



# The United States and Europe: Current Issues

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## Summary

Overlapping values and shared interests give the United States and Europe what some observers consider to be the world's most complete partnership. In terms of security and prosperity, analysts assert that the two sides have grown increasingly interdependent. Transatlantic relations during the Bush Administration were marked by tensions over the invasion of Iraq and disagreements on a number of other issues, although the Administration's second term featured a substantial improvement in the relationship compared to the first four years. The majority of Europeans warmly welcomed President Barack Obama to office, and his popularity may present opportunities for the United States and Europe to address the common set of global challenges they face. Prior to the 2008 U.S. election, European leaders outlined their priorities for U.S.-European cooperation as the Middle East peace process, civil-military cooperation in Afghanistan, relations with Russia, and multilateral diplomacy through the United Nations and other international organizations. Transatlantic cooperation is strong on many such key issues, but some divisions, tensions, and shortcomings also exist.

A number of shared foreign-policy challenges involve the wider Middle East region. In Afghanistan, governance and security conditions remain serious concerns. President Obama is shifting U.S. focus to Afghanistan, and Europe's commitment to the stabilization and reconstruction mission there will continue to be an important tone setter in transatlantic relations. With a nuclear Iran deemed an unacceptable danger to regional stability by many officials and analysts, the United States and the European Union (EU) continue to seek a way to halt Iran's uranium enrichment activities in the wake of that country's disputed election. The United States and the EU have renewed their attention to the Israeli-Palestinian conflict, and both advocate the negotiation of a "two-state" political settlement. Many experts, however, observe that current circumstances do not easily lend themselves to a revived peace process.

A range of other issues also rank high on the transatlantic agenda. With the world economy center stage in 2009, the global financial crisis poses difficult challenges to both sides and has raised concerns about the adoption of protectionist policies. While some transatlantic trade disputes persist, efforts are ongoing to reduce non-tariff barriers and increase regulatory convergence. Europe has set ambitious standards in climate change policy. With expectations that the Copenhagen conference in December 2009 might produce a successor treaty to the Kyoto Protocol, many Europeans hope that the United States will adopt new climate change legislation that could contain binding greenhouse gas emissions targets. U.S.-EU counterterrorism cooperation has been strong since the terrorist attacks of 9/11, although some Europeans have objected to aspects of U.S. policies. The planned closure of the Guantánamo Bay detention facility has been applauded in Europe, although U.S. requests to accept released detainees have raised questions and debate. The decision to admit additional EU countries to the U.S. Visa Waiver Program in late 2008 helped defuse European discontent over visa reciprocity issues. Lastly, relations between the West and Russia have grown increasingly tense in recent years, with issues such as energy and missile defense serving as points of irritation and contention. Common approaches to Russia—among U.S. policymakers, within Europe, and across the Atlantic—have proven difficult to formulate. This report examines the current state of the transatlantic relationship and discusses the key issues outlined above, which may have implications for U.S. interests during the 111<sup>th</sup> Congress.

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

## The Ties That Bind

Overlapping values and shared interests give the United States and Europe what some observers describe as the world's most complete partnership.<sup>1</sup> By almost any measure, the institutional pillars of the Euro-Atlantic community—NATO and the European Union (EU)—have proven a great success in promoting prosperity, security, and stability in Europe. The U.S. Congress and successive U.S. administrations have strongly supported both institutions as means to foster democratic states, reliable military allies, and strong trading partners.

Many observers stress that in terms of security and prosperity the United States and Europe have grown increasingly interdependent. Both sides of the Atlantic face a common set of challenges, including terrorism and transnational crime, weapons proliferation, energy security, climate change and environmental degradation, the destabilizing effects of failing and rogue states, and instability in global financial markets. Both sides are proponents of democracy, open societies, human rights, and free markets. Supporters of close U.S.-European cooperation argue that neither the United States nor Europe can adequately address such an agenda alone, and that the track record shows that the two sides can accomplish much more when they work together.

Together, U.S. and European military forces are promoting stability in Afghanistan and the Balkans, and U.S. and European law enforcement authorities are working to uncover terrorist cells in Europe and elsewhere. The United States and the EU also share a mutually beneficial trade and investment relationship, and U.S.-EU cooperation has been critical in liberalizing the world trading system. The global financial crisis and recession is affecting the transatlantic economic relationship and could test the strength of the political relationship.

This report discusses eight broad topics selected as key issues in U.S.-European interests and relations. A full survey of global issues that are important U.S. and European interests would include relations with countries such as China, India, and Turkey; concerns about stability in the Balkans and the countries of the former Soviet Union; development assistance and humanitarian aid to the countries of Africa and elsewhere in the developing world; promotion of democracy and human rights around the globe; and many more. While not every such important topic is covered in this report, the eight issues that are presented are intended to capture a broad overview of some of the highest-priority items on the transatlantic agenda.

