenges on its own. Many observers view recent EU efforts to enhance defense cooperation and to conclude trade agreements with other countries and regions (including Canada, Japan, and Latin America) as aimed not only at boosting the EU project in the wake of Brexit but also at reducing European dependence on the United States.[32]

Other experts believe that despite heightened U.S.-EU tensions on certain policy issues, the EU will seek to work with the Trump Administration on common interests—such as countering terrorism and promoting cybersecurity—and will aim to preserve political, security, and economic relations with the United States for the long term. Some observers point to European Commission President Jean-Claude Juncker's recent efforts to reduce trade tensions with President Trump (discussed below) as a clear indication that the EU remains committed to ensuring close U.S.-EU relations for the foreseeable future.

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

The United States and the EU share the largest trade and investment relationship in the world. The combined U.S. and EU economies account for 46% of global gross domestic product, roughly 28% of global exports, and 33% of global imports. The United States and the EU also account for over half of global foreign direct investment. U.S. and European companies are the biggest investors in each other's economies (total stock of two-way direct investment is over $5 trillion), and the United States and Europe are each other's most profitable markets. One recent study estimates that the transatlantic economy generates $5.5 trillion a year in commercial sales (foreign affiliate sales) and employs up to 15 million workers (in direct and indirect employment) on both sides of the Atlantic.[33]

U.S.-EU economic relations traditionally have been viewed as mutually beneficial, but some tensions have always existed. Long-standing U.S.-EU trade disputes persist over poultry, bioengineered food products, protection of geographical indications (GIs), and subsidies to airplane manufacturers Boeing and Airbus. Many analysts note that resolving U.S.-EU trade disputes is often difficult 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 disputes involve differences in domestic values, political priorities, and regulatory frameworks.

In an effort to stimulate greater economic growth and more job creation on both sides of the Atlantic, the United States and the EU launched negotiations in 2013 on a free trade agreement known as the Transatlantic Trade and Investment Partnership (T-TIP). Goals for T-TIP focused on further increasing market access and exports; strengthening rules-based investment; reducing non-tariff and regulatory barriers; and enhancing cooperation on trade issues of global concern. Many officials and analysts also viewed T-TIP as reaffirming the importance of close transatlantic ties, both politically and economically. Although U.S. and EU officials had hoped to complete the T-TIP negotiations in 2016, this timeline proved overly ambitious given unresolved differences on

[32] Michael Birnbaum, "Europeans Approve Defense Pact in Bid to Reduce Dependence on U.S.," *Washington Post*, November 13, 2017; Philip Blenkinsop and Noah Barkin, "America Last? EU Says Trump Is Losing on Trade," *Reuters*, January 15, 2018.

[33] See CRS In Focus IF10930, *U.S.-EU Trade and Investment Ties: Magnitude and Scope*, by Shayerah Ilias Akhtar, and CRS In Focus IF10931, *U.S.-EU Trade and Economic Issues*, by Shayerah Ilias Akhtar. Also see Daniel S. Hamilton and Joseph P. Quinlan, The Transatlantic Economy 2018, SAIS Center for Transatlantic Relations, 2018.

sensitive issues such as investor-state dispute settlement, digital trade, treatment of GIs, and government procurement, among others. T-TIP negotiations have been inactive under the Trump Administration.[34]

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 economic 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.

Many EU officials are anxious about U.S. trade policy under the Trump Administration and the degree to which the United States will continue to play a leading role in supporting the multilateral trading system. The EU is deeply concerned about what it regards as protectionist U.S. trade policies and President Trump's apparent view of EU trade practices as detrimental to the United States. President Trump has repeatedly raised concerns about the U.S. goods deficit with the EU ($153 billion in 2017). In mid-July 2018, President Trump asserted that the EU was a "foe" for "what they do to us in trade," although he also noted "that doesn't mean they are bad … it means that they are competitive."[35] EU officials contend that despite the goods deficit, U.S.-EU economic relations are largely in balance when the U.S. services surplus with the EU ($51 billion in 2017) and higher profits earned by U.S. companies doing business in Europe are taken into consideration (one study estimates that in 2017, U.S. affiliates in Europe earned about $140 billion more than European affiliates in the United States).[36]

