



# The European Union: Questions and Answers

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April 5, 2012

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

RS21372

**CRS Report for Congress**

*Prepared for Members and Committees of Congress*

## Summary

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among sovereign countries. The Union is the latest stage in a process of integration begun after World War II, initially by six Western European states, to foster interdependence and make another war in Europe unthinkable. Today, the EU is composed of 27 member states, including most of the states in Central and Eastern Europe, and has helped to promote peace, stability, and economic prosperity throughout the European continent.

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

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

EU decision-making processes and the role played by the EU institutions varies depending on the subject under consideration. For most economic and social issues, EU member states have largely pooled their national sovereignty, and EU decision-making has a supranational quality. Decisions in other areas, such as foreign policy, require the unanimous consensus of all 27 member states. The Lisbon Treaty, which took effect in December 2009, is the EU's latest attempt to reform its governing institutions and decision-making processes in order to enable an enlarged EU to function more effectively. The Lisbon Treaty also seeks to give the EU a stronger voice in the foreign policy realm and to increase democratic transparency within the EU.

The United States has strongly supported the European integration project since its inception as a means to foster democratic states and robust trading partners. The United States and the EU have a dynamic political partnership and share a large, mutually beneficial trade and investment relationship. Nevertheless, some tensions exist, ranging from long-standing U.S.-EU trade disputes to lingering concerns over the NATO-EU relationship. And given the extensive U.S.-EU economic ties, many U.S. officials worry that the ongoing Eurozone sovereign debt crisis could adversely affect the U.S. economic recovery.

This report serves as a primer on the EU and provides a brief description of U.S.-EU relations. For more information, also see CRS Report RS22163, *The United States and Europe: Current Issues*, by Derek E. Mix; and CRS Report R41652, *U.S.-EU Trade and Economic Relations: Key Policy Issues for the 112<sup>th</sup> Congress*, by Raymond J. Ahern.

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## What Is the European Union?

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among 27 member states.<sup>1</sup> Built through a series of binding treaties, the Union is the latest stage in a process of integration begun after World War II to promote peace and economic prosperity in Europe. Its founders hoped that by creating specified areas in which member states agreed to share sovereignty—initially in coal and steel production, economics and trade, and nuclear energy—it would promote interdependence and make another war in Europe unthinkable. Since the 1950s, this European integration project has expanded to encompass other economic sectors, a customs union, a single market in which goods, people, and capital move freely, a common trade policy, a common agricultural policy, many aspects of social and environmental policy, and a common currency (the euro) that is used by 17 member states. Since the mid-1990s, EU member states have also taken significant steps toward political integration, with decisions to develop a Common Foreign and Security Policy (CFSP) and efforts to promote cooperation in the area of Justice and Home Affairs (JHA), which is aimed at forging common internal security measures.

## How Does the EU Work?

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

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

For issues falling under the Common Foreign and Security Policy (once known as Pillar Two), EU member states have agreed to cooperate, but most decision-making is intergovernmental and requires the unanimous agreement of all 27 EU countries. Thus, member states retain more discretion over their participation as any one country can veto a decision. For many years, unanimous agreement among the member states was also largely the rule for policy-making in the Justice and Home Affairs area (formerly Pillar Three); recently, however, EU member states agreed to accelerate integration in the JHA field by extending the use of the EU's majority voting system to most JHA issues and giving EU institutions a greater role in JHA policy-making.

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<sup>1</sup> The 27 members of the EU are: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

