

# CRS Report for Congress

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## The United States and Europe: Current Issues

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### Summary

The United States and Europe share a long and intertwined history. Both sides of the Atlantic face a common set of international concerns, have few other comparable partners, and share a deep economic relationship. Despite much improvement in overall relations since the debate over Iraq policy, several foreign policy and trade disputes remain. This report examines the current state of the transatlantic relationship and key issues that may have implications for U.S. interests. It will be updated as events warrant. Also see CRS Report RL32577, *The United States and Europe: Possible Options for U.S. Policy*, by Kristin Archick.

### The Current State of U.S.-European Relations

**The Ties That Bind.** The United States and Europe share a long and intertwined history. The two main pillars of the modern transatlantic relationship — NATO and the European Union (EU) — were created in the aftermath of World War II to deter the Soviet threat and to promote prosperity, security, and stability in Europe. The U.S. Congress and successive U.S. administrations have strongly supported both organizations as means to foster democratic states, reliable military allies, and strong trading partners.

Many observers stress that the security and prosperity of the United States and Europe remain inextricably linked, even after the end of the Cold War. Both sides of the Atlantic face a common set of challenges — from countering terrorism and weapons proliferation to ensuring the stability of global financial markets — and have few other comparable partners. Proponents of close U.S.-European ties argue that neither the United States nor Europe can adequately address such diverse concerns alone, and the track record shows that they can accomplish much more when they work together. U.S. and European military forces are promoting stability in the Balkans, Afghanistan, and Iraq. U.S. and European law enforcement authorities have sought to intensify police and judicial cooperation since September 11 to root out terrorist cells in Europe and elsewhere. The United States and the EU also share a mutually beneficial, increasingly interdependent trade and investment relationship, and U.S.-EU cooperation has been critical in making the world trading system more open and efficient.

**Evolving Relationship.** Despite common interests and close economic ties, the transatlantic partnership continues to be challenged by trade and foreign policy disputes.

Although Europeans are not monolithic in their views, most states have objected to at least some elements of U.S. policy on a range of issues, including Iraq, the treatment of prisoners at Guantánamo Bay and Abu Ghraib, aircraft and export tax subsidies, and climate change, among others. New issues, such as alleged covert CIA prisons in and “rendition” flights through Europe, the visa waiver program, and the passenger name records data transfer program, have emerged as irritants in the relationship.

Some observers argue that U.S.-European frictions may have been driven by personality and style differences among U.S. and European leaders. Many Europeans viewed the first-term Bush Administration as inclined toward unilateralism and largely uninterested in Europe. At the same time, analysts also blamed some European leaders for the difficulties, suggesting that they expressed their opposition to the war in Iraq recklessly, without due consideration for the broader transatlantic relationship.

Other experts suggest that tensions in U.S.-European relations are deeper and structural and involve the EU’s evolution. Since the end of the Cold War, EU members have moved beyond economic integration and taken steps toward political integration, including the establishment of new political and defense decision-making bodies. Although these initiatives remain works in progress, EU members are increasingly assessing foreign policy decisions with an eye toward establishing a larger role for Europe on the world stage and have succeeded in forging consensus on common policies on the Balkans, the Middle East peace process, and Iran, to name a few. The EU has also led several crisis management missions in the Balkans, Africa, and elsewhere. Some observers suggest that the EU’s apparent progress to date in the foreign policy and defense fields has given the Union a new self-confidence. EU members consult with each other on foreign policy concerns to a greater degree than ever before. As a result, Washington may not hold quite the same influence over the European allies as it once did, and EU members are perhaps quicker to challenge U.S. policies with which they do not agree.

However, European leaders have responded positively to the Bush Administration’s efforts in its second term to improve transatlantic relations. Some observers note that President Bush’s visit to the EU institutions while in Brussels in February 2005 demonstrated a U.S. recognition of the EU’s political evolution. They also suggest that U.S. statements in favor of a “strong Europe” have helped alleviate European anxieties about U.S. support for further European integration. Some Europeans also believe that the United States has learned some lessons about the limitations of a super power and may now understand Europe’s preference for multilateral approaches to resolving some issues. At the June 2006 U.S.-EU Summit, President Bush surprised some Europeans by stating “I will do my best to explain our foreign policy.” Austrian Chancellor Schuessel reciprocated by describing as “grotesque” the view that the United States may be more of a threat to the world than Iran or North Korea.<sup>1</sup> This kind of cooperative spirit has emerged more regularly on a number of issues. Nevertheless, transatlantic tensions have not entirely disappeared and differences remain.

