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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 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. The EU currently consists of 28 member states, including the formerly communist countries of Central and Eastern Europe.

EU members share a customs union; a single market in which goods, services, people, and capital move freely (known as the "four freedoms"); a common trade policy; a common agricultural policy; and a common currency (the euro), which 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 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. Such factors are complicating the EU's ability to deal with a multitude of internal and external challenges. Among the most prominent are

- the June 2016 vote in the United Kingdom (UK) in favor of leaving the EU;
- the Greek debt crisis and lingering concerns about the eurozone;
- ongoing migrant and refugee flows;
- a resurgent Russia; and
- a heightened terrorism threat.

Amid these difficult issues, 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 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 crucial to European peace and security and as a way to foster strong U.S. allies and trading partners. The United States and the EU share a dynamic political partnership on an array of foreign policy issues, and U.S.-EU trade and investment relations are extensive and mutually beneficial. How the EU evolves in the years ahead may have significant strategic and economic repercussions for the United States. At the same time, EU leaders are concerned about indications that the Trump Administration could diverge from traditionally held U.S. views on European integration and the U.S.-EU partnership.

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*, by Kristin Archick.

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Overview

The European Union (EU) is a political and economic partnership that represents a unique form of cooperation among sovereign states. 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 recovery. 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 currently consists of 28 member states, including the formerly communist countries of Central and Eastern Europe (see map in the **Appendix**).

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 pursed 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, services, people, and capital move freely (known as the "four freedoms"); a common trade policy; a common agricultural policy; and a common currency (the euro), which 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 faces a range of pressures—including slow economic growth, persistently high unemployment, and the rise of populist, antiestablishment political parties in many EU countries—and multiple crises, which have raised significant questions about the EU's future shape and character. Although many experts maintain that the EU will continue to pedal along, others worry that the European bicycle appears increasingly wobbly.

Perhaps the most prominent challenge for the EU is the United Kingdom's (UK's) expected exit from the EU (dubbed "Brexit"). In a public referendum on June 23, 2016, British voters favored leaving the EU by 52% to 48%. The UK remains a member of the EU until it completes withdrawal negotiations, a process that has not yet begun and is expected to take at least two years. The UK decision, however, has sent shockwaves throughout the EU and could have significant implications for the future of the European integration project.

In the wake of the UK vote, leaders of the 27 other EU member states announced that they were launching a "political reflection" to consider further EU reforms and how best to tackle key security and economic issues in the EU. These issues include addressing lingering concerns about Greece and the stability of the eurozone, managing migratory pressures, dealing with a resurgent Russia, and combating a heightened terrorism threat. In September 2016, the EU-27 leaders held an initial discussion in Bratislava, Slovakia, on the challenges confronting the EU and the way forward. Observers expect the EU to conclude this "reflection period" and set out post-Brexit plans for the EU at the summit of EU leaders at the end of March 2017.

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 addressed different aspects of the challenges facing the EU, including the Greek debt crisis, the conflict in Ukraine, EU policy toward Russia, Europe's migration and refugee crisis, and potential threats posed by the Islamic State terrorist organization and by European fighters returning from Syria and Iraq. Some hearings also focused more broadly on the EU's future development and its possible implications for the United States.[1] Such issues may be of continuing interest in the first session of the 115th Congress, especially as the UK moves forward with plans to exit the EU and in light of important national elections in France, Germany, and elsewhere in Europe in 2017, which could affect the EU's future trajectory and the U.S.-EU relationship.

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 for goods, people, capital, and services; 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 and ultimately resulted in the mostly free movement of goods, people, capital, and services (known as the "four freedoms") within the EC.

[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.

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

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.

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.

Table 1. Current Membership in the European Union (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		United Kingdom		

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

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 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 some 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; the council 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 European 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 (Malta 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 European Council. The EP 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; there are currently eight such political groups in the EP spanning the political spectrum from the far left to the far right. One MEP is elected as EP President (currently Antonio Tajani).

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 Lisbon Treaty in 2009 (which also sought to enhance the EU's global role and increase democratic accountability within the EU). Nevertheless, 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 so many 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, antiestablishment 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. Most are on the far right of the political spectrum, but 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 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 June 2016 referendum on whether the UK should remain an EU member. EU officials and observers are also concerned that certain policies pursued by some of these parties in countries such as Hungary or Poland appear to conflict with basic EU values and democratic norms.

