

The Euro Challenge 2012

From Europe to the Euro



What is the European Union?

- A unique institution – Member States voluntarily cede national sovereignty in many areas to carry out common policies and governance.
- Not a super-state to replace existing states, nor just an organization for international cooperation.
- Shared values: liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law.
- Largest economic body in the world.
- World's most successful model for advancing peace and democracy.
- World's most open market for goods and commodities from developing countries.



Sizing up the European Union

27 member states

500 million
combined population

23 official
languages

30%
of global GDP

4.2 million km²
total surface area

20% of global
exports and imports



Outline of the Presentation



History of the European Union

- Half a Century of Change and Progress



How does the European Union function?

- A Unique Institutional Structure



The Euro Currency and the Monetary Union

- United in Diversity



The European Union and the United States

- Partners in Global Leadership

1951



Six founding countries ( Belgium,  Federal Republic of Germany,  France,  Italy,  Luxembourg,  the Netherlands) signed a treaty to run heavy industries (coal and steel) under common management in 1951:

The **European Coal and Steel Community** was born, precursor of the EU.

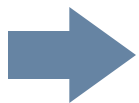
1957



[The signatories are] "determined to **lay the foundations of an ever closer union among the peoples of Europe**, resolved to ensure the economic and social progress of their countries by common action to **eliminate the barriers which divide Europe (...)**"

Preamble of the EEC Treaty

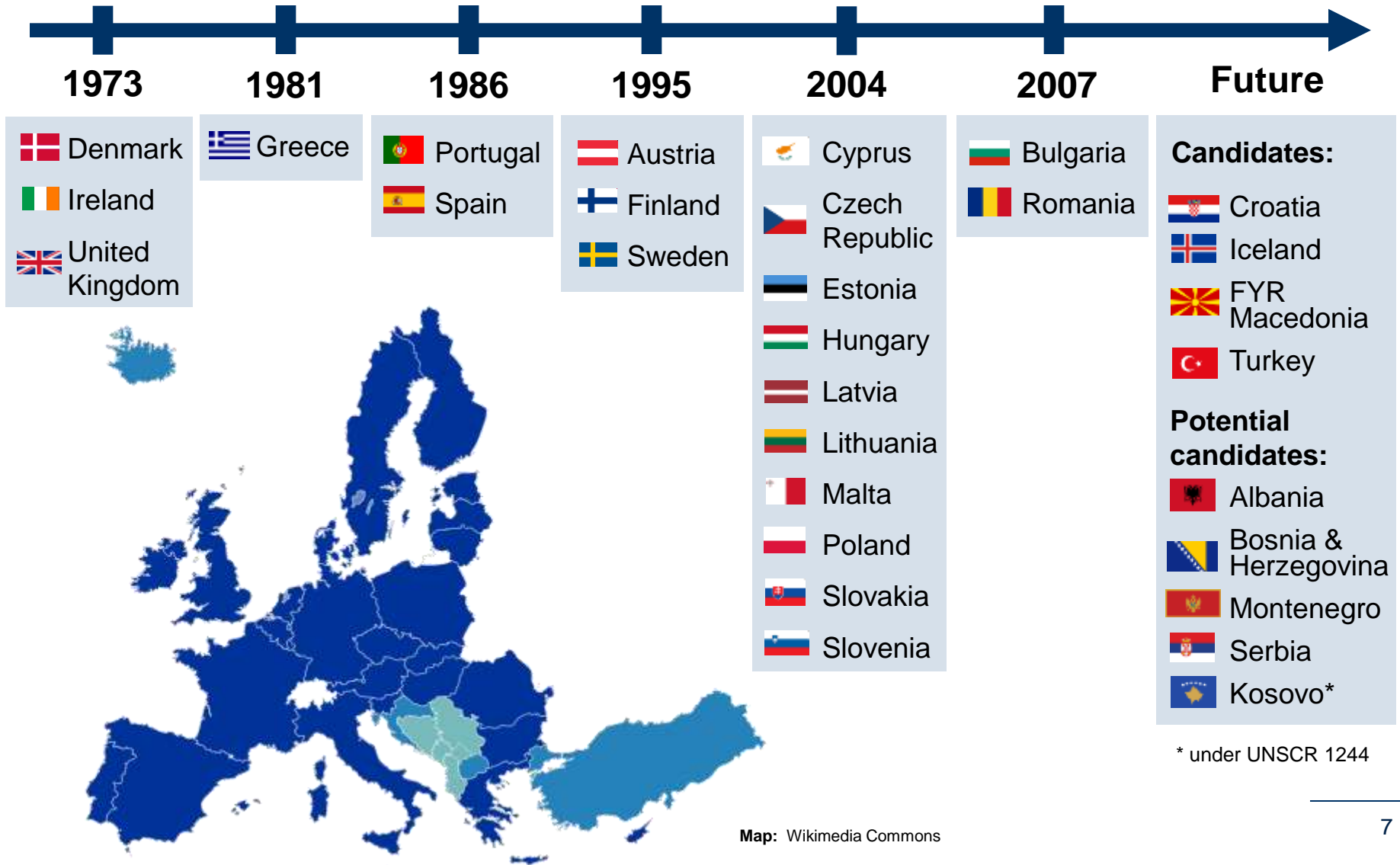
Six founding countries **expanded cooperation to other economic sectors**, creating the **European Economic Community (EEC)** – or “common market“.



