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The European Union: Current Challenges and Future Prospects

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Summary

The European Union (EU) is a unique partnership in which member states have pooled sovereignty in certain policy areas and harmonized laws on a wide range of economic, social, and political issues. The EU is the latest stage in a process of European integration begun after World War II, initially by six Western European countries, to promote peace, security, and economic development. Today, the EU is composed of 28 member states, including most of the formerly communist countries of Central and Eastern Europe.

EU members share a customs union, a single market (in which goods, people, and capital move freely), a common trade policy, a common agricultural policy, and a common currency (the euro) that is used by 19 member states (collectively referred to as “the Eurozone”). Twenty-two EU members participate in the Schengen area of free movement, in which individuals may travel without passport checks. In addition, the EU has taken steps to develop common foreign and security policies, has sought to build common internal security measures, and remains committed to enlargement, especially to the countries of the Western Balkans.

The EU is largely viewed as a success story and as a cornerstone of European stability and prosperity. Currently, however, the EU faces a range of political and economic pressures, including slow growth and persistently high unemployment in many EU countries, as well as the rise of populist political parties, at least some of which harbor anti-EU or “euroskeptic” sentiments (as well as anti-immigrant views). Such factors are complicating the EU’s ability to deal with a multitude of internal and external challenges. Among the most prominent are

- The Greek debt crisis;
- The migration and refugee crisis;
- The June 23, 2016, United Kingdom referendum on EU membership;
- A resurgent Russia; and
- A heightened terrorism threat.

Although few analysts view a complete dissolution of the EU as likely, the future shape and character of the Union are being increasingly questioned. Supporters of the European project worry that for the first time in its 60-year history, some aspects of EU integration could be stopped or reversed. Others contend that there is a chance that the multiple crises currently facing the EU could produce some beneficial EU reforms, encourage further political and economic integration, and ultimately transform the bloc into a more effective and cohesive entity.

Successive U.S. Administrations and many Members of Congress have long supported the European integration project, viewing it as fostering democratic allies and strong trading partners in Europe. The United States and the EU share a dynamic political partnership on a wide range of foreign policy issues, and U.S.-EU trade and investment relations are close, extensive, and mutually beneficial. How the EU evolves in the years ahead may have significant strategic and economic repercussions for the United States.

This report provides a brief history of the EU and the major challenges currently confronting the EU as an institution. It also discusses the potential implications both for the EU itself and for U.S.-EU relations. For additional information on the EU, see CRS Report RS21372, *The European Union: Questions and Answers*.

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Overview

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among 28 sovereign states (see **Figure 1**). It is the latest stage in a process of European integration begun after World War II, initially by six Western European countries, to promote peace and economic development. Its founders hoped that by pooling sovereignty in certain sectors (primarily economic ones at first), integration would foster interdependence and make another war in Europe unthinkable.

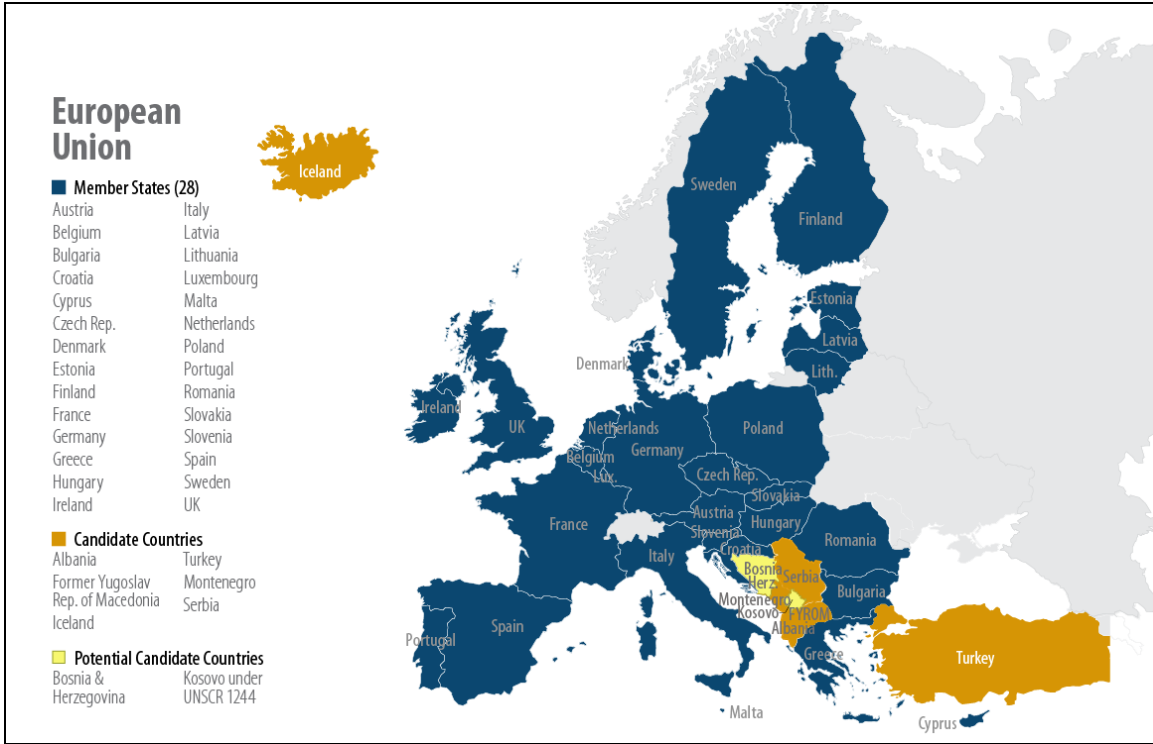
The EU has been built through a series of binding treaties, and has characteristics of both a supranational entity (in specified areas, sovereignty is shared and EU institutions hold executive authority) and an intergovernmental organization (in other areas, cooperation is pursued by consensus). Over the years, member states have sought to harmonize laws and adopt common policies on an increasing number of issues. EU members share a customs union, a single market (in which goods, people, and capital move freely), a common trade policy, a common agricultural policy, and a common currency (the euro) that is used by 19 member states (collectively referred to as “the Eurozone”). Twenty-two EU members (and four non-EU countries) participate in the Schengen area of free movement, which allows individuals to travel without passport checks. (See **Table 1** for Eurozone and Schengen membership.) In addition, the EU has taken steps to develop common foreign and security policies, has sought to build common internal security measures, and remains committed to enlargement, especially for the Western Balkans.