Moreover, should euroskeptic parties gain enough support to enter or even lead their national governments, they could potentially stop or reverse at least some aspects of European integration. The next presidential election in France is scheduled for April-May 2017, and polls indicate that Marine Le Pen, leader of the far-right, anti-EU National Front party likely will make it to the final round of the two-stage election. Should Le Pen win, she has pledged to withdraw France from the eurozone and to hold a referendum on EU membership within six months of taking office. In the Netherlands, the euroskeptic, far-right Freedom Party (PVV) is poised to do well in national elections in March 2017 and could become one of the largest parties in the Dutch parliament. In Germany, the euroskeptic, right-wing Alternative for Germany (AfD) party also may secure enough support in federal elections in September 2017 to enter parliament for the first time. Although most analysts view it as unlikely that either the PVV or the AfD will enter into coalition governments in their respective countries, significant gains for such parties could exert a degree of influence on future German and Dutch policies toward the EU.[3]

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 policies. Many analysts suggest, however, that a strong EU "engine" has been lacking over the

[3] "Where Will Populism Strike Next in the EU?," *Economist Intelligence Unit,* November 11, 2016.

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 other leaders—including French President François Hollande—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 their respective visions of the EU's future 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 complex 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 UK Decision to Leave the EU[6]

The UK has long been considered one of the most euroskeptic members of the EU, with many British leaders and citizens traditionally cautious of ceding too much sovereignty to Brussels. As a result, the UK chose to remain outside the eurozone and the Schengen free movement area, and it negotiated the right to participate in only selected justice and home affairs policies. Amid the challenges to the EU over the last few years, former UK Prime Minister David Cameron faced

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[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] For information on the outcome of the UK referendum and its implications for the United Kingdom, see CRS Insight IN10513, *United Kingdom Votes to Leave the European Union*, by Derek E. Mix, and CRS Insight IN10528, *The Brexit Vote: Political Fallout in the United Kingdom*, by Derek E. Mix.

growing 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 announced it would renegotiate the UK's membership conditions with the EU and hold an "in-or-out" public referendum on the UK's continued membership in the EU. In February 2016, following a deal reached by Cameron with other EU governments on measures that sought to better guard British sovereignty and economic interests in the EU, the Cameron government set June 23, 2016, as the date for the referendum on the UK's continued membership in the EU.

As noted previously, UK voters decided in favor of a British exit from the EU (or "Brexit") by a relatively narrow margin of 51.9% to 48.1%. This outcome was heavily influenced by factors such as economic dissatisfaction (especially among older and middle- to lower-income voters), fears about globalization and immigration, and anti-elite and antiestablishment sentiments. The "leave" campaign appears to have successfully capitalized on arguments that the UK would be better off if it were free from EU regulations and from the EU principle of free movement, which had led to high levels of immigration to the UK from other EU countries.

The UK government is expected to enact the results of the referendum in March 2017 by invoking Article 50 of the Treaty on European Union—the so-called exit clause, which outlines procedures for a member state to leave the EU. The invocation of Article 50 will trigger a two-year period for withdrawal negotiations to be concluded. The EU also may decide to extend the time for negotiations. The UK remains a full member of the EU until the withdrawal process is completed, and EU law continues to apply in the UK until that time.

EU leaders maintain that "the Union of 27 countries will continue,"[7] but the departure of a member state is unprecedented in the EU's history. Brexit likely will have significant political and economic repercussions for both the UK and the EU. The UK is the EU's second-largest economy and a key diplomatic and military power within the EU.

In the short term, the EU is expected to be preoccupied by negotiating the "divorce terms" of Brexit and the contours of a future UK-EU relationship. Many believe the EU will take a tough line in Brexit negotiations, in part to discourage other member states and euroskeptic publics from contemplating a break with the EU that would further fracture the bloc. Euroskeptic parties, including in France and the Netherlands, have been encouraged by the British decision and called for similar referendums. Although conventional wisdom holds that most EU countries are simply too small to "go it alone," some EU officials worry that Brexit could seriously undermine the EU project if it prompts other EU countries to demand special membership conditions or additional policy opt-outs.

Many analysts suggest that the time and resources the EU will be forced to devote to managing the UK's exit could decrease the EU's capacities for dealing with other simultaneous and pressing challenges, including migration, terrorism, and weak economic growth. Given the UK's foreign policy clout and defense capabilities, Brexit could diminish the EU's role as an international actor. Some experts suggest that Brexit also might dampen prospects for further EU enlargement, in part because the UK had long been one of the staunchest supporters within the EU of continued expansion, including to Turkey.