## An Evolving Relationship

In 2003-2004, transatlantic and inter-European divisions over the invasion of Iraq pushed relations to an historic low. Although the second term of President George W. Bush featured a marked improvement in the tone of transatlantic relations and close U.S.-European cooperation in a number of important areas, scars of tension over Iraq—as well as U.S. rejection of the Kyoto climate treaty, the “war on terror,” U.S. opposition to the International Criminal Court, and other issues—were slow to fade. Many Europeans perceived the policies of the Bush Administration as

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<sup>1</sup> See, for example, Simon Serfaty, *The Vital Partnership* (Lanham, MD: Rowman & Littlefield, 2005).

being too unilateral, too reliant on military force, and too dismissive of international treaties and norms.

President Barack Obama is popular in Europe, and European expectations are high that the Obama Administration will pursue a multilateral and consultative foreign policy that relies more on diplomacy and instruments of soft power and less on military force.<sup>2</sup> Some commentators warn of the dangers of exaggerated expectations. They warn that just as the United States should be reasonable in what it can expect out of Europe, Europeans will need to be realistic regarding the degree of change President Obama might deliver in terms of U.S. strategy and policy.

The gradual evolution of the European Union adds layers of complexity to transatlantic relations. The competencies of the EU extend from a wide range of economic and social issues, through the still-nascent Common Foreign and Security Policy (CFSP) and European Security and Defense Policy (ESDP), and into law enforcement and judicial matters. On many of these issues, the U.S.-EU relationship is now more important than the U.S. bilateral relationships with any of the 27 individual EU member states.

EU leaders are pushing for the adoption of the Lisbon Treaty later this year. The treaty would streamline institutional arrangements and decision-making procedures, and introduce reforms for a stronger and more coherent political and foreign policy voice. Elections for a new European Parliament were held in June 2009, and a new European Commission is expected to take office in the Fall. While the identities and influence of individual member states and regions will undoubtedly remain strong, integration has slowly created an emerging European identity among Europe's citizens.

NATO, too, is often said to be in the midst of a significant evolution. Since the end of the Cold War, the Alliance has added 12 new member states from central and eastern Europe. Also during this time, NATO has sought to redefine its mission. Some members maintain that NATO should return to focusing on collective territorial defense and deterrence, while others believe NATO's relevance depends on "out-of-area" expeditionary operations.

While NATO has worked to transform itself and develop new capabilities, most observers contend that more resources are needed should NATO decide to fully commit itself to challenges such as stabilization and reconstruction operations, crisis management, counterterrorism, energy security, and cyber security. Following the April 2009 summit marking NATO's 60<sup>th</sup> anniversary, a new NATO Strategic Concept is being prepared that is expected to provide an updated vision for the Alliance.

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<sup>2</sup> See Pew Global Attitudes Project, *Confidence in Obama Lifts U.S. Image Around the World*, July 23, 2009, pp. 31-41.

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

### Afghanistan<sup>3</sup>

President Obama has put Afghanistan at the top of his Administration's foreign policy priorities, and is shifting U.S. military and strategic focus to the mission there. Europe's commitment to maintaining its participation will continue to be an important tone setter in transatlantic relations.

NATO's International Security Assistance Force (ISAF) is a stabilization mission that supports the reconstruction of Afghanistan and the development of the Afghan government, army, and police. ISAF consists of approximately 64,500 troops from 42 countries, including all 28 members of NATO.<sup>4</sup> More than seven years after the fall of the Taliban, however, the Afghan economy, security forces, and central government remain well short of self-sufficiency. A resilient Taliban and other insurgent groups continue to undermine stability in many areas of the country, and the rate of violent incidents nationwide has been increasing from year to year. Many officials and expert observers on both sides of the Atlantic assert that success or failure in Afghanistan hangs in the balance, and that the next two or three years will be decisive.

In addition to the approximately 40,000 U.S. troops in Afghanistan, the United States is sending 21,000 more reinforcements this Summer. U.S. and NATO officials have repeatedly called for greater troop and equipment contributions from some of the European allies. At the NATO Summit in April, European countries reportedly pledged a temporary increase of about 5,000 troops and military trainers to increase security for the Afghan elections scheduled to take place in August. Many European countries have argued that they face difficult constraints on making further commitments, including shortfalls in military resources and capabilities, and weak public or parliamentary support for additional contributions. U.S. officials have indicated that pressuring Europe to send more troops will not be a priority in the near future.

The use of "national caveats"—restrictions that some governments place on their troops to prevent them from engaging in combat operations—has been a sore spot within the Alliance. Critics assert that such policies could lead to a two-tiered NATO, with some member states providing combat troops and others providing peacekeepers and development assistance. Some discern this trend in the fact that U.S., UK, Dutch, and Canadian troops bear the vast majority of combat in the country's most volatile regions. Some European countries are concerned that greater "Americanization" of the mission could come at the expense of Allied input and consultation in strategic decision making.