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<sup>1</sup> See press conference at the conclusion of the Summit in Vienna, June 21, 2006, Office of the White House Press Secretary.

## Key Issues in U.S.-European Relations

**Countering Terrorism.** European countries and the EU have been active partners with the United States in the fight against terrorism in the years since September 2001. Washington has welcomed EU efforts to boost police and judicial cooperation among its 25 member states, stem terrorist financing, strengthen border controls, and improve transport security. The EU and the United States have concluded several new agreements on police information-sharing, extradition, mutual legal assistance, container security, and exchanging airline passenger data. Nevertheless, some challenges remain. For example, European opposition to the U.S. death penalty may still impede extradition of terrorist suspects. Some differences also persist in U.S. and EU terrorist blacklists; most notably, the EU does not recognize the Lebanese-based Hezbollah as a terrorist organization. Many Europeans also fear that the United States is losing the battle for Muslim “hearts and minds” as a result of the war with Iraq, past prisoner abuse at Abu Ghraib, and the detention center at Guantánamo Bay. The EU has expressed its strong desire to see that facility closed as soon as possible because the Europeans believe it degrades shared values regarding human rights and disregards international accords on the treatment of prisoners. President Bush has acknowledged European concerns but stated that some of the remaining prisoners cannot be released because they are considered too dangerous. U.S. policymakers are working on forging agreements with foreign governments that would receive some of the prisoners eventually released.

In addition, the EU is concerned about a CIA program to detain and question suspected terrorists outside of the United States. In September 2006, President Bush acknowledged the program’s existence for the first time. Although he announced that no suspects were currently being detained in the CIA’s global network, he asserted the right to revive the program in the future.<sup>2</sup> The European Parliament has formed a temporary committee to investigate the alleged illegal transfer of detainees and the alleged existence of secret detention facilities. The Council of Europe, Europe’s lead human rights guardian organization (which is distinct from the EU), has also been conducting its own inquiry.

Another issue of particular interest is the issue of passenger name records (PNR) data transfer. In reaction to the September 11 attacks, the U.S. Congress passed the Aviation and Transportation Security Act of 2001 (P.L. 107-71). The act included the requirement that air carriers operating flights to the United States provide PNR information prior to any aircraft landing in the United States. In May 2004, the United States and EU reached an agreement to allow European air carriers to provide PNR data. However, this accord has been controversial because of fears that it compromises EU citizens’ data privacy rights. The European Parliament lodged a case against the agreement in the EU Court of Justice, which annulled the accord in May 2006 on grounds that it had not been negotiated on the proper legal basis. In October 2006, U.S. and EU officials concluded a new interim agreement to ensure the continued transfer of PNR data. Although U.S. officials appear pleased with this new deal, which will allow U.S. Customs and Border Protection to share PNR data with other U.S. agencies, this latest agreement will expire in July 2007. Some European Parliamentarians and European civil liberty groups remain opposed to the

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<sup>2</sup> Speech by President George W. Bush, Office of the White House Press Secretary, September 6, 2006.

deal and may seek to stymie its extension. At the same time, U.S. officials would like to receive more PNR information before — not after — flights depart Europe.<sup>3</sup>

**Iraq.** U.S.-European tensions over Iraq have abated but still linger. Many European leaders claim that failure in Iraq is not an option but have been reluctant to engage robustly in reconstruction efforts. Some European troop contributors have withdrawn, or will reduce, their military forces in Iraq due to domestic pressure amid ongoing violence in Iraq. The United States, however, has had some success in gaining European support for training Iraqi security forces, and in July 2005, the EU launched a small mission to train Iraqi police, administrators, and judges, primarily outside of Iraq. The EU and member states have pledged a combined total of more than \$1 billion for Iraq's reconstruction, and the EU has agreed to open an office in Baghdad and begin negotiations on a trade agreement with the new Iraqi government.<sup>4</sup>