A key U.S.-EU sticking point stems from the Trump Administration's March 2018 decision to impose tariffs on imports of steel (25%) and aluminum (10%) from U.S. trading partners, following a Department of Commerce determination that current steel and aluminum imports could pose a threat to U.S. national security (pursuant to Section 232 of the Trade Expansion Act of 1962). The Trump Administration granted the EU two consecutive temporary exemptions to negotiate trade concessions and avoid imposition of tariffs. With no satisfactory agreement reached, however, U.S. tariffs on steel and aluminum imports from the EU went into effect on June 1, 2018. The Trump Administration also has begun Section 232 investigations into whether tariffs are warranted on imported automobiles and parts and uranium ore imports.[37]

EU leaders contend that the imposition of U.S. tariffs on national security grounds is baseless and particularly offensive given that most EU countries are close U.S. security partners.[38] The EU response to the U.S. steel and aluminum tariffs has been multifaceted. Among other measures, the

[34] For more background, see CRS In Focus IF10120, *Transatlantic Trade and Investment Partnership (T-TIP)*, by Shayerah Ilias Akhtar and Vivian C. Jones.

[35] As quoted in, "I Think the European Union Is a Foe, Trump Says Ahead of Putin Meeting in Helsinki," CBSNews.com, July 15, 2018.

[36] Rebecca Morin, "Trump Speaks with Juncker on Trade Negotiations," *Politico Europe*, July 27, 2018. For U.S.-EU trade statistics, see CRS In Focus IF10930, *U.S.-EU Trade and Investment Ties: Magnitude and Scope*, by Shayerah Ilias Akhtar; for statistics on U.S. and European affiliate income, see Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2018*, SAIS Center for Transatlantic Relations, 2018.

[37] For more information, see CRS Report R45249, *Section 232 Investigations: Overview and Issues for Congress*, coordinated by Rachel F. Fefer and Vivian C. Jones.

[38] Valentina Pop and Daniel Michaels, "NATO Allies Bristle Over U.S. Tariffs Pinned to Security Concerns," *Wall Street Journal*, June 6, 2018.

EU is challenging the U.S. tariffs through the WTO and has imposed retaliatory tariffs on selected U.S. imports (including, for example, Kentucky bourbon and Harley-Davidson motorcycles).[39]

On July 25, 2018, European Commission President Juncker and President Trump reached an initial agreement aimed at de-escalating U.S.-EU tensions on trade and tariffs. The two leaders pledged to renew U.S.-EU economic cooperation and resolve existing trade and tariff differences. In a joint U.S.-EU statement, the two sides asserted they would seek, among other measures, to work towards "zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods," to "assess existing tariff measures," and that neither side would "go against the spirit of this agreement" as long as discussions continued.[40] The EU interprets the Trump-Juncker deal to mean that the United States will not impose new tariffs under Section 232 against European automobiles or auto parts while U.S.-EU talks on trade and tariff issues are under way.[41] EU governments and businesses have been particularly concerned about possible U.S. auto-related tariffs given that major European car manufacturers are heavily engaged in the U.S. market.

Following his meeting with Juncker, President Trump tweeted that the United States and the EU "love each other" and appeared to give a more upbeat assessment of U.S.-EU economic relations.[42] Administration officials and supporters credit President Trump's approach with compelling the EU to address U.S. trade concerns. Some U.S. policymakers welcomed provisions in the joint U.S.-EU statement aimed, in particular, at boosting EU purchases of U.S. soybeans and liquefied natural gas (LNG).[43]

Although the Trump-Juncker agreement appears to have decreased U.S.-EU trade tensions to some degree, many in the EU remain cautious about whether the deal will hold. Some U.S.-EU differences have surfaced about the extent of proposed new U.S.-EU trade talks. For example, U.S. officials subsequently asserted that all agricultural products should be part of upcoming trade discussions, but EU officials have dismissed this idea, maintaining that only soybeans were within the scope of talks agreed to by Juncker and Trump. Some analysts also question how much the EU can do to increase imports of U.S. soybeans or LNG given that the EU is not a command economy and does not have the power to make such decisions for private companies.[44]

[39] European Commission, "European Commission Reacts to the US Restrictions on Steel and Aluminum Affecting the EU," press release, May 31, 2018; Jennifer Rankin, "EU Opens WTO Case Against Trump's Steel and Aluminum Tariffs," *The Guardian*, June 1, 2018; "EU Tariffs on US Goods Come Into Force," *BBC News*, June 22, 2018.