In the spring, the U.S. Administration completed its strategic review of policy for Afghanistan and Pakistan. The review concluded that economic development, building Afghan governance capacity, and improving the capability of Afghan security forces are major priorities. European leaders expressed broad support for these conclusions. Some experts have long suggested that Europe has much to offer in these terms, calling for a greater contribution of civilian expertise.

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<sup>3</sup> For more information see CRS Report RL33627, *NATO in Afghanistan: A Test of the Transatlantic Alliance*, by Vincent Morelli and Paul Belkin and CRS Report RL30588, *Afghanistan: Post-Taliban Governance, Security, and U.S. Policy*, by Kenneth Katzman.

<sup>4</sup> As July 23, 2009, "International Security Assistance Force and Afghan National Army strength & laydown," *NATO website*, <http://www.nato.int/isaf/docu/epub/pdf/placemat.pdf>.

The strategic review also concluded that any solution in Afghanistan requires a comprehensive regional strategy that incorporates Pakistan as well. With insurgent groups using cross-border safe havens to launch attacks on coalition forces, the United States and Europe have come to increasingly realize that security in Afghanistan is also linked to sources of instability facing the Pakistani government. In this context, U.S. and European security, political, and economic relations with Pakistan have become a high priority.

## **Iran<sup>5</sup>**

Transatlantic cooperation regarding Iran has been close and extensive, with Europe in a leading role in terms of direct negotiations with Tehran. The United States and the European Union are seeking to halt Iran's uranium enrichment activities, which continue in defiance of the international community. Iran asserts that its nuclear activities are for peaceful, civilian energy purposes and that it has the right to develop such capabilities.

Although the 2007 U.S. National Intelligence Estimate (NIE) concluded that Iran suspended its nuclear weapons program in 2003, the United States and European governments maintain that Iran's ongoing enrichment of uranium gives it the potential to assemble nuclear weapons in a relatively short span of time. The International Atomic Energy Agency (IAEA) continues to complain of Iranian noncooperation in monitoring and inspections, and states that it cannot verify that Iran's nuclear activities are strictly for peaceful purposes. Given the current Iranian government's hostility and inflammatory rhetoric towards Israel and the United States, its development of ballistic missiles capable of reaching Israel and Europe, and its support for Hezbollah, Hamas, and insurgent groups in Iraq, many officials and analysts consider a nuclear Iran an unacceptable danger to regional stability.

Since the discovery of Iran's covert nuclear activities in 2002, the "EU-3" (France, Germany, and the United Kingdom, together with EU foreign policy representative Javier Solana) have led diplomatic efforts to curtail them. In 2006, China, Russia, and the United States joined the EU-3 to form the "Permanent Five Plus One" (P5+1) negotiating group. The history of negotiations with Iran consists of a series of proposed incentives packages regarding trade, energy, and political cooperation, offered in return for the abandonment of uranium enrichment. Since 2006, such incentive offers have carried the threat of punitive sanctions to be imposed in case of noncompliance, and on three separate occasions the EU-3 and the United States have successfully pushed for United Nations Security Council approval of limited sanctions on Iran (Resolutions 1737, 1747, and 1803).

The Obama Administration has indicated that it may be willing to engage in direct talks with Iran. European leaders welcomed and encouraged the prospect of such direct engagement on the part of the United States, although emphasizing that it should be closely coordinated within the P5+1 framework (China, France, Germany, Russia, the United Kingdom, and the United States). Following the controversial and disputed re-election of Iranian President Mahmoud Ahmadinejad in June, however, the prospects for such negotiations are increasingly in doubt. While the U.S. Administration has taken a relatively cautious overall approach to post-election developments in Iran, European leaders (and the U.S. Congress) were more outspoken from the outset in condemning the regime's behavior. Some observers are wary of how U.S. overtures might impact

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<sup>5</sup> For more information see CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

perceptions of Ahmadinejad's legitimacy at this time and some question whether, under the circumstances, the Iranian government is currently in a position to act as a serious negotiating partner. Others suggest that this may be an opportune moment to force concessions. In any case, U.S. officials have called for an answer regarding the offer to talk by September 2009, after which U.S. policy would pursue further sanctions and pressure.

Although the United States has strongly supported EU-3 efforts in this issue, some Americans have pointed to European trade and business ties with Iran and urged Europeans to adopt and enforce tighter sanctions, even if outside the UN framework. The EU and a number of member countries have taken some such autonomous measures, but many Europeans prefer to work strictly within the UN process regarding international sanctions. The EU has long opposed the U.S. Iran Sanctions Act (ISA) as an extraterritorial application of U.S. law. In addition, some European governments have been concerned that various proposed U.S. legislation aimed at Iran could harm European energy companies and undermine transatlantic unity in this issue. Bills in the 111<sup>th</sup> Congress that would tighten sanctions on Iran, including penalizing gasoline sales to Iran, include H.R. 2194 and S. 908.