Various European policymakers and analysts have likened the European integration project to a bicycle, which must keep going forward to avoid falling over. Currently, however, the EU is facing several significant internal and external challenges amid a complex political and economic backdrop. Most imminently, the United Kingdom (UK) will hold a public referendum on June 23, 2016, on whether to remain in the EU. Should British voters favor a UK exit from the EU (dubbed “Brexit”), the move would be unprecedented in the EU’s history and have significant implications for both the UK and the EU. Other key issues for the EU include lingering concerns about Greece and the stability of the Eurozone, managing ongoing migratory pressures, dealing with a resurgent Russia, and combating a heightened terrorism threat. Although few analysts view a complete dissolution of the EU as likely, the future shape and character of the Union are being questioned. Although many experts maintain that the EU will continue to pedal along—with or without the UK—others worry that the European bicycle appears increasingly wobbly.

Successive U.S. Administrations and many Members of Congress have strongly supported the European integration project as a key pillar of the transatlantic relationship. In the aftermath of World War II, the United States viewed European integration as a way to entrench democratic systems and free markets, while the creation of NATO was meant to provide collective defense and security. Despite some frictions, the United States and the EU share a dynamic political partnership, and a huge trade and investment relationship. How the EU evolves in the years ahead is likely to have strategic and economic repercussions for the United States. In the 114th Congress, several hearings have addressed different aspects of the challenges facing the EU, including the Greek debt crisis, the conflict in Ukraine, EU policy toward Russia, the refugee crisis, and the potential threats posed by European fighters in Syria and Iraq. Some hearings have also focused more broadly on the EU’s future development and its possible implications for the United States.¹

¹ See House Foreign Affairs Committee, Subcommittee on Europe, Eurasia, and Emerging Threats, “The European Union’s Future,” 114th Congress, 1st Session, July 14, 2015; and Senate Foreign Relations Committee, “Strains on the European Union: Implications for American Foreign Policy,” 114th Congress, 2nd Session, February 3, 2016.

Figure I. The European Union: Member States and Aspirant Countries



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.

Note: Iceland’s accession negotiations with the EU have been on hold since May 2013; in March 2015, Iceland requested that it should no longer be regarded as a candidate country, but did not formally withdraw its application to join the EU.

Table I. Membership in the EU, Eurozone, and Schengen Area

EU Member	Eurozone	Schengen	EU Member	Eurozone	Schengen
Austria	x	x	Italy	x	x
Belgium	x	x	Latvia	x	x
Bulgaria			Lithuania	x	x
Croatia			Luxembourg	x	x
Cyprus	x		Malta	x	x
Czech Rep.		x	Netherlands	x	x
Denmark		x	Poland		x
Estonia	x	x	Portugal	x	x
Finland	x	x	Romania		
France	x	x	Slovakia	x	x
Germany	x	x	Slovenia	x	x
Greece	x	x	Spain	x	x
Hungary		x	Sweden		x
Ireland	x		UK		

Note: Iceland, Liechtenstein, Norway, and Switzerland also participate in Schengen.

Evolution of the European Integration Project and Internal Dynamics

The Past as Prologue

In the aftermath of World War II, leaders in Western Europe were anxious to secure long-term peace and stability in Europe and to create a favorable environment for economic growth and recovery. In 1951, six countries—Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands—decided to establish the European Coal and Steel Community (ECSC), which is regarded as the first step in the European integration project. The ECSC was envisioned as a single market in which sovereignty over coal and steel would be pooled and production controlled by an independent supranational authority. In embarking on this plan, the six founders hoped to greatly diminish the chances of another catastrophic conflict in Europe by binding their economies together, controlling the raw materials of war, and promoting political reconciliation (especially between France and Germany). The ECSC began operations in 1952; over the next five years, coal and steel trade among the six members increased 129%.²

In light of the ECSC's success, in 1957, the six ECSC countries signed two new treaties in Rome: one treaty established the European Economic Community (EEC) to develop common economic policies and merge the separate national markets into a single market in which goods, people, capital, and services could move freely; the other created a European Atomic Energy Community (EURATOM) to ensure the use of nuclear energy for peaceful purposes. These two treaties, commonly referred to as the "Treaties of Rome," came into force in 1958. In 1967, the ECSC, the EEC, and EURATOM collectively became known as the European Community (EC).

The EC first added new members in 1973, with the entry of the United Kingdom, Ireland, and Denmark. Greece joined in 1981, followed by Spain and Portugal in 1986. The Single European Act modified the EC treaties in 1987 to facilitate the creation of the single market. At the beginning of 1993, the near completion of the single market brought about the mostly free movement of goods, people, capital, and services within the EC.

On November 1, 1993, the Treaty on European Union (also known as the Maastricht Treaty) went into effect, encompassing the EC and establishing the modern-day European Union. The EU was intended as a significant step on the path toward not only greater economic integration but also closer political cooperation. The Maastricht Treaty contained provisions that resulted in the creation of the Eurozone, in which participants share a common currency, a common central bank (the European Central Bank, or ECB), and a common monetary policy (there is no common fiscal policy, however, and member states retain control over national spending and taxation, subject to certain conditions designed to maintain budgetary discipline).

The Maastricht Treaty also set out a blueprint for greater coordination on foreign policy and internal security issues. Since the mid-1990s, EU member states have worked to forge a Common Foreign and Security Policy (CFSP), including a Common Security and Defense Policy (CSDP), and sought to establish common policies in the area of Justice and Home Affairs (JHA). In the late 1990s, the Schengen Agreement of 1985—which established the framework for eliminating border controls among participating states—became EU law.

² Delegation of the European Union to the United States, *The European Union: A Guide for Americans*, 2015.

With the end of the Cold War, the EU pursued further enlargement. Austria, Finland, and Sweden joined in 1995. Enlargement to Central and Eastern Europe was an especially key priority viewed as fulfilling a historic pledge to further the integration of the continent by peaceful means and promote stability and prosperity throughout Europe. In 2004, eight formerly communist countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) acceded to the EU, along with Cyprus and Malta. Bulgaria and Romania joined in 2007. Croatia became the EU's newest member on July 1, 2013.

How Is the EU Governed?