## How Is the EU Governed?

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

- The *European Council* acts as the strategic guide for EU policy. It is composed of the Heads of State or Government of the EU's member states and the President of the European Commission; it meets several times a year in what are often termed "EU summits." The European Council is headed by a President, appointed by the member states to organize the Council's work and facilitate consensus.
- The *European Commission* is essentially the EU's executive and upholds the common interest of the EU as a whole. It implements and manages EU decisions and common policies, ensures that the provisions of the EU's treaties and rules are carried out properly, and has the sole right of legislative initiative in most policy areas. It is composed of 27 Commissioners, one from each country, who are appointed by agreement among the member states to five-year terms. One Commissioner serves as Commission President; the others hold distinct portfolios (e.g., agriculture, energy, trade). On many issues, the Commission represents the EU internationally and handles negotiations with outside countries. The Commission is also the EU's primary administrative entity.
- The *Council of the European Union* (also called the *Council of Ministers*) represents the 27 national governments. The Council enacts legislation, usually based on proposals put forward by the Commission, and agreed to (in most cases) by the European Parliament. Different ministers from each country participate in Council meetings depending on the subject under consideration (e.g., foreign ministers would meet to discuss the Middle East, agriculture ministers to discuss farm subsidies). Most decisions are subject to a complex majority voting system, but some areas—such as foreign and defense policy, taxation, or accepting new members—require unanimity. The Presidency of the Council rotates among the member states, changing every six months; the country holding the Presidency helps set agenda priorities and organizes most of the work of the Council.
- The *European Parliament* represents the citizens of the EU. The Parliament consists of 754 members who are directly elected for five-year terms. Each member state has a number of seats roughly proportional to the size of its population. Although the Parliament cannot initiate legislation, it shares legislative power with the Council of Ministers in many policy areas, giving it the right to accept, amend, or reject the majority of proposed EU legislation in a process known as the "ordinary legislative procedure" or "co-decision." The Parliament also decides on the allocation of the EU's budget jointly with the Council. Members of the European Parliament (MEPs) caucus according to political affiliation, rather than nationality.
- A number of other institutions also play key roles in the EU. The *Court of Justice* interprets EU laws and its rulings are binding; a *Court of Auditors* monitors the EU's financial management; the *European Central Bank* manages the euro and EU monetary policy; and a number of *advisory committees* represent economic, social, and regional interests.

## What Is the Lisbon Treaty?

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

To help accomplish these goals, the Lisbon Treaty establishes two new leadership positions. The new President of the European Council, chosen by the member states for a term of two and one-half years (renewable once), now chairs the meetings of the 27 EU Heads of State or Government, serves as coordinator and spokesman for their work, seeks to ensure policy continuity, and strives to forge consensus among the member states. The Lisbon Treaty also created a dual-hatted position of High Representative of the Union for Foreign Affairs and Security Policy to serve essentially as the EU's chief diplomat. The High Representative is both an agent of the Council of Ministers—and thus speaks for the member states on foreign policy issues—as well as Vice President of the European Commission, responsible for managing most of the Commission's diplomatic activities and foreign assistance programs (see “Does the EU Have a Foreign Policy?” for more information).

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

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

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

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

### Key EU Positions and Current Leaders

The **President of the European Council** is Herman Van Rompuy, a former prime minister of Belgium. Appointed by the member states in 2009, Van Rompuy is the first holder of this new position, which was created by the Lisbon Treaty. His term in office will be up for renewal in mid-2012.

The **President of the European Commission** is José Manuel Barroso, a former prime minister of Portugal. Barroso has served as Commission President since 2004, and is currently in his second five-year term, which will end in 2014. The Commission President and the other 26 Commissioners are appointed by agreement among the member states, subject to the approval of the European Parliament.

Denmark holds the **Presidency of the Council of Ministers** (often termed the “EU Presidency”) from January to June 2012; Cyprus will hold the Presidency for the second half of the year, from July to December 2012.

Every two-and-a-half years (twice per each five-year parliamentary term) Members of the European Parliament (MEPs) elect the **President of the European Parliament**, currently German MEP Martin Schulz, of the center-left Progressive Alliance of Socialists and Democrats (S&D) parliamentary group. Elected in January 2012, Schulz replaces Polish MEP Jerzy Buzek, of the center-right European People’s Party (EPP) group. Traditionally, the two largest parliamentary groups (currently the EPP and S&D) have agreed to split the position of President during each term.

The **High Representative of the Union for Foreign Affairs and Security Policy** is Catherine Ashton of the United Kingdom. Ashton served previously as the European Commissioner for Trade. The High Representative is chosen by agreement among the member states but like the other members of the Commission, must also be approved by the European Parliament.