**Iran.** The United States and Europe share similar goals with respect to Iran including encouraging reforms and curbing Tehran's nuclear ambitions. Traditionally, the United States has favored isolation and containment, while the EU preferred conditional engagement; more recently, the policy approaches of the two sides of the Atlantic have converged. In late 2004, France, Germany, and the UK (the "EU3") opened talks with Iran on a long-term agreement on nuclear, economic, and security cooperation. In March 2005, the United States offered limited economic incentives if Iran agreed to cooperate with the EU3. Following Iran's resumption of uranium conversion in 2005, the EU3 and the United States began working on an International Atomic Energy Agency (IAEA) resolution to refer Iran to the U.N. Security Council, where Iran could face diplomatic and trade sanctions. By February 2006, the EU3 and the United States had gained Russian and Chinese approval for an IAEA resolution reporting Iran to the Security Council. In May 2006, the Security Council presented Iran with a broad package of incentives in return for an end to its uranium enrichment. The United States also, for the first time, agreed to join the EU3 in direct talks with Iran if Tehran accepted the terms of the incentive package. Since then, amid Iran's ongoing nuclear work, the United States and the EU have been working on a new U.N. resolution that would bar countries from supplying material or technology that could assist Iranian nuclear efforts and would freeze assets of companies involved in Iran's nuclear and missile programs. Some Europeans still worry, however, that Washington may ultimately conclude that diplomacy has failed to address the Iranian nuclear threat, thus opening the door to a military option.

**Israeli-Palestinian Conflict.** The United States and the EU believe that a just and lasting settlement of the Israeli-Palestinian conflict is vital to promoting stability in the region and diminishing the terrorist threat. Some Europeans believe that the Bush Administration has been working more robustly to promote peace since the start of its second term and appreciate renewed U.S. consultations with the EU through the Quartet. The Europeans viewed U.S. Secretary of State Condoleezza Rice's role in brokering a November 2005 deal on security controls for Gaza border crossings as extremely positive. As part of this accord, the EU is assisting with monitoring the Rafah border crossing between Gaza and Egypt. Like the United States, the EU has called on Hamas, which won a majority in the January 2006 Palestinian legislative elections, to renounce violence

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<sup>3</sup> "EU, U.S. Clinch Air Passenger Data Deal," Agence France Presse, October 6, 2006.

<sup>4</sup> European Union Fact Sheet, "EU Support for Iraq."

and recognize Israel. The EU is the largest donor of foreign assistance to the Palestinians and has agreed with the United States that aid should be targeted directly to the Palestinian people and not given through the Hamas-led government.

**Lebanon.** In July 2006, fighting in the Gaza Strip between Hamas and the Israeli Defense Force spread to southern Lebanon when the Lebanese-based Hezbollah militia launched attacks across Israel's northern border. The United States and European countries, especially France, worked together to bring about a ceasefire to the resulting 34-day conflict in August 2006, and Washington and the EU have generally cooperated in assisting Lebanon in rebuilding its infrastructure. European forces are also playing key roles in staffing an expanded U.N. peacekeeping force for Lebanon. However, some differences were apparent between U.S. and European approaches during and after the recent fighting. For example, although the EU effectively called for an immediate ceasefire, Washington did so only after a delay; some observers suggest that Washington was more prepared to allow Israel to continue its campaign against Hezbollah longer given its traditional support for Israel and its view of Hezbollah as a terrorist organization.<sup>5</sup>

**Economic Relations.**<sup>6</sup> The United States and the EU share the largest trade and investment relationship in the world. Annual two-way flows of goods, services, and foreign direct investment exceed \$1 trillion. U.S. and European companies are also the biggest investors in each other's markets; total stock of two-way direct investment is over \$2 trillion. Most of this economic relationship is harmonious, but trade tensions persist. One key dispute relates to government subsidies that the United States and EU allegedly provide to their respective civil aircraft manufacturers, Boeing and Airbus. In 2005, U.S.-EU talks to diffuse confrontation over this issue failed, and both sides have revived their complaints in the World Trade Organization (WTO). The EU also continues to impose WTO-sanctioned tariffs on some U.S. exports in response to the Byrd Amendment, which disburses anti-dumping duties to affected domestic producers. Congress had repealed the subsidy in 2004, but the EU challenged several transitional features of the new law that provided temporary benefits to a few U.S. companies. U.S.-EU conflicts over hormone-treated beef and bio-engineered food products also remain.