EU member states work together to set policy and promote their collective interests through several common institutions. Decisionmaking processes and the role played by the EU institutions vary depending on the subject under consideration. For most economic and social issues, EU member states have largely pooled their national sovereignty, and EU decisionmaking has a supranational quality. Decisions in other areas, such as foreign policy, require the unanimous approval of all 28 member states. The EU's institutions do not correspond exactly to the traditional branches of government or division of power in representative democracies. Rather, they reflect the EU's dual supranational and intergovernmental character:

The **European Council** acts as a strategic guide and driving force for EU policy. It is composed of the Heads of State or Government of the EU's 28 member states, the European Council President (currently Donald Tusk), and the President of the European Commission; it meets several times a year in what are often termed "EU summits." The European Council President organizes the Council's work, seeks to ensure policy continuity, and facilitates consensus.

The **European Commission** is essentially the EU's executive and upholds the common interest of the EU as a whole. It implements and manages EU decisions and common policies, ensures that the provisions of the EU's treaties and rules are carried out properly, and has the sole right of legislative initiative in most policy areas. It is composed of 28 Commissioners, one from each country; each Commissioner holds a distinct portfolio (e.g., agriculture, trade, EU enlargement). One Commissioner serves as Commission President (currently Jean-Claude Juncker).

The **Council of the European Union** (or the **Council of Ministers**) represents the member states. It enacts legislation, usually based on proposals put forward by the Commission and agreed to (in most cases) by the European Parliament. In a few sensitive areas, such as foreign policy, the Council of Ministers holds sole decisionmaking authority. It consists of ministers from the 28 national governments; different ministers participate in Council meetings depending on the subject (e.g., foreign ministers would meet to discuss the Middle East, agriculture ministers to discuss farm subsidies). The Presidency of the Council (often termed the "EU Presidency") rotates among the member states every six months (the Netherlands currently holds the EU Presidency).

The **European Parliament (EP)** represents the citizens of the EU. The EP shares responsibility for enacting most EU legislation with the Council of Ministers and decides on the allocation of the EU's budget jointly with the Council. It consists of 751 members who are directly elected in the member states for five-year terms. Members of the European Parliament (MEPs) caucus according to political affiliation, rather than nationality; one MEP is elected as EP President (currently Martin Schulz).

Inherent Differences and Persistent Tensions

The European integration project has long been viewed as a way for participating countries to magnify their political and economic clout (i.e., the whole is greater than the sum of the parts). European publics have historically been favorably inclined toward the EU, with many citizens valuing the freedom to easily travel, work, and live throughout Europe. Nevertheless, tensions have always existed within the EU between those member states that seek an "ever closer union" through greater integration and those that prefer to keep the EU on a more intergovernmental footing in order to better guard their national sovereignty. As a result, some EU countries have "opted out" of certain aspects of integration, including the Eurozone and the Schengen area.

In addition, different histories and geography often influence member states' policy preferences. The EU's enlargement to the east has brought in many members with recent memories of Soviet domination, which may make some of them more wary of EU ties with Russia. Meanwhile, southern EU countries that border the Mediterranean may have greater political and economic interests in North Africa than EU members located farther north.

Questions have also existed for years on whether EU “deepening” (i.e., further integration) is compatible with EU “widening” (i.e., further enlargement). In the 1990s and 2000s, the EU engaged in several efforts to reform its institutions, simplify often cumbersome decisionmaking processes, and thereby allow a bigger EU to function more effectively. These efforts culminated with the entrance into force of the 2009 Lisbon Treaty (which also sought to enhance the EU’s global role and increase democratic accountability within the EU). Nevertheless, some critics charge that EU decisionmaking processes remain extremely complex, lack transparency, and are still too slow and unwieldy. Others note that differences in viewpoint are inevitable among 28 countries and that decisions thus take time in what remains a largely consensus-based institution.

While the EU maintains that the enlargement door remains open to any European country that fulfills the political and economic criteria for membership, some European leaders and publics worry about the implications of additional EU expansion on the EU’s institutional capacities, its finances, and its overall identity. This is especially true with respect to large, culturally distinct countries, such as Turkey, or the poorer countries of “wider Europe” (usually considered to include Ukraine, Moldova, Georgia, Armenia, and Azerbaijan) that may harbor EU aspirations in the longer term. Some observers suggest that should the EU ultimately enlarge to encompass an even wider array of countries, further integration in the economic and financial fields may be unlikely, and forging a common foreign policy could become more difficult. Others contend that EU enlargement is already reaching its limits, both geographically and in terms of public enthusiasm for further expansion.

The Current Political and Economic Context

A number of political and economic factors are contributing to the current uncertainty surrounding the future of the EU project. To varying degrees, they are also challenging the legitimacy and structure of the EU and its institutions.

Ongoing Economic Difficulties

The 2008-2009 global recession and the Eurozone debt crisis significantly affected European economies, decreasing growth and increasing unemployment in many EU countries, and posing a risk to the European banking system. Some EU governments imposed unpopular austerity measures in an effort to rein in budget deficits and public debt. In order to stem the Eurozone crisis, Greece, Ireland, Portugal, and Cyprus required European and international financial assistance. Despite some signs of recovery, many EU countries continue to struggle with sluggish growth, high unemployment (especially among young people), and dissatisfied publics.

Economic disparities within the EU have also generated tensions and contributed to policy divisions among member states. Greece, for example, has bristled at perceived “diktats” for more austerity from economically strong Germany. Some Central and Eastern European members have objected to contributing financial assistance to Greece, as well as to doing more to help manage the migratory flows, in part because of their relatively less affluent economic positions within the EU. Many observers suggest that more robust economic growth could help ease some challenges currently facing the EU.

Rise of Anti-EU or “Euroskeptic” Political Parties

Over the last several years, many EU countries have seen a rise in support for populist, nationalist, anti-establishment political parties. These parties are often termed “euroskeptic” because many have also been fueled by worries that too much national sovereignty has been

relinquished to Brussels. Although not a completely new phenomenon in the EU, the recent uptick in support for such parties largely began in response to Europe's economic stagnation, austerity measures, and the Eurozone crisis. For some voters, how the Eurozone crisis was handled renewed long-standing concerns about the EU's "democratic deficit"—a sense that ordinary citizens have little say in decisions taken in faraway Brussels. Increasingly, however, heightened fears about immigration and the sizeable migrant and refugee flows appear to be driving rising poll numbers for populist and/or euroskeptic parties, especially those that harbor anti-immigrant sentiments. Fears about globalization and a loss of European identity have also been factors in the growth in support for such parties.

Populist and euroskeptic parties, however, are not monolithic. Whereas most are on the far right of the political spectrum, a few are on the left or far left. The degree of euroskepticism also varies widely among them, and they hold a range of views on the future of the EU. While some advocate for EU reforms and a looser EU in which member states would retain greater sovereignty, others call for an end to the Eurozone or even to the EU itself.