## What Is the Euro and the Eurozone Crisis?

Seventeen of the EU’s 27 member states belong to the EU’s Economic and Monetary Union (EMU); these 17 countries have agreed to closely coordinate their economic and monetary policies and use a common single currency, the euro.<sup>4</sup> The gradual introduction of the euro began in January 1999 when 11 EU member states became the first to adopt it and banks and many businesses began using the euro as a unit of account. Euro notes and coins replaced national currencies in participating states in January 2002. EMU participants also share a common central bank—the European Central Bank (ECB)—and a common monetary policy. However, they do not have a common fiscal policy and member states retain control over decisions about national spending and taxation, subject to certain conditions designed to maintain budgetary discipline. The 17 EMU participants are often collectively referred to as “the Eurozone.”

The “Eurozone crisis” began as a sovereign (or public) debt crisis in Greece in 2009-2010. Over the last decade, the Greek government borrowed heavily from international capital markets to pay for its budget and trade deficits. This left Greece vulnerable to shifts in investor confidence, which decreased considerably in 2009 amid the global financial crisis and revelations that previous Greek governments had been under-reporting the budget deficit. As investors became increasingly nervous that the Greek government’s debt was too high, markets began demanding higher interest rates for Greek bonds, which drove up Greece’s borrowing costs and further increased its debt levels. By early 2010, Greece risked defaulting on its public debt. Since then, market concerns have 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 now pose a risk to the European banking system, and are slowing economic growth and leading to increased unemployment in many Eurozone countries.

<sup>4</sup> The 17 members of the EU that use the euro today are: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

In order to avoid default, Greece, Ireland and Portugal have received “bail-out” loans from the EU and the International Monetary Fund. Such assistance, however, has come with some strings attached, including the imposition of strict austerity measures in these three countries. The EU has also created two new financial assistance facilities to provide emergency support to Eurozone countries and other EU member states in financial trouble. In addition, the ECB has sought to calm financial markets by purchasing large portions of European sovereign debt and has provided significant infusions of credit into the banking system. Nevertheless, concerns persist that a Greek default still remains possible, and markets remain jittery in much of the Eurozone, especially with respect to Spain and Italy. From the U.S. perspective, policymakers and analysts worry that the Eurozone crisis may negatively affect the U.S. economy due to both financial and trade linkages (see “How Are U.S.-EU Economic Relations Doing?” for more information).

The EU’s sovereign debt crisis has also increasingly become a political crisis, resulting in the fall of some member state governments, and forcing EU leaders to grapple with both the euro’s future viability and the desirability of further EU integration. Some view EU efforts to address the crisis as too timid and too slow in part because of political differences among EU member states and between those in and outside of the Eurozone. Key points of tension have arisen over the proper balance between imposing austerity measures versus stimulating growth, and whether and to what extent the Eurozone countries should pursue closer fiscal integration. In January 2012, 25 of the EU’s 27 member states agreed on a new “fiscal compact” aimed at strengthening fiscal discipline within the Union (in part by requiring national budgets to be in balance or in surplus), providing for a more automatic imposition of sanctions should a country breach EU fiscal rules, and improving the coordination of national economic policies. This pact will not enter into force, however, until 12 of the 25 participating states transpose it into national law.<sup>5</sup>

## **Why and How Is the EU Enlarging?**

The EU views the enlargement process as an extraordinary opportunity to promote stability and prosperity in Europe. Since 2004, EU membership has grown from 15 to 27 countries, bringing in most states of central and eastern Europe. The EU began as the European Coal and Steel Community in 1952 with six members (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands). In 1973, Denmark, Ireland, and the United Kingdom joined what had then become known as the European Community. Greece joined in 1981, followed by Spain and Portugal in 1986. In 1995, Austria, Finland, and Sweden acceded to the present-day European Union. In 2004, the EU welcomed eight former communist countries—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia—plus Cyprus and Malta as new members. Bulgaria and Romania joined in 2007.

In order to be eligible for EU membership, countries must first meet a set of established criteria, including having a functioning democracy and market economy. Once a country becomes an official candidate, accession negotiations are a long and complex process in which the applicant must adopt and implement a massive body of EU laws and regulations. The EU named Croatia as an official candidate for EU membership in 2004 and began accession talks in 2005; negotiations

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<sup>5</sup> For more information, see CRS Report R42377, *The Eurozone Crisis: Overview and Issues for Congress*, coordinated by Rebecca M. Nelson; and CRS Report R41411, *The Future of the Eurozone and U.S. Interests*, coordinated by Raymond J. Ahearn.

were concluded in 2011. Following the ratification of the accession treaty in both Croatia and all 27 member states, Croatia is expected to become the 28<sup>th</sup> member of the Union in July 2013.