In the longer term, the EU likely faces a fundamental choice between those supporting further integration as the solution to the bloc's woes and those contending that integration has gone too far and should be put on hold (or possibly even reversed in certain areas). Whereas some experts

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

argue that "more EU" is necessary to deliver economic growth and ensure security, others are skeptical that national governments will be inclined to cede more authority to a Brussels bureaucracy viewed as opaque and out of touch with the problems of average citizens. At the same time, some contend that Brexit could ultimately lead to a more like-minded EU, able to pursue deeper integration without UK opposition. For example, Brexit could strengthen the prospects for closer EU defense cooperation because the UK traditionally served as a brake on certain measures in this area—such as establishing an EU military headquarters—that the UK viewed as infringing too much on national sovereignty or on NATO's role in European security. (See "The EU's Next Steps and Possible Future Scenarios" for more information.)

The Greece Crisis and the Eurozone[8]

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 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 still lingers.

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

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

integration."[9] 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,"[10] 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.

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 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. Greece will require another tranche of previously agreed financial aid in July 2017, and tensions persist between Athens, its eurozone creditors, and the IMF over the terms of Greece's assistance program and the question of debt relief.[11]

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 since then, in part because EU attention has been focused elsewhere—on the migration crisis and Brexit.[12]

Migratory Pressures

Over the last two years, Europe has experienced a significant migration and refugee crisis as 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 reached Europe by sea in 2015 and roughly 362,000 did so in 2016.[13] Greece and Italy have been major

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

[10] 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.

[11] James Kanter, "Eurozone Agrees to Debt Relief and Bailout Aid for Greece," *New York Times,* May 24, 2016; Jim Brunsden and Eleftheria Kourtali, "Eurozone Set to Miss Deadline for Greek Bailout Deal," *Financial Times,* February 16, 2017.

[12] Cecile Barbiere, "France and Germany Dither Over Eurozone's Future," EurActiv.com, April 7, 2016.

[13] U.N. High Commissioner for Refugees, Refugee/Migrants Emergency Response-Mediterranean, at (continued...)

arrival and transit points. Many individuals subsequently attempted 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 flows also 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.

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.[14]

As the uptick in refugees and migrants arriving in Europe continued unabated in early 2016, 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 from Greece 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. Most EU leaders maintain that the return measures agreed upon with Turkey

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(...continued)

http://data.unhcr.org/mediterranean/regional.php.

[14] Implementation of the EU relocation programs—both the mandatory one and a separate voluntary one—remains slow (as of early February 2017, just under 12,000 asylum-seekers had been relocated from Greece and Italy out of a total goal of 160,000). Some member states (including Hungary and Poland) have refused to accept any asylum-seekers under the EU schemes. European Commission, “Relocation and Resettlement: Member States Need to Build on Encouraging Results,” press release, February 8, 2017. Also see Steven Erlanger and James Kanter, “Plan on Migrants Strain the Limits of Europe’s Unity,” *New York Times*, September 22, 2015.

are crucial to breaking the business model of migrant smuggling and saving lives. However, some Members of the European Parliament and many human rights advocates are concerned that the agreement violates international law and the rights of refugees. Those of this view also worry that other parts of the accord with Turkey—in which the EU pledged to lift 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 failed July 2016 coup attempt in Turkey and the subsequent government crackdown has exacerbated tensions between the EU and Turkey. Although Turkey has made progress in meeting most of the EU's requirements for visa-free travel, some issues remain outstanding. In November 2016, the European Parliament approved a nonbinding (although symbolic) resolution calling for Turkey's EU accession negotiations to be suspended until the Turkish government ends it "disproportionate" response to the failed coup. Amid these developments, some observers suggest that the EU's deal with Turkey on the refugee and migrant flows could be in danger.[15]

Although the agreement with Turkey has helped to staunch the migrant flows to Greece, Italy has experienced an uptick in migrant and refugee arrivals since mid-2016; most of these individuals come from Africa, with Libya being their main point of departure. In early February 2017, the EU announced a plan to help the U.N.-backed Libyan government curb migration across the Central Mediterranean. Among other measures, the EU will seek to provide increased training and better equipment for the Libyan coast guard, improve conditions at Libyan reception centers, enhance EU cooperation with countries near Libya to slow the inflows, and work with local communities on migration routes and in coastal areas to improve their socioeconomic conditions. As a first step, the EU announced €200 million in funding through 2017 for such migration-related projects. Local Libyan authorities, however, have criticized the plan as likely to worsen the situation on the ground in Libya. Furthermore, refugee advocates worry that the plan does not sufficiently protect human rights, and some analysts suggest that Libya's continued instability casts doubt on the plan's prospects for success.[16]