Austria, Denmark, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Spain, Sweden, and the UK are among those EU countries with increasingly successful populist, and to at least some extent, euroskeptic parties. A range of euroskeptic parties did well in the 2014 European Parliament elections, winning up to 25% of the 751 seats. Some euroskeptic parties have made significant gains in national and local elections. For example, in Finland, a relatively moderate euroskeptic party is part of the coalition government, while in Denmark, a minority government relies on a euroskeptic party to provide parliamentary support. In Poland, a nationalist party with a relatively euroskeptic approach won a majority in parliamentary elections in October 2015 and now leads the government.

Euroskeptic parties could pose challenges to the generally pro-European establishment parties in a number of EU countries and have put pressure on mainstream leaders to embrace some of their positions (such as curtailing EU integration or tightening immigration policies). Many analysts point out that euroskeptic parties and factions in the UK were key proponents of holding the upcoming referendum on whether the UK should leave the EU. Some experts worry that should more euroskeptic parties—especially hard-line ones in key EU member states such as France—gain enough support to enter or even lead their national governments, they could potentially stop or reverse at least some aspects of European integration. EU officials and analysts are also concerned that certain policies pursued by some of these political parties in countries such as Hungary or Poland appear to conflict with basic EU values and democratic norms.³

Many pundits suggest that the tenor of the debate over the future of the EU and issues such as immigration in some EU countries is increasingly vitriolic. Some fear it is stoking societal unrest and could lead to violence. They point to the June 16, 2016, murder of UK Member of Parliament Jo Cox—allegedly by a far-right anti-immigrant extremist who some have described as a "radical euroskeptic"—as extremely worrisome.

Lack of Strong Leadership and Strategic Vision

Historically, the development of the EU has largely been driven forward by several key countries acting as an "engine." French and German leadership was essential to establishing the common currency, and France and the UK were instrumental in forging EU common foreign and security

³ "Turning Right," *Economist*, January 4, 2014; Steven Erlanger, "Rise of Far-Right Party in Denmark Reflects Europe's Unease," *New York Times*, June 19, 2015; "Poland Tries Populism," *Wall Street Journal*, October 26, 2015.

policies. Many analysts suggest, however, that a strong EU “engine” has been lacking over the last few years. Although German Chancellor Angela Merkel has played a central role in responding to the Eurozone crisis, Russian aggression in Ukraine, and the migrant and refugee flows, critics view her as being too hesitant and tactical in many instances, rather than acting as a leader of Europe writ large. Meanwhile, others argue that too much power in the EU now resides with Germany alone, in part because both French President François Hollande and UK Prime Minister David Cameron have been constrained by domestic politics and economic preoccupations.

Some observers assert that European leaders do not have a robust or shared strategic vision for the EU. Those of this view point to what they consider to be ad hoc, piecemeal responses that eschew hard decisions about further integration or fail to address issues with an eye to ensuring a strong, stable, united, economically vibrant EU in the long term. Many analysts have raised particular worries about the apparent divergence between Germany and France over how to manage the Greece crisis and what this could portend for the future of the EU more broadly.⁴

Increased Acrimony and Decreased Solidarity

Observers contend that the crises over Greece and migration, in particular, have produced a high degree of acrimony and a lack of trust among EU member states. Moreover, these crises threaten the core EU principle of solidarity. While horse-trading and protecting national interests have always been part of EU politicking, analysts assert that narrow national agendas are increasingly taking priority over European-wide solutions. Some commentators have also begun to question the commitment of some European leaders and publics to the EU project in light of demographic and generational changes; for younger Europeans, World War II and even the Cold War are the stuff of history, and some may not share the same conviction as previous generations about the need for a strong and united EU.⁵

Simultaneous Challenges

Against this political and economic backdrop, the EU is grappling with several major challenges. Many observers contend that the breadth and difficulty of these multiple issues are unprecedented. How the EU responds may have lasting implications not only for the EU itself, but also for its role as an international actor and as a key U.S. strategic and economic partner.

The Greece Crisis⁶

The onset of the Greek debt crisis in late 2009 and its subsequent contagion to other Eurozone members sparked concerns about the fundamental structure and viability of the Eurozone, the EU’s flagship integration project. Over the last six years, the situation in most Eurozone countries has largely stabilized, and the EU has taken steps to strengthen the Eurozone’s architecture and

⁴ François Heisbourg, “The End of an Affair for France and Germany,” *Financial Times*, July 15, 2015; Judy Dempsey, “Refugees Could Break Europe’s Comfort Zone,” *CarnegieEurope.eu*, September 24, 2015.

⁵ Katya Adler, “EU Solidarity Damaged by Splits on Migrants and Greece,” *BBC News*, June 16, 2015; Rem Korteweg, “The Four Horsemen Circling the European Council Summit,” *Centre for European Reform*, June 24, 2015; Anne-Marie Slaughter, “Europe’s Civil War,” *Project-Syndicate.org*, July 21, 2015.

⁶ Also see CRS Report R44155, *The Greek Debt Crisis: Overview and Implications for the United States*, coordinated by Rebecca M. Nelson.

improve fiscal discipline among member states. Greece's economy and banking system, however, remain in distress.

In the first half of 2015, prospects grew that Greece might exit the Eurozone (dubbed "Grexit") as the Greek government—led by the leftist, anti-austerity Syriza party—sought further financial assistance from Greece's Eurozone creditors. While Greece asserted a desire to remain in the Eurozone, it also stressed the need for debt relief and an easing of austerity. For months, negotiations foundered. In late June, the Greek government closed the banks and imposed capital controls. On July 5, Greek voters rejected Eurozone calls for further austerity in a public referendum, seemingly increasing the likelihood of "Grexit." A deal was finally reached a week later in which the Syriza-led government acceded to Eurozone demands for more austerity and economic reforms in exchange for a new financial assistance package, thus enabling Greece to stay in the Eurozone. Nevertheless, Greece continues to face a long road toward economic recovery, and the threat of "Grexit" may still loom in the longer term.

From its start in late 2009, the Eurozone crisis generated tensions among member states over the proper balance between imposing austerity measures versus stimulating growth, and whether greater EU fiscal integration was necessary. The fraught negotiations with Greece in 2015, however, produced an even higher degree of acrimony within the EU and raised serious questions about EU solidarity. While France (and Italy) emphasized the political importance of maintaining the integrity of the Eurozone, Germany (and others such as the Netherlands, Finland, Slovakia, and Slovenia) stressed the need to adhere to Eurozone fiscal rules. Many countries that backed Germany's hard-line position during the negotiations with Greece also did so because they did not want to embolden other struggling Eurozone governments or anti-austerity, euroskeptic opposition parties by making concessions to Greek demands.