Five other countries are currently recognized by the EU as official candidates for membership: Iceland, Macedonia, Montenegro, Serbia, and Turkey. All are at different stages of the accession process. While Iceland's accession negotiations, which began in 2010, are proceeding relatively quickly, Turkey's accession talks—underway since 2005—have largely stalled, in part because of Turkish-EU disputes over the divided island of Cyprus. Similarly, Macedonia's membership bid has been complicated by an ongoing dispute with Greece over the country's official name. Accession negotiations with Montenegro are expected to begin in June 2012. Serbia was named an official candidate in March 2012, but accession talks are not expected to begin for at least a year. The remaining western Balkan states of Albania, Bosnia-Herzegovina, and Kosovo are all recognized as potential future EU candidates, but most experts assess that it will likely be many years before any of them are ready to join the EU.

The EU maintains that the enlargement door remains open to any European country that fulfills the EU's political and economic criteria for membership. Nevertheless, some European leaders and many EU citizens are cautious about additional EU expansion, especially to Turkey or countries farther east, such as Georgia or Ukraine, in the longer term. Worries about continued EU enlargement range from fears of unwanted migrant labor to the implications of an ever-expanding Union on the EU's institutions, finances, and overall identity. Observers note that such qualms are particularly apparent with respect to Turkey's possible EU accession, given Turkey's large size, predominantly Muslim culture, and relatively less prosperous economy.<sup>6</sup>

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

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

CFSP decision-making is dominated by the member states and requires the unanimous agreement of all 27. 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

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<sup>6</sup> For more information, see CRS Report RS21344, *European Union Enlargement*, by Kristin Archick, and CRS Report RS22517, *European Union Enlargement: A Status Report on Turkey's Accession Negotiations*, by Vincent Morelli.

position. Others note that some differences in viewpoint are inevitable among 27 countries that still retain different approaches, cultures, histories, and relationships—and often different national interests—when it comes to foreign policy.

The EU's new Lisbon Treaty seeks to bolster CFSP by increasing the EU's visibility on the world stage and making the EU a more coherent foreign policy actor. As noted above, the treaty establishes a High Representative of the Union for Foreign Affairs and Security Policy to serve essentially as the EU's chief diplomat. This new 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 new post seeks to marry the EU's collective political influence with the Commission's economic weight and development tools. The Lisbon Treaty also creates a new EU diplomatic corps (the European External Action Service) to support the High Representative.<sup>7</sup>

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

Since 1999, the EU has been working to develop a Common Security and Defense Policy (CSDP), formerly known as the European Security and Defense Policy (ESDP).<sup>8</sup> CSDP seeks to improve the EU's ability to respond to crises, enhance European military capabilities, and give the EU's common foreign policy a military backbone. The EU has created three defense decision-making bodies, has set targets for improving defense capabilities, and has developed a rapid reaction force and multinational "battlegroups." Such EU forces are not a standing "EU army," but rather a catalogue of troops and assets at appropriate readiness levels that may be drawn from existing national forces for EU operations.

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

However, improving European military capabilities has been difficult, especially given flat or declining European defense budgets. Serious capability gaps continue to exist in strategic air- and seairlift, command and control systems, intelligence, and other force multipliers. Also, a relatively low percentage of European forces are deployable for expeditionary operations. Some analysts have suggested pooling assets among several member states and the development of national niche capabilities as possible ways to help remedy European military shortfalls. In 2004, the EU established the European Defense Agency to help coordinate defense-industrial and procurement policy in an effort to stretch European defense funds farther.

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<sup>7</sup> For more information, see CRS Report R41959, *The European Union: Foreign and Security Policy*, by Derek E. Mix.

<sup>8</sup> ESDP was renamed CSDP by the Lisbon Treaty.