The migration and refugee flows continue to have significant repercussions for European governments and the EU. Perhaps most notably, the migratory pressures have 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 refugee and migrant 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). In 2015, several Schengen countries (including Germany, Austria, Denmark, and Sweden) instituted temporary border controls in response to the migratory pressures. These temporary controls remain in effect, and some experts worry they 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, including by establishing a new European Border and Coast Guard to reinforce national capacities at the EU's external borders through joint operations and rapid border interventions. This new border guard corps became operational in October 2016.[17] The European Commission also has been working with Greece to improve the country's border control

[15] Nikolaj Nielsen, "EU-Turkey Migrant Deal Risks Collapse, Warns Austria," EUObserver.com, November 8, 2016; James Kanter, "European Parliament Votes to Suspend Talks with Turkey on EU Membership," *New York Times*, November 24, 2016.

[16] "Migrant Crisis: EU Leaders Agree Plan to Stop Libya Influx," BBC News, February 3, 2017; Nikolaj Nielsen, "Libyan Authorities Oppose EU Migrant Plans," EUObserver.com, February 8, 2017.

[17] The European Border and Coast Guard is intended to strengthen and replace Frontex, the EU's existing borders management agency.

management, and the EU continues to support "hotspot" facilities in both Greece and Italy to help register and process all refugees and migrants.

The influxes of refugees and migrants have renewed questions about European countries' ability 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.[18]

Debate has also arisen over the economic impact of the migrant 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.[19] 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.

European Security Concerns

Over the past several years, the EU has struggled with how best to address significant 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

Like the United States, the EU has been forced to reconsider its relationship with a more assertive Russia and the implications for European security and stability. 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 backing 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 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 various member states.

[18] Jim Yardley, "Sexual Attacks Widen Divisions in European Migration Crisis," *New York Times*, January 13, 2016; Melissa Eddy, "Refugee's Arrest Turns a Crime into National News (and Debate) in Germany," *New York Times*, December 9, 2016; Ivan Watson and Bryony Jones, "In Sweden, Tensions Temper Pride over Refugee Policy," CNN.com, February 23, 2017; "Germany Hate Crime: Nearly 10 Attacks a Day on Migrants in 2016," BBC News, February 26, 2017.

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

Many analysts argue that some EU member states may be susceptible to Russian political or economic pressure to lift or ease sanctions (especially the sectoral ones) and are concerned about Russian efforts to erode EU consensus. The EU has tied lifting the sectoral sanctions to the full implementation of the Minsk peace agreement for Ukraine. Amid escalated fighting in eastern Ukraine in early 2017, the EU appears committed to maintaining sectoral sanctions on Russia in the short term. Nevertheless, observers point out that some European policymakers have periodically floated ideas on restructuring EU sanctions. In the spring of 2016, some German and Austrian officials reportedly suggested that a change in tactics might be necessary going forward. French officials assert that they have ruled out lifting EU sanctions until Russia meets its obligations under the Minsk agreement but also have purportedly urged more debate on the future of EU 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.[20]

Beyond the conflict in Ukraine, fundamental differences exist among EU countries 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 depend on forging good relations with Moscow. Many EU countries have extensive commercial ties with Russia (including Germany and Italy) and rely 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 conflict in Syria.

Other EU countries, especially those with histories of Soviet domination, are more wary of Russia and President Putin's intentions. 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. Poland and most Central European members have strongly opposed a proposed Russian gas pipeline project—the so-called Nord Stream 2, which would increase the amount of Russian gas delivered to Germany and other parts of Europe—because they contend it will undercut Ukraine (the pipeline would bypass the country), increase rather than decrease European reliance on Russian gas, and do little to improve European energy security. (In August 2016, five Western companies pulled out of the joint venture, although Russia's state-owned Gazprom asserts that it will move forward with Nord Stream 2 on its own).[21]

At the same time, many leaders across the EU are increasingly concerned that the Russian government is actively seeking to influence European politics, elections, and policymaking in an effort to sow disunity, destabilize the EU (and NATO), and undermine Western values. Russian measures to exert such influence reportedly include an array of tools: expanding Russian television and Internet broadcasting in Europe; using disinformation and pro-Russian fake news; conducting cyberattacks on government and political party websites; and cultivating relations with European political parties and allies broadly sympathetic to Russia. In addition, some experts on both sides of the Atlantic contend that Russia is helping to fund certain European political parties (especially far-right, euroskeptic parties). Concrete evidence of direct financial support from the Russian government to European parties is difficult to identify, but some

[20] Laurence Norman and Gabriele Steinhauser, "European Ministers Wrestle with Future of Russia Sanctions," *Wall Street Journal*, June 20, 2016; "Germany, Austria Favour Gradual Phasing Out of Russia Sanctions," EurActiv.com, June 20, 2016.