Experts suggest the differing views between France and Germany in particular reflected divisions that date back to the founding of the Eurozone. While Germany had always insisted that the Eurozone be anchored in a culture of tight monetary policy and fiscal discipline, France had long pushed for more flexibility and greater political discretion over its management. At the same time, German and French leaders were strongly united behind the idea that "the single currency should first and foremost serve as a means toward the greater aim of European political integration."⁷ Many analysts are now questioning whether France and Germany continue to share this vision, and some point to the crisis as an indication that EU members, including Germany, are prioritizing national interests over the European project to a greater extent than in the past.

Throughout the crisis, most EU leaders consistently maintained that they wanted to keep Greece in the Eurozone. German Chancellor Merkel declared "if the euro fails, Europe fails,"⁸ reflecting concerns shared by many EU governments that "Grexit" could have wider implications for the credibility of the entire EU project. Other European officials and experts, however, argued that "Grexit" would have been (and may still be) the better option for Greece in terms of restarting its economy, and that a Greek exit would have enabled deeper integration among the remaining Eurozone members. In early July 2015, German Finance Minister Wolfgang Schäuble proposed a temporary Greek exit from the Eurozone for a five-year period, but this was extremely controversial because member states viewed it as potentially setting a dangerous precedent by raising questions about the Eurozone's irreversible nature; some Eurozone leaders were likely concerned that a similar fate could befall other countries in financial distress in the future.

⁷ Shahin Vallée, "How the Greek Deal Could Destroy the Euro," *New York Times*, July 27, 2015.

⁸ As quoted in Andrew Higgins and Alison Smale, "With Loan Deadline Looming, Europe Offers Greece a Last-Minute Deal," *New York Times*, June 29, 2015.

Greece continues to struggle economically as it seeks to implement the painful reforms required as part of the July 2015 deal. Debt relief for Greece remains a contentious issue among Eurozone members and between countries such as Germany—which largely opposes it—and the International Monetary Fund (IMF), which claims that Greece’s debt load is unsustainable. In spring 2016, some concerns resurfaced about the potential for a new crisis in Greece. In late May 2016, the Eurozone reached a compromise agreement in which it pledged a package of progressive debt relief measures, although the most substantial measures would not begin until 2018 and will take effect only if Greece completes its economic reform program.⁹

Some suggest that given how close the EU came to “Grexit,” the crisis has undermined the integrity of the Eurozone. Others contend that EU leaders remain strongly committed to the euro and the broader EU project. Many note that the EU has often evolved out of crisis and that Eurozone governments may now be more inclined to pursue greater integration. In the aftermath of the 2015 Grexit crisis, both France and Germany called for strengthening the Eurozone’s economic governance (possibly including the establishment of a Eurozone parliament and a common budget). Observers note, however, that this initiative has not advanced much over the last year, in part because EU attention has been focused elsewhere—on the migration crisis and the UK’s upcoming referendum on EU membership. Some press reports suggest that France and Germany hope to present a common position on closer Eurozone integration by the end of 2016.¹⁰

Migratory Pressures

Over the last year and a half, Europe has experienced a significant migration and refugee crisis as increasing numbers of people have fled conflict and poverty in Syria, Iraq, Afghanistan, Africa, South Asia, and elsewhere. According to the United Nations, more than 1 million refugees and migrants sought to enter the EU in 2015, and over 90% were from the world’s top 10 refugee-producing countries.¹¹ Greece was the major arrival and transit point for individuals crossing the Mediterranean Sea, although Italy also saw a significant number of migrant and refugee arrivals. Many people arriving in Greece subsequently attempted to cross the Western Balkans in an effort to reach Schengen “gateway” countries, such as Hungary and Slovenia. From there, they sought to travel onward to northern EU members, such as Germany and Sweden, where they believed they were more likely to receive asylum and better welfare benefits.

During the course of 2015, various EU initiatives to manage the crisis proved largely unsuccessful. The EU came under criticism for lacking coherent and effective migration and asylum policies, which have long been difficult to forge because of national sovereignty concerns and sensitivities about minorities, integration, and identity. The crisis created deep divisions within the EU. Frontline states Greece and Italy and key destination countries farther north expressed dismay at a lack of European solidarity, while others charged that traditionally generous asylum policies in countries such as Germany and Sweden were serving as “pull” factors and exacerbating the flows. Some EU governments reportedly viewed Germany’s announcement in August 2015 that it would no longer apply the EU’s “Dublin regulation” (which usually deems the first EU country an asylum-seeker enters as responsible for examining that individual’s application) as unilaterally upending agreed EU asylum procedures and failing to consider the implications for the wider EU.

⁹ James Kanter, “Eurozone Agrees to Debt Relief and Bailout Aid for Greece,” *New York Times*, May 24, 2016.

¹⁰ Cecile Barbieri, “France and Germany Dither Over Eurozone’s Future,” *EurActiv.com*, April 7, 2016.

¹¹ U.N. High Commissioner for Refugees, *Refugee/Migrants Emergency Response-Mediterranean*, at <http://data.unhcr.org/mediterranean/regional.php>.

Efforts to establish EU redistribution and resettlement programs, in which each EU member state would accept a certain number of asylum-seekers and refugees (in part to relieve the burdens on Greece and Italy), were extremely controversial. Countries in Central and Eastern Europe were particularly vocal opponents, fearing that the newly arrived migrants and refugees, many of whom are Muslim, could alter the primarily Christian identities of their countries and of Europe. Although the EU approved a limited but mandatory plan to relocate some asylum-seekers from Greece and Italy in September 2015, this outcome was achieved using the EU's qualified majority voting system rather than consensus (Hungary, the Czech Republic, Slovakia, and Romania voted against the plan, and Finland abstained). Adopting a proposal on such a sensitive issue directly related to a state's sovereignty and territorial integrity by qualified majority is largely unprecedented in the EU, and many observers viewed the need to hold the vote as further indication of the profound cleavages within the bloc.¹²

As the uptick in refugees and migrants arriving in Europe continued unabated in early 2016 (roughly 150,000 individuals crossed the Mediterranean, mostly to Greece, in the first three months), the EU began to focus on discouraging people from undertaking the journey in an effort to stem the flows. In March 2016, EU leaders agreed to end the "wave-through approach" that was allowing individuals to transit the Western Balkans to seek asylum in other EU countries and announced a new deal with Turkey. The main provisions of the EU's accord with Turkey centered on Turkey taking back all new "irregular migrants" crossing from Turkey to the Greek islands in exchange for EU resettlement of one Syrian refugee from Turkey for every Syrian returned. The EU also pledged to speed up the disbursement of a previously allocated €3 billion in aid to Turkey and to provide an additional €3 billion in assistance for Syrian refugees in Turkey.