## **Israeli-Palestinian Conflict<sup>6</sup>**

Israel's offensive into Gaza in December 2008-January 2009 renewed international attention on the Israeli-Palestinian conflict. While the United States and the EU advocate the negotiation of a political settlement, many experts observe that current circumstances do not easily lend themselves to a revived peace process.

The United States and the EU both believe in a "two-state" solution, a settlement that results in a sustainable Palestinian state alongside a secure Israel. More broadly, both also recognize that a settlement to the Israeli-Palestinian conflict is important for stability in the wider Middle East and in the context of combating Islamic radicalization and terrorism. However, despite the creation in 2002 of the Quartet mechanism for promoting the peace process (consisting of the United States, the EU, Russia, and the UN) and the Annapolis conference on the peace process in November 2007, many observers maintain that little progress has been made in recent years.

Many Europeans have long considered the Israeli-Palestinian conflict to be the key issue in the Middle East and have called for more engagement on the part of the United States. The Obama Administration's appointment of a special Middle East envoy and its increased engagement with Syria, a significant regional influence, have been welcomed in Europe as positive signals of U.S. commitment. In addition, President Obama's June speech in Cairo and U.S. pressure to halt the construction of Israeli settlements in the West Bank have created perceptions of a more balanced U.S. approach among those who believe U.S. policy has historically favored Israel.

Prospects for the peace process are complicated by Hamas' control over Gaza, which it took over by force in June 2007 following the collapse of the Hamas-Fatah coalition government. The United States and the EU classify Hamas as a terrorist organization and have no direct relations with its leaders.<sup>7</sup> The United States and the EU maintain political ties with the Palestinians

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<sup>6</sup> For more information see CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz.

<sup>7</sup> See the U.S. State Department foreign terrorist organizations (FTO) factsheet, April 8, 2008, and the EU list of terrorist group and individuals, January 26, 2009 (Council Common Position 2009/67/CFSP).

through the Fatah-led Palestinian Authority (PA), which governs the West Bank and is headed by President Mahmoud Abbas. Some have suggested the formation of a Palestinian unity government under Abbas' leadership that would carry on negotiations with Israel, although Hamas' role in any such government would likely be problematic. Egypt has been moderating talks between Fatah and Hamas on the future of the Palestinian government. The equation is further complicated by the right-wing coalition government led by Benjamin Netanyahu that was formed after Israel's February 2009 election. Although Netanyahu has indicated willingness to pursue the peace process under certain conditions, many observers are uncertain how his government intends to proceed regarding a "two-state" solution, and how it will respond to U.S. and European pressure to halt settlements.

The EU is the largest donor of foreign aid to the Palestinians, operates a police training mission in the Palestinian Territories (EUPOL COPPS) and is considering restarting its Border Assistance Mission (EU-BAM), which monitored the Rafah crossing point into Egypt until going into a standby mode when Hamas took over Gaza. The United States donated more than \$700 million for Palestinian assistance from June 2007-December 2008, and may commit more than \$900 million more for reconstructing Gaza and strengthening the Palestinian Authority. Both the United States and EU take steps to ensure that their aid does not end up with Hamas—aid is delivered directly to the Palestinian Authority or indirectly to the Palestinian people via the United Nations Relief and Works Agency (UNWRA), other international organizations, and non-governmental organizations (NGO). Some experts argue that U.S.-EU efforts to isolate Hamas have actually increased its domestic standing, and some in Europe view engagement and dialogue as a better way to eventually steer Hamas towards the more moderate political mainstream.

## **Russia<sup>8</sup>**

U.S.-Russian relations have grown increasingly tense in recent years, with numerous issues serving as points of irritation and contention. While many of these tensions with Russia are shared by European countries, Europe also has more complex and interdependent relationships with Russia in terms of energy and economics, and EU member states have been unable to agree on a common approach to their eastern neighbor.

In the aftermath of its August 2008 invasion of Georgia, relations between Russia and the West reached what some observers consider their lowest point since the end of the Cold War. For some time, against a background of tensions over Russian opposition to NATO enlargement and Kosovo's independence, officials and observers in Europe and the United States have expressed growing concern about what is perceived as the increasingly authoritarian character of the Russian government and its assertiveness and quest for influence in the Russian "Near Abroad" and beyond.

Missile defense and energy have become central issues in relations with Russia, issues that have had a divisive effect within Europe and NATO. Russia has vehemently opposed U.S. plans for missile defense installations in Poland and the Czech Republic. While the United States has said that the system would seek to counter the threat posed by Iran, Russia has maintained that it would weaken the Russian nuclear deterrent. As the Obama Administration studies the future of the missile defense system, some European leaders have previously called for debate about

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<sup>8</sup> For more information see CRS Report RL33407, *Russian Political, Economic, and Security Issues and U.S. Interests*, coordinated by Jim Nichol.

moving ahead with it, especially given skepticism about the system's effectiveness. On the other hand, many strongly wish to avoid the appearance of a Russian veto over NATO countries' defense planning.