[21] Gabriela Baczynska and Alissa de Carbonnel, "EU's Juncker Says Doubts Over Nord Stream 2 Pipeline Plan Beyond Legal," Reuters, June 16, 2016; "Nord Stream 2 Partners Withdraw Amid Poland Pressure," *Financial Times*, August 12, 2016.

analysts argue that Russia's "web of political networks is hidden and non-transparent by design, making it purposefully difficult to expose."[22]

A number of observers suggest that Russian government-linked news outlets and fake news stories online may have attempted to influence voters in several public referendums in Europe in 2016, including the April vote in the Netherlands on the EU-Ukraine association agreement and the June referendum in the UK on EU membership. Since 2015, the EU's East StratCom Task Force has worked to raise awareness of Russian disinformation. A key purpose of the task force is to identify and compile what it believes to be false or distorted information or fake news and to alert media outlets, Internet users, and the general public of such disinformation.[23] Many European leaders also are worried about the possibility of Russian interference, including through cyberattacks on government or political party computer systems, ahead of important national elections in the Netherlands, France, and Germany in 2017.

Some experts (in Europe and the United States) contend that Brexit may be a "win" for Putin's Russia, potentially leading to a more accommodating EU approach. Although the UK has been a staunch supporter of EU sanctions on Russia and vocal in its concerns about Russia's more assertive military posture, it is certainly not the only EU member state to hold such views. Thus, arguments suggesting that without the UK, the EU would automatically seek to recalibrate its policies toward Moscow may be overblown. At the same time, Brexit could further complicate efforts to forge and maintain any common EU stance toward Russia given the diplomatic and military capabilities the UK brings to the EU table and its frequent leadership role in building EU consensus on major foreign policy and security issues. Observers also note that Brexit and other divisions within the EU, especially if they weaken the EU as an institution, could provide an assist to Putin's broader goal of challenging the Western-oriented, post-Cold War order in Europe.

Countering Terrorism[24]

Over the last two years, European governments and the EU have grown increasingly alarmed by the rise of the Islamic State terrorist organization, its success in attracting European citizens to join the fighting in the Syria-Iraq region, and its use of violent extremist propaganda to inspire others. Many of the recent terrorist incidents in Europe—including the November 2015 attacks in Paris and the March 2016 bombings in Brussels—have been linked to the Islamic State, and a number of the perpetrators were or are European citizens who reportedly fought with the group in Syria or Iraq. European security services assess that the Islamic State's ability to carry out or direct larger-scale, coordinated attacks in Europe appears 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 the potential for "lone wolf" attacks by individuals who may not have traveled abroad to fight but who have been motivated by Islamist propaganda to commit violence at home. Although the Islamic State has claimed that the perpetrator of the July 2016 truck attack in Nice, France, was its "soldier," authorities believe that

[22] The Atlantic Council, *The Kremlin's Trojan Horses*, November 2016. Also see Mitchell A. Orenstein, "Putin's Western Allies," *Foreign Affairs*, 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.

[23] Also see CRS Insight IN10614, *European Union Efforts to Counter Disinformation*, by Vincent L. Morelli and Kristin Archick.

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

the attacker was largely self-radicalized. Several other "lone wolf" attacks in France, Germany, and Belgium during 2016 also were apparently carried out by individuals inspired by the Islamic State. The Tunisian asylum-seeker who carried out the December 2016 truck attack on a Christmas market in Berlin may have been in contact with an Islamic State recruiter in Germany, but authorities believe he was radicalized while in prison in Italy.[25] The uptick in terrorist activity has reinforced long-standing anxieties about the integration of Muslims in Europe and the potential for radicalization among some segments of Europe's Muslim populations.

Although 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. The Berlin Christmas market attacker was apprehended and killed in Italy four days after the attack.

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.[26] Several lone wolf attacks in 2016 were attempted or carried out by asylum-seekers and have elevated fears that some refugees or immigrants (especially youths) could be particularly vulnerable to radicalization due to feelings of dislocation and marginalization.