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

Since its inception, the EU has asserted that CSDP is intended to allow the EU to make decisions and conduct military operations “where NATO as a whole is not engaged,” and that CSDP is not aimed at usurping NATO’s collective defense role. The United States has supported EU efforts to develop CSDP provided that it remains tied to NATO, does not rival or duplicate NATO structures or resources, and does not weaken the transatlantic alliance. Advocates of CSDP argue that building more robust EU military capabilities will also benefit NATO given that 21 countries belong to both NATO and the EU.<sup>9</sup> The Berlin Plus arrangement—which was finalized in 2003 and allows EU-led military missions access to NATO planning capabilities and common assets—was designed to help ensure close NATO-EU links and prevent a wasteful duplication of European defense resources. Since then, two Berlin Plus missions have been conducted in the Balkans, and NATO and the EU have sought to coordinate their activities on the ground in operations in Afghanistan and various hot spots in Africa.

Nevertheless, NATO-EU relations remain somewhat strained. Closer and more extensive NATO-EU cooperation at the political level on a range of issues—from discussions on countering terrorism or weapons proliferation to improving coordination of crisis management planning and defense policies—has been stymied largely by EU tensions with Turkey (in NATO but not the EU) and the ongoing dispute over the divided island of Cyprus (in the EU but not NATO).<sup>10</sup> Many analysts argue that until a political settlement is reached over Cyprus, enhanced NATO-EU cooperation is unlikely. Others suggest that additional reasons exist for frictions in the NATO-EU relationship, including bureaucratic rivalry and competition between the two organizations and varying views on both sides of the Atlantic regarding the future roles and missions of both NATO and the EU’s CSDP. Some U.S. officials still worry that a minority of EU member states would like to build an EU defense arm more independent from NATO in the longer term.

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

The JHA field seeks to foster common internal security measures while protecting the fundamental rights of EU citizens and promoting the free movement of persons within the EU zone. JHA encompasses police and judicial cooperation, immigration, asylum, border controls, fighting terrorism and other cross-border crimes such as drug trafficking, and combating racism and xenophobia. For many years, however, EU efforts to harmonize policies in the JHA field were hampered by member states’ concerns that such measures could infringe on their legal systems and national sovereignty. The 2001 terrorist attacks on the United States, the subsequent revelation of Al Qaeda cells in Europe, and the terrorist bombings in Madrid and London in 2004 and 2005, however, helped give new momentum to many initiatives in the JHA area. Among

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<sup>9</sup> Six countries belong to the EU, but not to NATO (Austria, Cyprus, Finland, Ireland, Malta, and Sweden); seven countries currently belong to NATO but not the EU (Albania, Canada, Croatia, Iceland, Norway, Turkey, and the United States).

<sup>10</sup> Turkey continues to object to Cypriot participation in NATO-EU meetings on the grounds that Cyprus is not a member of NATO’s Partnership for Peace (PfP) and thus does not have a security relationship with the alliance. The absence of Cyprus from PfP also hinders NATO and the EU from sharing sensitive intelligence information. In the current political climate, Cyprus essentially cannot join PfP because it would require the consent of all NATO allies, including Turkey.

other measures, the EU has established a common definition of terrorism, an EU-wide arrest warrant, and new tools to strengthen external EU border controls.

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

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

EU member states have a common external trade policy in which the European Commission negotiates trade deals with outside countries and trading blocs on behalf of the Union as a whole. 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 Council of Ministers has the power to establish objectives for trade negotiations and can approve or reject agreements reached by the Commission. EU rules allow the Council to make trade decisions with qualified majority voting, but in practice the Council tends to employ consensus. The Commission and the Council work together to set the common customs tariff, guide export policy, and decide on trade protection or retaliation measures where necessary. The Lisbon Treaty extends the right of "co-decision" to the European Parliament on trade agreements, giving it an enhanced role in this area. The EU also plays a leading role in the World Trade Organization (WTO).

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

EU member states have long believed that the Union magnifies their political and economic clout (i.e., the sum is greater than the parts). Nevertheless, tensions have always existed within the EU between those members that seek an "ever closer union" through greater integration and those that prefer to keep the Union on a more intergovernmental footing in order to better guard their national sovereignty. As a result, some member states over the years have "opted out" of certain aspects of integration, such as passport- and visa-free travel within the EU (UK and Ireland), the euro (UK, Denmark, and Sweden), Justice and Home Affairs issues (UK, Ireland, and Denmark), and the common defense policy (Denmark). Another classic divide in the EU falls along big versus small state lines; small members are often cautious of initiatives that they fear could allow larger countries to dominate EU decision-making. In addition, the EU's enlargement to the east has brought in many new members with histories of Soviet control, which may color their views

on issues ranging from EU reform to relations with Russia or the Middle East; at times, such differences have caused frictions with older EU member states.