Regarding energy, the EU as a whole is dependent on Russia for more than one-quarter of its gas and oil supplies, a number expected to grow substantially over the next 20 years. For some individual countries, dependence on Russian gas is already much greater.<sup>9</sup> Thus, upstream gas cut offs—as occurred most recently in the dispute between Russia and Ukraine in January 2009—have major implications for wider European energy security. Although this latest dispute was nominally about payment, some analysts have described a trend in which Moscow seems willing to use energy supplies as an instrument of foreign policy. Additionally, in recent years Russia has been actively engaging in bilateral energy deals with a number of European countries and acquiring large-scale ownership of European energy infrastructure, while not applying Western standards of transparency and market reciprocity regarding business practices and investment policy. There is concern in the United States over the influence that Russian energy dominance could have on the ability to present European—and, by consequence, transatlantic—unity when it comes to other issues related to Russia. For this reason, some have expressed the desirability of decreasing European reliance on Russian energy through diversification of supply, and supported European steps to develop alternative sources and increase energy efficiency. Analysts have also advocated the development of a common European energy policy that would push Russia to introduce more competition and transparency in its energy sector.

The Obama Administration has engaged in a “reset” of relations with Russia. After an initial meeting with President Medvedev in London in early April, President Obama traveled to Moscow for a summit in early July. The two sides have reached an agreement allowing the transit of U.S. military material through Russia to Afghanistan; agreed to set up a Bilateral Presidential Commission to look jointly at a range of security and economic issues; agreed to increase military-to-military contact and cooperation; and discussed missile defense, Iran, and North Korea. There have also been talks about a successor agreement to the Strategic Arms Reduction Treaty (START), which expires at the end of the year, and increasing cooperation on nuclear security issues. U.S. concerns and objections remain regarding Russian policy on Georgia, including its recognition of the breakaway provinces Abkhazia and South Ossetia, Russia's unilateral suspension of its obligations under the Conventional Armed Forces in Europe (CFE) Treaty, and issues of internal governance and human rights. In addition, Russian officials continue to advocate for talks about a new European security architecture. Some analysts view this proposal as an attempt to undermine NATO.

Europe, meanwhile, is divided between those who believe in a firm, aggressive stance toward Russia, and others inclined more toward pragmatism and engagement. Of the former, some see in Russia a potential threat to the political independence and even territorial sovereignty of themselves and neighbors, and look to a U.S. approach that robustly guards against Russian assertiveness. Some argue that energy cutoffs to NATO countries could be considered under NATO's Article 5, invoking a collective defense response. Some officials and observers in the countries of central and eastern Europe and the former Soviet Union have been increasingly vocal in expressing their concerns about the U.S. “reset” policy. They are concerned that U.S. dealings with Russia could have effects detrimental to their security interests and to the cohesion of

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<sup>9</sup> See CRS Report RL34261, *Russian Energy Policy Toward Neighboring Countries*, by Steven Woehrel and CRS Report RL33636, *The European Union's Energy Security Challenges*, by Paul Belkin.

NATO. They also fear that improved relations with the United States could embolden Russia in its actions toward neighbors, leading in turn to regional instability.

Advocates of engagement, on the other hand, assert that the maintenance of extensive ties and constructive dialogue is the most effective way to influence Russia. They argue that Russia should be viewed as a strategic partner and observe that Russian cooperation is important on issues such as Iran, climate change, and arms control.

## **Counterterrorism**

In the years since September 11, 2001, U.S. counterterrorism cooperation with the EU and individual European countries has been strong. Although significant aspects of the Obama Administration's policies on terrorism and detention remain works in progress, new U.S. initiatives that have been introduced or are being considered seem to have diminished some European concerns and objections over U.S. counterterrorism practices.

During the Bush Administration, new U.S.-EU agreements were concluded on police information sharing, extradition, mutual legal assistance, container security, and airline passenger data. Bilateral intelligence sharing and close counterterrorism cooperation were established with many key European countries, which may have helped disrupt terrorist plots and apprehend those involved. Nevertheless, many Europeans strongly opposed aspects of the Bush Administration's policies. The detention center at Guantánamo Bay, which Europeans argue degrades shared values regarding human rights and disregards international accords on the treatment of prisoners, has been at the center of this opposition.