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 Islamic 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

[25] Michael Birnbaum and James McAuley, "Attacker in Nice Is Said to Have Radicalized Very Rapidly," *Washington Post*, July 16, 2016; Anthony Faiola, Souad Mekhennet, and Stefano Pitrelli, "ISIS-Linked News Agency Releases Video of Berlin Attacker Swearing Allegiance to the Radical Group," *Washington Post*, December 23, 2016.

[26] "Paris and Brussels: The Links Between the Attackers," *The Guardian*, April 20, 2016; "Idle Swede Charged with Brussels Terrorist Murders," *The Local* (Sweden), 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.[27]

The EU's Next Steps and Possible Future Scenarios

For many supporters of the European project, the EU has entered uncharted territory. Although most experts consider a complete dissolution of the EU to be likely, the future shape and character of the bloc are being increasingly questioned. In light of the serious internal and external challenges currently facing the EU, especially Brexit, advocates worry that for the first time in the EU's history, at least some aspects of integration may be stopped or reversed. Others contend that the multiple crises currently facing the EU could produce some beneficial reforms and ultimately transform the bloc into a more effective and cohesive entity.

Following the June 2016 UK vote, many EU leaders acknowledged that it cannot be "business as usual," especially given the extent of public dissatisfaction, both with the EU itself and with Europe's generally pro-EU political establishment. Days after the UK referendum, the leaders of the 27 other member states announced they were launching a "political reflection" to consider further EU reforms and how best to tackle the key security and economic challenges facing the EU.[28] Germany, France, and Italy are spearheading this effort and likely will be influential in determining the EU's future direction.

In September 2016, the EU-27 leaders (meeting informally) held an initial discussion in Slovakia. The resulting Bratislava Declaration asserts that "although one country has decided to leave, the EU remains indispensable for the rest of us"; EU leaders also pledged to find "common solutions" to current challenges and to improve communication between the EU and its citizens. The accompanying Bratislava Roadmap sets out "concrete measures" for addressing some aspects of the migration crisis; countering terrorism; strengthening EU security and defense cooperation; and improving economic opportunities, especially for young people.[29] Despite the attempt to demonstrate unity in Bratislava, some EU leaders reportedly were disappointed that measures proposed were not bold enough, did not offer a strategic vision for the EU going forward, and were focused mostly on implementing tactical responses to the various crises or recommitting support to existing initiatives.[30]

In early February 2017, the EU-27 leaders held a follow-up discussion to their talks in Bratislava and sought to prepare for the European Council summit at the end of March 2017 in Rome, designed to coincide with and honor the 60th anniversary of the Treaties of Rome. The EU asserts that the March meeting in Rome will conclude the EU's "reflection process," and the EU-27 leaders are expected to issue a declaration setting out post-Brexit plans for the EU at that time.

Possible scenarios for the EU in the years ahead 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

[27] Christian Mölling, "France Makes the Case for European Defense – à la Française," German Marshall Fund of the United States, November 18, 2015.

[28] European Council, "Statement from the Informal Meeting of the 27 Heads of State or Government," June 29, 2016.

[29] European Council, "The Bratislava Declaration and the Bratislava Roadmap," September 16, 2016.

[30] David M. Herszenhorn and Tara Palmeri, "EU Leaders Promise New Push to Overcome Crisis," *Politico Europe*, September 16, 2016.

economic situation and increasing migratory pressures. The EU would continue to pursue integration and common policies where possible, although doing so could be increasingly difficult.

- **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. Many 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 variant could see further EU integration pursued only in select fields, such as European security or eurozone governance. Some EU officials and member states, including France and Germany, reportedly are considering possible proposals along these lines.[31]
- **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. 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 as a result of Brexit and in the event of Grexit, 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.

News reports speculate that EU leaders may pledge at their upcoming meeting in Rome to pursue some sort of "two-speed EU," in which some member states could agree to greater integration in certain areas and others could choose to opt out.[32] Other reports question the degree of consensus currently—both among the member states and among the EU institutions—on what a post-Brexit EU should look like or how to restore public confidence in the European project. Many also note that regardless of the expected political declaration in Rome, implementing any EU reforms or restructuring likely will be a years-long endeavor subject to continuous debate and prolonged negotiations.