Since these measures took effect, the number of migrants and refugees reaching Europe has decreased substantially. Nevertheless, the EU's deal with Turkey remains controversial and potentially fragile. While most EU leaders maintain that the return measures agreed upon with Turkey are crucial to breaking the business model of migrant smuggling and saving lives, some Members of the European Parliament and many human rights advocates are concerned that the agreement violates international law and the rights of refugees. They also worry that other parts of the accord—in which the EU pledged to lift EU visa requirements for Turkish citizens and to reenergize Turkish accession negotiations—could be seen as rewarding a Turkish government that they view as increasingly authoritarian.

The crisis continues to have significant repercussions for European governments and the EU. Perhaps most notably, it has severely strained the Schengen system, which largely depends on confidence in the security of the bloc's external borders. This concept has been tested not only by the magnitude of the migration and refugee flows but also by concerns that some terrorists may have been able to exploit the chaos to slip into Europe (see "European Security Concerns," below, for more information). Several Schengen countries (including Germany, Austria, Denmark, and Sweden) have instituted temporary border controls in response to the migratory pressures. Some experts worry these measures could become permanent, at least on a de facto basis.

EU officials assert that they remain committed to Schengen and are working to strengthen EU border controls. In December 2015, the European Commission proposed measures aimed at tightening the rules for mandatory checks at the EU's external borders and establishing a new joint European Border and Coast Guard to reinforce national border control capacities (although

¹² Steven Erlanger and James Kanter, "Plan on Migrants Strain the Limits of Europe's Unity," *New York Times*, September 22, 2015.

this measure must still be approved by member states and the European Parliament). The Commission has also been working with Greece to improve the country's border control management and remedy problems in its asylum registration procedures. The Commission aims for all temporary border controls within the Schengen area to be lifted by the end of 2016.¹³

The migration and refugee flows have renewed questions about the ability of European countries to integrate minorities into European culture and society. Such anxieties have become more pronounced amid reports of criminal activity and sexual assaults allegedly committed by some migrants and asylum-seekers and by revelations that many of the recent terrorist attacks in Europe were carried out by extremists of Muslim background born and/or raised in Europe. At the same time, concerns exist about increasing societal tensions and xenophobia in Europe. Germany, Sweden, and other EU countries have seen an increase in the number of violent incidents against migrants and refugees over the past few months.¹⁴

Debate has also arisen over the economic impact of the migration and refugee flows. Some leaders and analysts contend that the influxes could be economically beneficial and help to offset unfavorable demographic developments (such as aging populations and shrinking workforces), thus strengthening EU fiscal sustainability in the longer term. Many experts point out, however, that much will depend on how well migrants and refugees are integrated into the labor market.¹⁵ Others worry that the newcomers could take jobs away or reduce wages, especially in the short term. Some suggest that such fears have helped to further increase support in many EU countries for far-right, anti-immigrant, euroskeptic political parties.

The UK Referendum¹⁶

The UK has long been considered one of the most euroskeptic members of the EU, with many British leaders and citizens cautious of ceding too much sovereignty to Brussels. As a result, the UK does not participate in the Eurozone or the Schengen free movement area, and it may choose those justice and home affairs policies in which it wishes to participate. Amid the challenges facing the EU over the last few years, Prime Minister Cameron faced increasing political pressure from hard-line euroskeptics, both within his own Conservative Party and outside of it, to reconsider the UK's relationship with the EU. In response, the Cameron government sought to renegotiate the UK's membership conditions with the EU and will hold an "in-or-out" public referendum on June 23, 2016. With most polls indicating that voters are largely divided on staying in or leaving the EU, a British exit from the EU (or "Brexit") is a distinct possibility.¹⁷

Prime Minister Cameron supports continued UK membership in a reformed EU, and EU leaders assert that the UK belongs in the EU. The UK's upcoming referendum follows a deal reached by Cameron with other EU governments in February 2016. The new agreement with the EU centers

¹³ European Commission Press Release, "Back to Schengen: Commission Takes Next Steps Toward Lifting of Temporary Internal Border Controls," May 4, 2016.

¹⁴ Jim Yardley, "Sexual Attacks Widen Divisions in European Migration Crisis," *New York Times*, January 13, 2016.

¹⁵ European Commission, *European Economic Forecast Autumn 2015*, Institutional Paper #11, November 2015; International Monetary Fund, *The Refugee Surge in Europe: Economic Challenges*, January 2016.

¹⁶ For more information, see CRS Insight IN10449, *The United Kingdom and the European Union: Stay or Go?*, by Derek E. Mix.

¹⁷ Polls continue to suggest a very tight race and a significant number of undecided voters. A poll conducted by YouGov on June 15-16, 2016 gives the "leave" campaign a 2-point lead, while another YouGov poll conducted on June 16-17 gives the "remain" campaign a 1-point lead. See YouGov, "EU Referendum: Remain Lead at One," <https://yougov.co.uk>.

on four key UK priorities: (1) exempting the UK from the principle of “ever closer union”; (2) protecting UK interests in the single market by reassuring the UK that decisions about the Eurozone will not discriminate against non-Eurozone EU members; (3) enhancing the EU’s economic competitiveness and reducing regulatory burdens; and (4) allowing the UK to impose temporary restrictions on full access to social welfare benefits for nationals of other EU countries living in the UK.

Many leading UK euroskeptics (including some current and former UK officials and Members of Parliament) viewed these negotiation results as much too modest and have waged a fierce campaign in support of “Brexit.” Those of this view assert that the UK would be better off politically and economically reclaiming its sovereignty and being free from EU regulations that hinder UK competitiveness; they also maintain that the UK’s contributions to the EU budget are too expensive and that high levels of immigration to the UK from other EU countries mean fewer jobs and lower wages for UK citizens. Those in favor of continued UK membership in the EU warn of potentially dire economic consequences of a vote to leave. They contend that the UK’s trade and investment ties with the EU are so deep and extensive that Brexit could lead to weaker economic growth, higher inflation, and a depreciation of the pound. They also argue that EU membership helps to attract foreign affiliates and foreign direct investment to the UK and gives the UK more influence in global politics.