Thus, European leaders welcomed President Obama's announcement that he intends to close the Guantánamo Bay facility within a year of taking office. Obama's executive order banning torture and his initiative to review Bush Administration legal opinions regarding detentions and interrogation methods were also well received across the Atlantic. Nonetheless, serious challenges remain to be solved regarding how Guantánamo will be shut down.<sup>10</sup> The U.S. Administration is asking EU countries to consider accepting a group of approximately 50 detainees who have been cleared for release, but who cannot be returned to their country of origin for fear of subsequent torture or execution. The United States appointed a high-level envoy to help persuade other countries to accept detainees. In previous years, a total of approximately 30 former detainees have been transferred to EU member countries—the vast majority being citizens or residents of the country to which they returned. Some European states have expressed a willingness to take in additional, non-national released detainees on a case-by-case basis, others have ruled it out, and still others continue to debate the matter internally. With no common EU position, the decision has been left up to member states to make on an individual basis. Due to the Schengen system of passport- and visa-free travel between many European countries, EU countries have agreed to a framework of information sharing regarding any accepted detainees.<sup>11</sup>

Although President Obama has also indicated possible closures of other overseas detention facilities at some point, the future of U.S. policy regarding rendition, secret detention, indefinite detention, and some types of "enhanced interrogation techniques" is not yet fully clear. The

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<sup>10</sup> See CRS Report R40139, *Closing the Guantánamo Detention Center: Legal Issues*, by Michael John Garcia et al.

<sup>11</sup> The Schengen area includes 22 EU member countries plus Iceland, Liechtenstein, Norway, and Switzerland. Five EU members—Bulgaria, Cyprus, Ireland, Romania, and the United Kingdom—are not part of Schengen.

European Parliament, for one, has been an outspoken critic of these practices. The Obama Administration has ceased using the term “enemy combatants” in reference to Guantánamo detainees and has changed the legal basis for holding detainees from presidential authority to U.S. and international law.

Beyond Guantánamo, European opposition to the U.S. death penalty could impede extradition deals in some terrorism cases, and European concerns about U.S. data and privacy protections have complicated U.S.-EU information sharing arrangements. U.S. officials have been concerned that rendition-related criminal proceedings against CIA officials in some EU states may put vital counterterrorism cooperation between U.S. and European intelligence agencies at risk.

Lastly, although some EU member states include Hezbollah on their national lists of terrorist organizations, the EU has for years resisted adding Hezbollah to its common list, despite repeated entreaties from Members of Congress and U.S. administrations.

## **Climate Change<sup>12</sup>**

The prospect of a major shift in U.S. climate change policy under the Obama administration has been welcomed by many in Europe. The debate over climate change legislation in the United States has an important impact on negotiations for a new international framework, and there will be a high degree of European and international interest in how the debate plays out.

Europe is often perceived as a global leader in climate change policy. In the 2007 Energy Policy for Europe, member states agreed to the following EU-wide targets for the year 2020: a 20% carbon emissions reduction compared with 1990 levels (increased to 30% should other developed countries agree to match such a target); a 20% increase in energy efficiency; 20% of all energy consumption from renewable sources; and 10% of transport fuel from biofuels.<sup>13</sup> In December 2008, the EU approved an integrated climate and energy package that details how it plans to meet these goals. The package, which will come into force by 2011, includes binding national targets for each country. The agreement also covers the operation of the second phase of the EU Emissions Trading System (ETS), which will begin in 2013.

Over the past eight years, some European officials expressed frustration with what they viewed as the Bush Administration’s skepticism toward climate change. The Bush Administration was reluctant to agree to binding international targets on greenhouse gas emissions and energy efficiency, generally preferring to seek technological solutions instead of global regulation. Many in the Bush Administration also maintained that binding caps could hurt the U.S. economy unless they are also applied to major emitters in the developing world, most notably China and India. At the December 2007 UN climate change conference in Bali, the EU unsuccessfully attempted to persuade the United States to agree to emissions targets of as much as 40% below 1990 levels by 2020.

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<sup>12</sup> For more information see CRS Report RL34513, *Climate Change: Current Issues and Policy Tools*, by Jane A. Leggett; CRS Report RL30024, *U.S. Global Climate Change Policy: Evolving Views on Cost, Competitiveness, and Comprehensiveness*, by Larry Parker and John Blodgett; and CRS Report RL34150, *Climate Change and the EU Emissions Trading Scheme (ETS): Kyoto and Beyond*, by Larry Parker.

<sup>13</sup> See *An Energy Policy for Europe*, European Commission, January 10, 2007, [http://ec.europa.eu/energy/energy\\_policy/doc/01\\_energy\\_policy\\_for\\_europe\\_en.pdf](http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf)

The American Clean Energy and Security Act of 2009 (H.R. 2454), which passed the House of Representatives in late June, aims to reduce U.S. emissions 17% by 2020, compared to 2005 levels, using a “cap and trade” system.<sup>14</sup> Although welcoming U.S. legislative action, some Europeans were critical that the goals of the bill are not ambitious enough (for example, some criticized using 2005, instead of 1990, as the base year). The bill has now been placed on the Senate legislative calendar for examination—however, given widespread concern about the economy, many feel 2009 could be a difficult year to pass such legislation, and there are growing expectations in Europe that the U.S. debate will extend into 2010.