The United States and the EU have also been working on an open skies initiative, which has stalled in the United States. Existing treaties put severe limits on air service across the Atlantic. The Europeans believe that creating an open aviation market requires both getting rid of operational restrictions and providing for investment in each other's airline markets. The United States and EU reached an accord in 2005 giving more access to cities in the United States and Europe for each other's airlines. However, new regulations prepared by the Department of Transportation have generated opposition in the United States and among some Members of Congress over investment, ownership, management, and potential outsourcing of American jobs. Several Members are also opposed to U.S. airports spending federal aviation funds to upgrade facilities to accommodate the European A380 jumbo jet. This may further aggravate negotiations over the open skies agreement.

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<sup>5</sup> "U.S. Feels Pressure for Quick Ceasefire in Lebanon," Agence France Presse, August 2, 2006.

<sup>6</sup> For additional information see CRS Report RL30732, *Trade Conflict and U.S.-European Union Economic Relationship*, by Raymond Ahearn.

Historically, U.S.-EU cooperation has been a driving force behind efforts to liberalize world trade on a multilateral basis. The most recent Doha round of multilateral trade negotiations, however, has stalled over a number of issues, including a U.S.-EU disagreement over how much to reduce agricultural subsidies. Both sides insist they are still committed to the Doha agenda, but in October 2006, the European Commission — the EU's executive — announced plans to pursue bilateral free trade agreements more aggressively; many observers view this as a policy shift and suggest that in doing so, the EU believes that the prospects for successfully concluding the Doha round are dim.

In addition, the United States and the EU are at odds over the issue of the U.S. visa waiver program and the desire to have it applied to all EU member states. Currently, 10 EU member states (mostly the newer members from central and eastern Europe) are excluded from the visa waiver program due to problems meeting U.S. immigration laws. The United States prefers to address this issue on a country-by-country basis. Both sides have agreed, however, that tangible progress is needed to establish a reciprocal visa-free travel regime for all EU citizens to the United States.

**NATO and the EU.** Since the creation of NATO in 1949, the United States has used the Alliance as the primary institutional link with Europe on security issues. However, the EU's evolution has led to a new dimension in transatlantic relations. U.S. officials support EU efforts to develop an EU defense arm, known as the European Security and Defense Policy (ESDP), provided that it is tied to NATO and results in more robust European military capabilities to enable the allies to better share the security burden both within and outside of Europe. However, further improvement in European military capabilities remains difficult given flat European defense budgets. Some U.S. analysts worry that a minority of EU countries, led by France, favor an EU defense arm independent of NATO, which they fear would mean less U.S. influence in Europe.<sup>7</sup>

NATO and the EU have declared a strategic partnership that includes regularized meetings between the NATO Secretary General and the EU High Representative for Common Foreign and Security Policy. Despite this development, NATO-EU relations remain somewhat strained. More formal strategic discussions between NATO and the EU have proven elusive due, in part, to the differences in membership in both organizations and by the desire of some Europeans that the EU, rather than NATO, be the United States' primary interlocutor on strategic issues. The Bush Administration has reacted coolly to that proposal, believing that a formal strategic dialogue with the EU could ultimately erode NATO, where the United States has not only a voice but also a vote. Nevertheless, many experts believe that since the US-EU dialogue already covers a range of issues from energy to trade, it is only natural that a strategic dialogue on foreign policy issues take place in that venue as well. Some have suggested regular meetings between the U.S. Secretary of State and EU member state Foreign Ministers.

**EU Arms Embargo on China.** Ending the embargo does not appear to be high on the EU's agenda for the near term. Still, the EU is politically committed to overturning the embargo, and the United States remains opposed. In the interim, the United States and the EU have begun a strategic dialogue on China and other Asia security issues.

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<sup>7</sup> See CRS Report RL32342, *NATO and the European Union*, by Kristin Archick and Paul Gallis.