Many analysts argue that a possible Brexit could seriously undermine the EU project, prompting calls in other EU countries for special membership conditions or additional policy opt-outs. It could also lead to a prolonged period of uncertainty, division, and introspection in the EU as the bloc seeks to disentangle the UK and agree on “the terms of the divorce.”¹⁸ Given the UK’s foreign policy clout and defense capabilities, Brexit could also diminish the EU’s role as an international actor. Others suggest that should Brexit come to pass, the EU could feasibly emerge as a more like-minded bloc, able to pursue deeper integration without UK opposition. A vote to stay in, however, could give Cameron and future British leaders a freer hand in supporting EU initiatives and restore the UK as a key player in the EU.

European Security Concerns

Over the past two years, the EU has struggled with how best to address several changes in Europe’s security environment. The most prominent concerns relate to the ongoing conflict in Ukraine, a more militarily assertive Russia, and increased terrorist activity in Europe linked to the rise of the Islamic State organization and its ability to attract European citizens and residents to its cause. Such issues have challenged the EU’s ability to forge common foreign and security policies (often complicated by the need to reach consensus among all member states) and to further integration in the area of Justice and Home Affairs. The heightened terrorism threat also poses risks to the Schengen area of free movement.

Managing a Resurgent Russia

Along with the United States, the EU has sought to support Ukraine’s political transition, condemned Russia’s annexation of Crimea in March 2014, and strongly urged Russia to stop supporting separatist forces in eastern and southern Ukraine. The EU has worked both to engage Russian President Vladimir Putin in promoting a political solution to the conflict in Ukraine and to impose a series of sanctions on Russia (including those targeting the financial, energy, and

¹⁸ Paul Taylor, “European History Hovers Close to Reverse Gear,” Reuters, June 19, 2016.

defense sectors of the Russian economy). Crafting common EU policies has been arduous, however, given the different national histories and economic relations with Russia among the EU's 28 member states.

Although the EU currently appears to support maintaining sectoral sanctions on Russia in the short term, some analysts question how long this consensus will hold as some member states begin to call for a rethink of the EU's sanctions policy. Until recently, the EU had firmly tied lifting the sectoral sanctions on Russia to the full implementation of the Minsk peace agreement for Ukraine. Over the last few weeks, however, German and Austrian officials have reportedly suggested a change in tactics in the longer term. Ideas floated include gradually phasing out the EU sanctions as the peace process in Ukraine progresses and considering ways to restructure the sanctions to better entice Russia to comply with all the terms of the Minsk accord. French officials assert that they have ruled out lifting EU sanctions until Russia meets its obligations under the Minsk agreement but have also purportedly urged more dialogue and debate on the future of EU economic sanctions on Russia. Other EU members—including the UK, Poland, and the Baltic states—oppose any moves to relax EU sanctions on Russia until Minsk is fully implemented.¹⁹

Beyond the conflict in Ukraine, fundamental differences exist among EU members about how to best manage Russia in the longer term. Some still hope that Russia can be a partner for the EU, maintaining that Russia is too big to isolate or ignore and that ultimately, Europe's stability and security depends on forging good relations with Moscow. Many EU countries have extensive commercial ties with Russia (including Germany and Italy) and depend on Russia to help meet their oil and gas needs. Some European policymakers also argue that Russian cooperation is essential to solving key international challenges, including the ongoing civil war in Syria. Although EU governments were alarmed by Russia's relatively rapid military intervention in Syria in September 2015 and continue to reject Russia's support for Syrian President Bashar al Asad, some European officials maintain that ending the conflict in Syria will not be possible without Russian involvement.²⁰

Other member states, especially those with histories of Soviet domination, are more wary of Russia and President Putin's intentions. Many EU governments have been alarmed by the uptick in Russian military exercises and recent incursions by Russian fighter jets into the airspace of countries such as Sweden and Denmark. Some EU countries have voiced opposition to a proposed Russian gas pipeline project (the so-called "Nord Stream 2") that would increase the amount of Russian gas delivered to Germany and other parts of Europe, but bypass Ukraine. Many in the EU are also concerned about recent Russian efforts to expand its influence in Europe through the use of Russian television and Internet broadcasting, and its alleged financial support for some European political parties (especially far-right, euroskeptical parties).²¹

¹⁹ Laurence Norman and Gabriele Steinhauser, "European Ministers Wrestle with Future of Russia Sanctions," *Wall Street Journal*, June 20, 2016.

²⁰ Geoff Dyer, "Russia Exposes European Divisions on Syria," *Financial Times*, September 30, 2015.

²¹ Mitchell A. Orenstein, "Putin's Western Allies," *Foreignaffairs.com*, March 25, 2014; Peter Foster, "Russia Accused of Clandestine Funding of European Parties as U.S. Conducts Major Review of Vladimir Putin's Strategy," *The Telegraph*, January 16, 2016.

Countering Terrorism²²

Since 2014, Europe has experienced a number of terrorist incidents—including the November 2015 attacks in Paris and the March 2016 bombings in Brussels—largely perpetrated in the name of the Islamic State by European fighters returning from the conflicts in Syria and Iraq. European security services assess that the threat posed by the Islamic State is evolving and that the group’s capabilities to carry out or direct larger-scale, coordinated attacks in Europe appear to be increasing. Observers point out that the Islamic State has many potential European recruits given that an estimated 5,000 EU citizens have traveled to Syria and Iraq to join the fighting. At the same time, European officials remain concerned about European citizens who have joined other extremist groups, as well as self-radicalized individuals who may not have traveled abroad to fight but who have been motivated by Islamist propaganda to commit violence at home.

While European governments have employed a range of tools to combat the so-called foreign fighter phenomenon and violent Islamist extremism, the EU has sought to play a leading role given the weaknesses in European intelligence-sharing exposed by the recent terrorist incidents and the EU’s largely open borders. For example, the suspected Belgian ringleader of the November attacks in Paris may have repeatedly traveled back and forth between Europe and Syria despite being known to European security services. Although EU leaders warn against equating refugees with terrorists, they also acknowledge that terrorists could make use of the same migration routes to gain entrance into Europe. Two of the Paris attackers may have entered Europe through Greece in early October 2015 by posing as refugees with fake Syrian passports, and press reports suggest that a Swedish national charged in both the Paris and Brussels attacks may have traveled back to Europe from Syria as part of the refugee flows.²³

EU efforts to improve its capacities to address the various aspects of the foreign fighter threat and those inspired by Islamist extremism include enhancing information-sharing among national and EU authorities; strengthening external border controls; and bolstering existing counter-radicalization measures, including online and in prisons. Nevertheless, agreeing upon and implementing common EU policies to counter terrorism and the foreign fighter threat has been challenging. This is largely because such initiatives often relate to police, judicial, and intelligence prerogatives viewed as central to a state’s sovereignty. The imperative to balance promoting security with protecting human rights and civil liberties has also complicated the formulation of certain EU-wide policies. For example, data privacy and protection concerns slowed progress for years on a proposal for an EU-wide system to collect airline Passenger Name Record (PNR) data (the proposal was formally adopted in April 2016).