The progress of the U.S. debate has considerable international ramifications: many hope that the next international climate conference, scheduled for December 2009 in Copenhagen, will produce a successor to the Kyoto Protocol, which expires in 2012. The U.S. role at Copenhagen, including its ability to influence China and India on accepting binding emissions targets, will be substantially affected by whether or not new domestic legislation has been put in place beforehand. Should the United States adopt a “cap and trade” system, some experts have suggested the eventual combination of such a U.S. system with the EU Emissions Trading System, creating a transatlantic emissions trading, or carbon credit, market.

## **Economic Relations<sup>15</sup>**

The United States and the European Union have the largest trade and investment relationship in the world. In 2008, the value of the two-way transatlantic flow of goods, services, and income receipts from investment totaled nearly \$1.6 trillion. U.S. and European companies are also the biggest investors in each other’s markets; total stock of two-way direct investment exceeded \$2.6 trillion by the end of 2007 (latest data available). Although a number of policy disputes exist, the economic relationship is the bedrock of transatlantic interdependence and, comprising approximately 53% of global gross domestic product (GDP), is the most influential such relationship in the world.

The global financial crisis and recession is expected to impact Europe harder and longer in comparison to the United States. A coordinated international response has been discussed at G-20 meetings in November 2008 in Washington, DC, and April 2009 in London—leading economies have agreed to the principle of avoiding protectionist trade measures, and to boost the resources of the International Monetary Fund (IMF) to aid severely affected countries. However, at the London G-20 Summit in April 2009, European leaders strongly resisted U.S. calls for greater stimulus spending. Europeans argued that existing stimulus packages need more time to take effect, and that focus should instead be directed to new financial sector regulation. The EU is planning major reforms to the regulation and supervision of the financial sector across its member states, including the creation of new cross-border agencies to monitor stability and risk in financial markets.

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<sup>14</sup> Under a “cap and trade” (also known as emissions trading) system, companies are granted a certain number of credits or allowances for carbon emissions. Companies that wish to exceed their emission cap would purchase unused credits from other companies that have remained below their cap.

<sup>15</sup> For more information see CRS Report RL30608, *EU-U.S. Economic Ties: Framework, Scope, and Magnitude*, by William H. Cooper and CRS Report RL34381, *European Union-U.S. Trade and Investment Relations: Key Issues*, coordinated by Raymond J. Ahearn.

European officials have expressed concerns regarding protectionist provisions in U.S. stimulus legislation, as well as in U.S. energy and climate bills. There are also concerns over the prospects for negotiations on the second stage of the Open Skies agreement, in which Europeans would like to see the creation of a U.S.-EU Open Aviation Area that removes restrictions on foreign ownership of airlines and allows reciprocal access to domestic markets. European officials assert that standards for the mutual recognition of aircraft repair stations under the FAA Reauthorization Act of 2009 (H.R. 915) contradict the 2008 U.S.-EU Aviation Safety Agreement. In addition, many Europeans believe that the 2007 U.S. law requiring ports to achieve 100% security screening for U.S.-bound containers will have significantly negative economic effects. Some Europeans have criticized the \$10 per person visitor tax proposed under the Travel Promotion Act of 2009 (H.R. 2935, S. 1023), arguing that it would discourage transatlantic travel and tourism.

U.S.-EU cooperation has been the key driving force behind efforts to liberalize world trade. While differences with countries in the developing world have been the primary reason why the Doha round of multilateral trade negotiations has stalled, the inability of the United States and EU to agree to a common position on agricultural subsidies has not helped matters. Transatlantic trade disputes also persist over poultry, subsidies to Boeing and Airbus, hormone-treated beef, and bio-engineered food products.

### **Regulatory Cooperation and the Transatlantic Economic Council<sup>16</sup>**

The United States and the EU have made a number of attempts to reduce remaining non-tariff and regulatory barriers to trade and investment. At the 2007 U.S.-EU summit, German Chancellor Angela Merkel initiated the creation of the Transatlantic Economic Council (TEC), a new institutional structure headed on both sides by cabinet/ministerial-level appointees and tasked with advancing the process of regulatory cooperation and barrier reduction.