[40] European Commission, "Joint EU-U.S. Statement Following President Juncker's Visit to the White House," July 25, 2018; also see The White House, "Remarks by President Trump and President Juncker of the European Commission in Joint Press Statements," press conference, July 25, 2018.

[41] Rebecca Morin and Megan Cassella, "Trump Says No New Tariffs Against EU After Parties Agree to Trade Negotiations," *Politico Europe*, July 25, 2018.

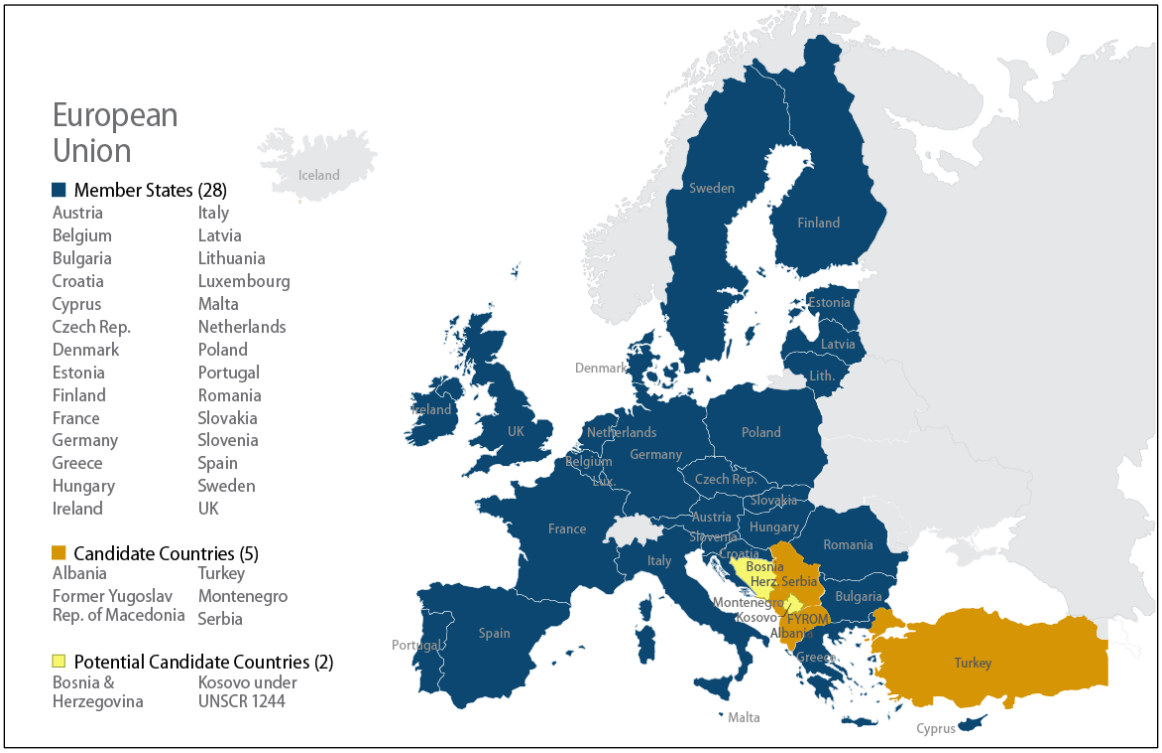
[42] Zoya Sheftalovich, "Sealed with a Juncker Kiss, Trump Says EU and US Love Each Other," *Politico Europe*, July 26, 2018.

[43] "Trump Tweets US, EU Love Each Other," *Associated Press*, July 26, 2018; Vicki Needham, "Ross Credits Trump's Tough Trade Policy for Bringing the EU to the Table," TheHill.com, July 26, 2018.

[44] Hans von der Burchard and Jakob Hanke, "EU-US Trade Truce Falters on Day 1 over Farming," *Politico Europe*, July 26, 2018; Quentin Aries and James McAuley, "Europeans Are Skeptical of Trade Truce with Trump," *Washington Post*, July 26, 2018. Also see CRS Insight IN10951, *Proposed U.S.-EU Trade Negotiations: Hitting Pause on a Trade War?*, by Shayerah Ilias Akhtar.

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 and officially exits the EU (expected to occur in March 2019).

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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