Implications for the United States

The United States has resolutely supported European integration since its inception in the 1950s as a way to help keep European nationalism in check, promote political reconciliation and economic interdependence, and encourage stability and security on the European continent. Successive Administrations and many Members of Congress have long viewed the EU integration

[31] Tara Palmeri, "French and German Socialists Hatch A Plan to Save EU," *Politico Europe*, June 26, 2016; Jacopo Barigazzi, "Mogherini Pushes for Two-speed Europe on Defense," *Politico Europe*, September 16, 2016.

[32] "Merkel Says Europe's Future Could Be Two-Speed," *The Local* (Germany), http://www.thelocal.de, February 4, 2017.

project as fostering democratic allies and strong trading partners in Europe. During the Cold War, the European project—and the peace and prosperity it helped to engender in Western Europe—was considered essential to helping deter the Soviet threat.

Since the end of the Cold War, the United States has often looked 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.

Some U.S. policymakers, analysts, and Members of Congress have expressed concern that the various challenges facing the EU could have significant 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. Many officials in the former Obama Administration worried 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 the proposed U.S.-EU free trade agreement (the Transatlantic Trade and Investment Partnership, or T-TIP). Some observers also suggested 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.

The Obama Administration consistently asserted its opposition to Grexit and Brexit, viewing both possibilities as potential 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. In addition, U.S. officials were concerned that Grexit could tempt Greece to seek closer relations with Russia.

Former President Obama and many other U.S. officials also viewed the EU as a stronger and more reliable U.S. partner with the UK as a member. The United States has long valued the UK's role in the EU in light of the UK's 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. Following the UK referendum, then-President Obama stressed that both the UK and the EU would remain "indispensable partners" of the United States.[33] However, some observers suggest that the United States is losing its best advocate within the EU for policies that bolster U.S. goals and protect U.S. interests. Those of this view are concerned that in the longer term, the UK's absence could lead to greater U.S.-EU divergence on issues such as managing Russia or the centrality of NATO to European security. Others point out that in recent years, Germany has increasingly played a major role as a key U.S. interlocutor on EU issues and the UK's departure will not significantly alter U.S.-EU relations.[34]

With the inauguration of President Donald Trump, some European officials have voiced concerns about the U.S. commitment to the EU project and the future trajectory of U.S.-EU relations. In an interview with two European journalists shortly before taking office in January 2017, Mr. Trump

[33] White House, "Statement by the President on the UK Referendum," press release, June 24, 2016.

[34] David E. Sanger, "With Brexit, Washington's Direct Line to the Continent Suddenly Frays," *New York Times,* June 26, 2016; Benjamin Oreskes, "Germany: America's Real Special Relationship," *Politico Europe,* June 30, 2016.

expressed skepticism about the EU's future, asserted his belief that other members may follow the UK in leaving the EU, and suggested that the EU did not "matter" to the United States.[35] Although the Trump Administration's position on T-TIP has yet to be fully clarified, EU officials also have been alarmed by some statements from President Trump and key advisers that appear to support protectionist U.S. trade policies and seem to favor bilateral agreements over multilateral trade deals and institutions. European Council President Donald Tusk conveyed the anxiety of many in the EU when he stated that "the new administration [is] seeming to put into question the last 70 years of American foreign policy"; Tusk also indicated that potential changes in the U.S. posture toward Europe and any diminishing of the transatlantic relationship could pose further challenges to EU cohesion, stability, and security.[36]

Despite such worries, EU officials have pledged to work with the Trump Administration on common interests and global challenges, and most observers expect that the EU will seek to preserve its close political and economic partnership with the United States. EU leaders appeared to be encouraged by Vice President Mike Pence's trip to the EU's institutions in Brussels in mid-February. During the visit, Vice President Pence stated that the U.S. commitment to the EU is "steadfast and enduring"; he also reportedly asserted that the Trump Administration looked forward to deepening U.S.-EU ties in the years ahead.[37] President Trump subsequently asserted that he was "totally in favor" of the EU.[38]

At the same time, commentators suggest that uncertainty lingers in Brussels and other European capitals over the extent to which the Trump Administration values the EU, as well as NATO and the broader transatlantic relationship. Many in the EU remain wary about potential Trump Administration positions on a range of shared foreign policy concerns—including Russia, China, the Israeli-Palestinian conflict, counterterrorism, and climate change—and its commitment to free trade and the multilateral trading system. Some European analysts speculate that contrary to traditional U.S. views, the Trump Administration might be indifferent to the collapse of the EU if this were to allow the United States to negotiate better bilateral trade deals with individual member states.[39] Others contend that such fears are largely overblown, especially in light of the recent statements of support for the EU from President Trump and other Administration officials.