Numerous studies have concluded that reducing regulatory burdens and harmonizing standards in areas such as safety, health, environment, engineering, and labeling could provide a significant boost to GDP on both sides of the Atlantic. Some have called for setting a target date by which to achieve an integrated transatlantic market.<sup>17</sup> The TEC was designed to provide increased political weight for the acceleration of the technical process of regulatory convergence. Meeting twice annually and reporting to the U.S.-EU Summit, the TEC was charged with building on existing sectoral dialogues in areas such as pharmaceuticals and food, automobile, and consumer product safety, as well as reviewing policies in priority areas such as innovation, technology, financial markets, and intellectual property. Results thus far have been mixed: while the TEC agreed that both sides should pursue mutual recognition of accounting standards, it was unable to solve the poultry dispute. Although the TEC has provided a regular forum for communication on regulatory issues, some feel that it has not lived up to its initial promise and that its role has already become uncertain. Some Europeans believe the United States has failed to devote sufficient political commitment to the TEC. While most observers feel the TEC is still a potentially useful mechanism, some believe its future will depend in large part on the priority accorded to it under the new U.S. Administration.

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<sup>16</sup> For more information see CRS Report RL34735, *Transatlantic Regulatory Cooperation: A Possible Role for Congress*, by Raymond J. Ahearn and Vincent Morelli and CRS Report RL34717, *Transatlantic Regulatory Cooperation: Background and Analysis*, by Raymond J. Ahearn.

<sup>17</sup> See, for example, James Elles, *The Transatlantic Market: A Reality by 2015?*, Transatlantic Policy Network, 2006.

To help accomplish its mandate, the TEC was directed to broaden stakeholder participation with the establishment of an advisory group that includes the Transatlantic Business Dialogue (TABD), the Transatlantic Consumers Dialogue (TACD), and the Transatlantic Legislators' Dialogue (TLD). The TLD is the formal mechanism for engagement and exchange between the U.S. House of Representatives and the European Parliament. Although the process of transatlantic economic integration and regulatory cooperation has been largely an executive branch affair, some advocates of convergence believe that greater involvement on the part of legislatures is essential. They argue that an active and robust TLD serving as an adviser to the TEC could significantly advance the process. However, many believe that the TLD remains relatively obscure, with ambiguity regarding which U.S. Members actually belong, and no role given to the U.S. Senate. A re-structuring and re-invigoration of the TLD may help it play a more influential role in these issues.

### **Visa Waiver Program<sup>18</sup>**

The U.S. Visa Waiver Program (VWP) has been a source of transatlantic discord in recent years. Although the issue has not been fully resolved, developments in late 2008 helped defuse some of the discontent on the European side.

The VWP permits travelers from participating countries to enter the United States for a maximum of 90 days without a visa. Admission to the VWP requires meeting security and passport standards and signing on to a number of information-sharing arrangements. While U.S. citizens enjoy such short-term visa-free travel to all 27 countries of the EU, not all EU members are included in the U.S. VWP. The EU has sought full reciprocity based on its fundamental principle of equal treatment of all member states and their citizens. The issue has caused particular frustration in a number of central and eastern European countries, who have found themselves excluded from the VWP despite their support of the United States in Iraq and on counterterrorism. Although the EU has attempted to negotiate the VWP as an EU-U.S. matter, the United States has preferred to address the issue bilaterally with the individual countries involved.

In July 2007, Congress passed legislation (P.L. 110-53) simultaneously strengthening the program's security components and granting the Secretary of the Department of Homeland Security (DHS) authority to waive certain admission requirements. This waiver made it easier for some EU members (and other interested states) to qualify. In late 2008, seven of the 12 EU countries that had been outside the VWP were admitted to the program: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, and Slovakia. Welcoming this progress (despite the bilateral nature of the process), the European Union would still like the five member states that remain outside the VWP—Bulgaria, Cyprus, Greece, Poland, and Romania—admitted as soon as possible.<sup>19</sup> Poland remains a notable outsider given the large Polish community in the United States and the fact that it has been an ardent lobbyist for inclusion in the VWP.

Noting that terrorists with European citizenship have entered the United States on the VWP, some Members of Congress have expressed skepticism about the VWP in general because of security concerns. Other Members have been more supportive of extending the VWP to new EU members,

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<sup>18</sup> For more information, see CRS Report RL32221, *Visa Waiver Program*, by Alison Siskin.

<sup>19</sup> "European Commission Vice-President Barrot Welcomes Significant Development in Secure, Visa-Free Travel Across the Atlantic," *Delegation of the European Commission to the USA*, October 17, 2008, <http://www.eurunion.org/eu/>

given their roles as U.S. allies, and in the belief that the requirements for entering the VWP promote higher standards for travel and document security and increase information sharing. The recent expansion of the VWP by DHS was criticized by Members of Congress who preferred to freeze the program pending further improvements as called for in a September 2008 GAO report.<sup>20</sup> Senators Dianne Feinstein and John Kyl have introduced legislation (S. 203) in the 111<sup>th</sup> Congress to strengthen security and oversight procedures of the VWP.

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<sup>20</sup> U.S. Government Accountability Office, *Visa Waiver Program: Actions Are Needed to Improve Management of the Expansion Process, and to Assess and Mitigate Program Risks*, GAO-08-967, September 15, 2008.