Some analysts also suggest that the EU’s collective response to the broader crisis in the Syria-Iraq region and its ability to counter the Islamist State has been constrained by differing views among its national governments, especially regarding the use of force. While some EU countries are participating militarily in the U.S.-led air campaign against the Islamic State, for example, others are not, and there appears to be little appetite within the EU for a stronger military response. Following the November attacks in Paris, the EU invoked its “mutual defense clause” (Article 42.7 of the 2009 Lisbon Treaty) at France’s request, obligating other member states to provide France with unspecified “aid and assistance”; invoking this clause, however, was viewed largely

²² For more information, see CRS Report RS22030, *U.S.-EU Cooperation Against Terrorism*, by Kristin Archick; and CRS Report R44003, *European Fighters in Syria and Iraq: Assessments, Responses, and Issues for the United States*, coordinated by Kristin Archick.

²³ “Paris and Brussels: The Links Between the Attackers,” *The Guardian*, April 20, 2016; “Idle Swede Charged with Brussels Terrorist Murders,” *The Local* (<http://www.thelocal.se>), April 10, 2016.

as an act of political solidarity, and EU officials asserted that it did not imply the establishment of an EU security mission.²⁴

Possible Scenarios

For many supporters of the European project, the EU has entered “uncharted territory,” and for the first time in its 60-year history, they worry that at least some aspects of EU integration may be stopped or reversed. Others contend that there is a chance that the multiple crises currently facing the EU could produce some beneficial EU reforms and ultimately transform the bloc into a more effective and cohesive entity. Possible future scenarios for the EU include the following:

- **Muddling Through.** The EU would largely continue to function as it currently does, without any significant treaty changes or decisionmaking reforms, and find some degree of common solutions to crises such as those posed by Greece’s economic situation and increasing migratory pressures. The EU would continue to pursue integration and common policies where possible, with or without the UK as a member.
- **Establishing Two Speeds.** The EU would become a two-speed entity, consisting of a strongly integrated group of “core” countries and a group of “periphery” countries more free to pick and choose those EU policies in which they wish to participate. Some analysts suggest that a two-speed EU already exists in practice, with varying membership on a range of EU initiatives, such as the Eurozone, Schengen, justice and home affairs issues, and defense policy. Others suggest that a formal two-tier structure could undermine solidarity and create frictions between “core” and “periphery” member states.
- **A Looser, More Intergovernmental Configuration.** Further EU integration would essentially be put on hold, and possibly reversed in some areas, with sovereignty on certain issues reclaimed by national capitals. This may be most likely should reform-minded euroskeptic parties come into power in more EU countries and if the UK is successful in its bid to carve out additional EU policy exemptions. A looser structure may make it easier for the EU to expand ultimately to include Turkey, the remaining aspirants in the Western Balkans, and other countries such as Georgia and Ukraine.
- **A Tighter, More Integrated Configuration.** The EU would emerge from its current challenges more united and integrated. Some suggest such an outcome could actually be more likely in the event of “Grexit” and/or “Brexit,” leaving a somewhat smaller EU of member states more aligned on the need for further political and economic integration. This configuration would likely not encourage further EU enlargement.

Implications for the United States

Successive Administrations and many Members of Congress have long supported the EU integration project, viewing it as fostering democratic allies and strong trading partners in Europe. During the Cold War, the European project was considered essential to helping deter the Soviet

²⁴ Christian Mölling, “France Makes the Case for European Defense – à la Française,” German Marshall Fund of the United States, November 18, 2015.

threat. Today, the United States often looks to the EU for partnership on common foreign and security concerns worldwide, and has supported the development of an EU defense policy as a way to boost NATO capabilities, given that 22 European countries belong to both NATO and the EU. The United States and the EU also share a huge, mutually beneficial trade and investment relationship. Over the years, some U.S. officials and analysts have occasionally expressed concerns that a potentially stronger, more united EU could rival U.S. power and prestige; such views, however, have never significantly shaped broad U.S. policy toward the EU.

U.S. policymakers are concerned about the current challenges facing the EU and their strategic and economic implications not only for the EU itself, but also for the EU's ability to be a robust and effective U.S. partner in the years ahead. The Obama Administration has consistently asserted its opposition to "Grexit" and "Brexit," viewing both possibilities as significant threats to the credibility of the EU and to strong U.S.-EU relations. U.S. worries about "Grexit" included uncertainty about how international financial markets would respond and the potential security ramifications of an economically destitute Greece cut loose from the Eurozone given Greece's geostrategic position near the Middle East and North Africa, and the possibility that Greece would be tempted to seek closer relations with Russia.

President Obama and many other U.S. officials also believe that the EU is a stronger and more reliable U.S. partner with the UK as a member. The United States has long valued the UK as an EU partner in light of its political and economic clout, its traditionally Atlanticist orientation, and the fact that U.S. and UK views tend to align on most major foreign policy issues. During his recent trip to the UK in April 2016, President Obama noted that the decision on UK membership in the EU was a matter for the British people, but he urged voters to choose "remain" on June 23, asserting that "The United States wants a strong United Kingdom as a partner. And the United Kingdom is at its best when it is helping to lead a strong EU."²⁵

Some observers suggest that a politically fragile, economically weak EU could take U.S. attention and resources away from managing strategic challenges such as the rise of China and continued instability in the Middle East. Many U.S. officials worry in particular that internal tensions and preoccupations could prevent the EU from focusing on key U.S. priorities, such as Russian aggression in Ukraine, the conflicts in Syria and Iraq, the threat posed by the Islamic State organization, and concluding the proposed U.S.-EU free trade agreement (the Transatlantic Trade and Investment Partnership, or T-TIP). Others contend that despite its current difficulties, the EU will remain strongly committed to a close and cooperative partnership with the United States.

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²⁵ White House,, "Remarks by President Obama and Prime Minister Cameron in Joint Press Conference," press release, April 22, 2016.