[35] Transcript of Interview with Donald Trump, *The Times*, January 16, 2017; Michael Birnbaum, "European Leaders Shocked as Trump Slams NATO and EU, Raising Fears of Transatlantic Split," *Washington Post*, January 16, 2017.

[36] European Council Press Release, "United We Stand, Divided We Fall: Letter by President Donald Tusk to the 27 EU Heads of State or Government on the Future of the EU Before the Malta Summit," January 31, 2017.

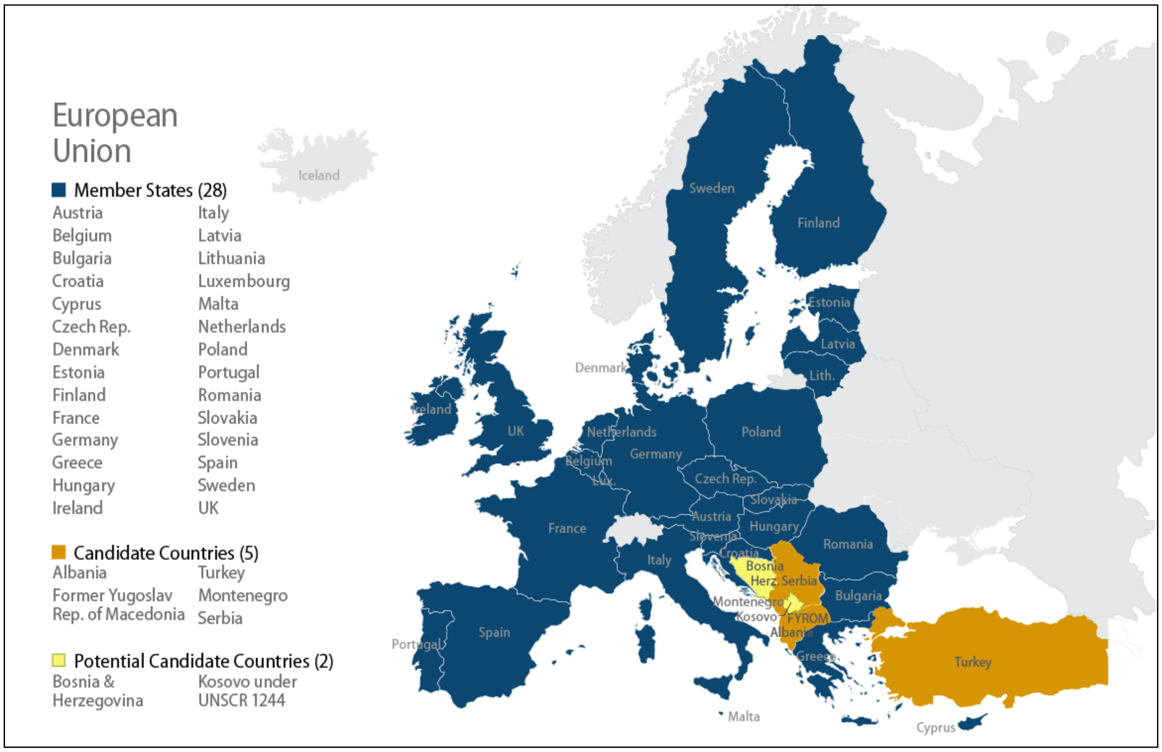
[37] As reported in David M. Herszenhorn, "Pence Seeks to Soothe Jangled EU Nerves with Pledge of Support," *Politico Europe*, February 20, 2017.

[38] "Highlights of Reuters Interview with Trump," Reuters, February 24, 2017.

[39] Steven Erlanger, "For Europe, There's a New Threat in Town: The U.S.," *New York Times*, February 2, 2017.

Appendix. Map of the EU and Candidate Countries

Figure 1. European Union (EU) 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.

Notes: Despite the June 2016 public referendum in the United Kingdom in which voters favored leaving the EU, the United Kingdom remains a full member of the bloc until it completes withdrawal negotiations, a process that has not yet begun and is expected to take at least two years.

Iceland formally applied for EU membership in 2009 and was recognized as a candidate in 2010, but accession negotiations have been on hold since May 2013, when a new Icelandic coalition government largely opposed to EU membership took office. In March 2015, Iceland's government requested that Iceland should no longer be regarded as a candidate country, although the government did not formally withdraw Iceland's application for EU membership.

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