The prevailing view among European publics has likewise been historically favorable toward the EU. Despite the EU's recent financial troubles, surveys indicate that the majority of EU citizens continue to consider EU membership as good for their countries. EU citizens also value the freedom to easily travel, work, and live in other EU countries. At the same time, there is a certain amount of "Euro-skepticism" among some EU publics, driven by various concerns, including fears about the loss of national sovereignty and what some EU citizens view as a "democratic deficit" in the EU—a feeling that they have no say over decisions taken in far-away Brussels. Some recent opinion polls also indicate a drop in public support for the EU's single currency in light of the Eurozone's ongoing sovereign debt crisis.<sup>11</sup>

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

Yes. For decades, the United States and the EU (and its progenitors) have maintained diplomatic and economic ties. Washington has strongly supported European integration, and despite some frictions, the United States and the EU share a dynamic political partnership on an increasing number of issues ranging from countering terrorism to curbing the Iranian nuclear threat to slowing environmental degradation. U.S.-EU trade and investment relations are also 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; with the Lisbon Treaty now in force, the U.S. President meets with the President of the European Commission and the President of the European Council. For example, at the last U.S.-EU Summit in November 2011, President Obama met with Commission President José Manuel Barroso and European Council President Herman Von Rompuy. 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

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<sup>11</sup> See for example, the German Marshall Fund of the United States, *Transatlantic Trends 2011*.

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 Economic Relations Doing?**

The United States and the EU share the largest trade and investment relationship in the world. Despite the 2008-2009 global economic downturn, the combined U.S. and EU economies account for more than 40% of global gross domestic product, 40% of world trade in goods and services, 60% of world foreign direct investment flows, and 60-70% of global banking assets and financial services. In 2010, the value of the two-way flow of goods, services, and income receipts from investment between the United States and the EU totaled over \$1.5 trillion. U.S. and European companies are also the biggest investors in each other's markets: total stock of two-way direct investment was about \$3.4 trillion in 2010. Studies estimate that roughly 8 million workers are directly employed by U.S. companies operating in Europe and European companies operating in the United States, and when combined with indirect employment effects, the U.S.-EU economic relationship may account for up to 15 million jobs on both sides of the Atlantic.<sup>12</sup>

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

Over the last few years, the global economic downturn and the ongoing Eurozone debt crisis have also challenged the U.S.-EU relationship. While the U.S. economy is now recovering from recession, the Eurozone crisis is slowing Europe's growth and recovery. Given the extensive transatlantic economic ties, U.S. policymakers worry that the debt crisis could adversely affect U.S. exports to and sales of U.S. companies in Europe, or that ripple effects could weaken U.S. financial institutions and push the United States back into recession should any Eurozone member default. U.S. officials have urged the EU to take more forceful actions to address the debt crisis, and some have questioned what they view as the EU's emphasis on austerity measures rather than on promoting greater economic growth. Partly to address such concerns, in November 2011, U.S. and EU leaders directed the TEC to establish a High Level Working Group on Jobs and Growth, aimed at identifying policies to increase U.S.-EU trade and investment and support job creation, growth, and international competitiveness on both sides of the Atlantic.

Historically, U.S.-EU cooperation has been a driving force behind efforts to liberalize world trade and ensure the stability of international financial markets. U.S. and EU leaders have sought to pursue a coordinated response to the global financial crisis through the G-20, which brings together industrialized and developing countries. And many view U.S.-EU cooperation as crucial

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<sup>12</sup> See CRS Report RL30608, *EU-U.S. Economic Ties: Framework, Scope, and Magnitude*, by William H. Cooper; and Johns Hopkins SAIS Center for Transatlantic Relations, *The Transatlantic Economy 2011*.

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. U.S.-European differences also persist about how to curb large global trade imbalances viewed as posing serious risks to economic growth and an open international trading system.<sup>13</sup>

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<sup>13</sup> For more information, see CRS Report R41652, *U.S.-EU Trade and Economic Relations: Key Policy Issues for the 112<sup>th</sup> Congress*, by Raymond J. Ahearn.