Elimination of tariffs* on trade between the six original members achieved by 1968.

* A tariff is a tax on imports or exports

Widening the Union - EU Enlargements



* under UNSCR 1244

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European Commission – Promoting the Common Interest



José Manuel Barroso

President of the European Commission

- 27 Commissioners, representing the European perspective, each responsible for a specific policy area.
- EU's executive branch proposes legislation, manages Union's day-to-day business and budget, and enforces rules.
- Represents the EU on the international stage, negotiates trade agreements and manages Europe's multilateral development cooperation.



Council of the EU – Voice of the Member States

Council of the EU (Council of Ministers)

- EU's main decision-making body, comprised of ministers of 27 Member States, representing Member State's point of view.
- Decides on foreign policy issues.
- Council presidency rotates among Member States every six months.



Herman van Rompuy, President of the European Council

European Parliament

The voice of the people

- European citizens directly elect members for five-year terms.
- With the Council, passes EU laws and adopts EU budgets.
- Approves EU Commissioners.

(Parliament in session pictured below)

European Court of Justice

Upholding the Law

- Highest EU judicial authority.
- Ensures all EU laws are interpreted and applied correctly and uniformly.
- Can act as an independent policy maker and overrule national law in areas (economy, agriculture) covered by the Treaties.



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The Euro and the Economic and Monetary Union (EMU)

1986 **Single European Act**

Sets objective of establishing an internal market

1992 **Maastricht Treaty**

Sets out how to achieve EMU, lays down convergence criteria

1999 **Introduction of the euro**

The euro is officially introduced as a virtual currency in Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

2002 **Banknotes and coins**

Introduction of euro banknotes and coins, replacing national currencies



Economic integration is the cornerstone of the EU



Economic and Monetary Union (EMU) enshrined as an objective in the EU Treaties



17
member
states

The euro area – Countries share the euro as their currency, ECB sets interest rates.

27
member
states


The single market – elimination of trade and competition barriers; free movement of goods, services, capital and people

27
member
states

Enhanced policy coordination – countries maintain control over economic policy, but have to coordinate at EU level


Euro Area \neq European Union

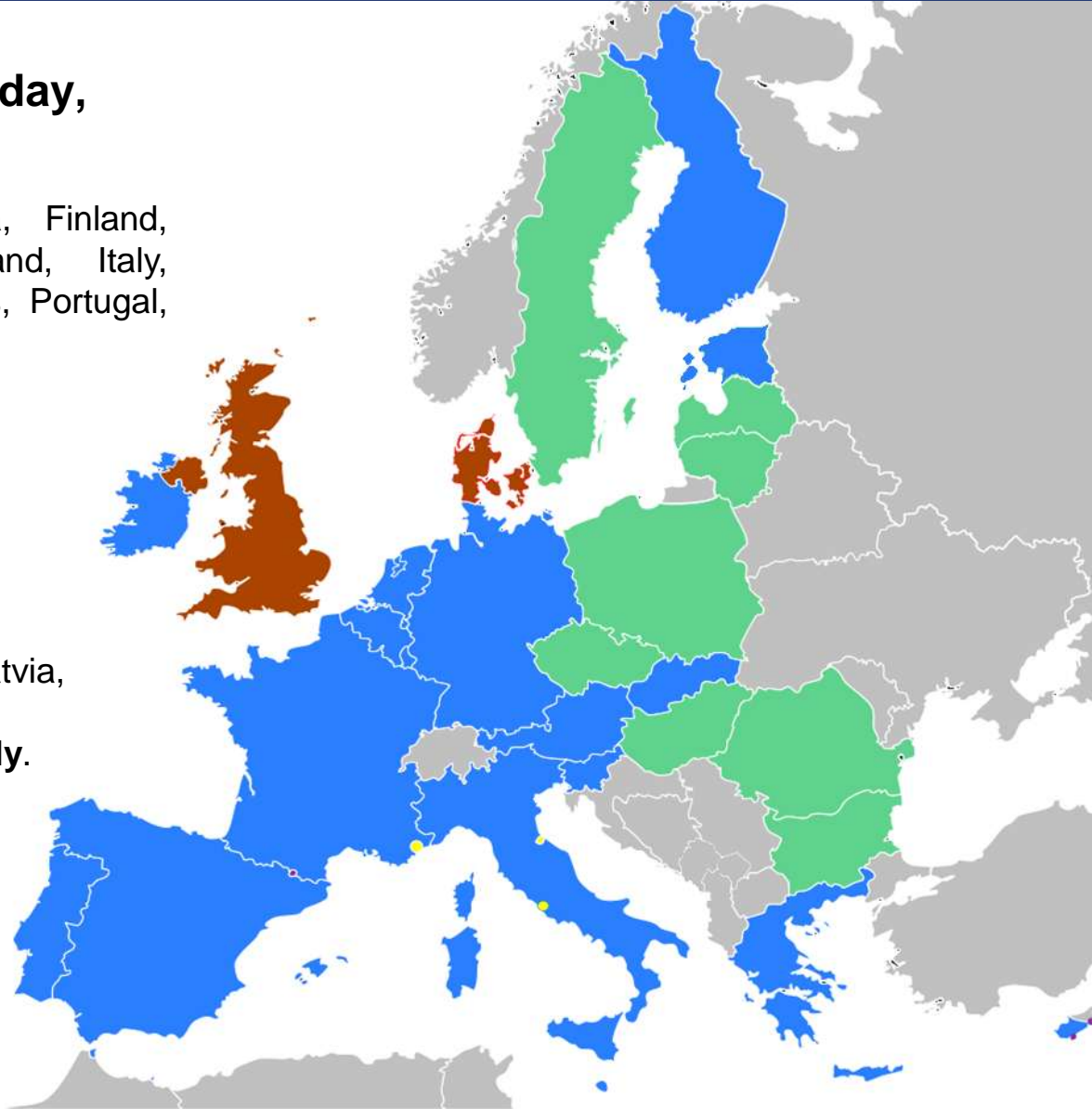
**Of the 27 EU Member States today,
17 have adopted the euro**

 Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain

What about the other 10?

 Denmark and the United Kingdom **have opted out and are not obliged to adopt the euro.**

 Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Sweden **will have to adopt the euro eventually.**



What Are the Benefits of the Single Market?

- + Increased competition
 - Lower prices
 - Wider choice of products and services
 - More jobs

- + Easier travel

- + More opportunities to live, work and study in other EU countries



What Are the *Additional* Benefits and “Costs” of Adopting the Euro?

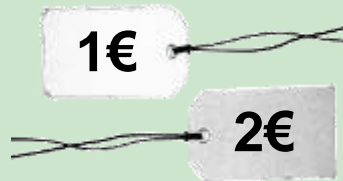
Price stability and security of purchasing power



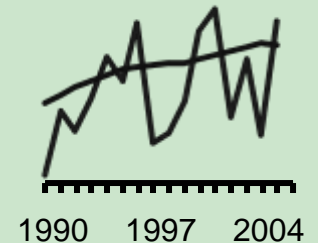
Elimination of transaction costs



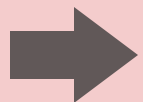
Price transparency across countries



Elimination of exchange rate risks



Countries can no longer change their **interest rate** or their **exchange rate**.



Countries **cannot have an independent monetary policy!**

How Do Countries Qualify for Membership of the Euro Area?

Countries must fulfill the convergence (or “Maastricht”) criteria



Price Stability
(low inflation)

**Interest rate
convergence**



**Public finance
discipline**
(low government
debt and deficit)

**Exchange rate
stability**



The European Central Bank – managing the Euro

- The European Central Bank (ECB) is the central bank for the euro area.
- The ECB's main task is to maintain price stability in the euro area, i.e. keep inflation low.
- This is done by steering interest rates, thereby influencing economic developments (by affecting borrowing and lending by consumers and companies)
- The ECB operates independently from Member State governments.

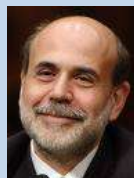


Economic policy making: the euro area and the US

US

Euro area

Monetary policy



Federal Reserve Chairman
Ben S. Bernanke



ECB President
Mario Draghi

Fiscal policy



Treasury Secretary
Timothy M. Geithner



Eurogroup Finance Ministers

➔ Economic policy co-ordination more difficult in Europe?

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The European Union and the United States



**President of the United States of America Obama with
President of the European Commission Barroso**

The European Union and the United States

Barack Obama

President of the
United States of
America



“America has no better partner than Europe. Now is the time to build new bridges across the globe as strong as the one that bound us across the Atlantic. Now is the time to join together, through constant cooperation, strong institutions, shared sacrifice, and a global commitment to progress, to meet the challenges of the 21st century.”

“The relationship between the United States and Europe is the world’s strongest, most comprehensive, and strategically important partnership. The United States, and a united Europe – this is really the indispensable partnership.”

José Manuel Barroso

President of the
European Commission



US and EU – Partners in Global Leadership



Hillary Clinton

(US Secretary of State)

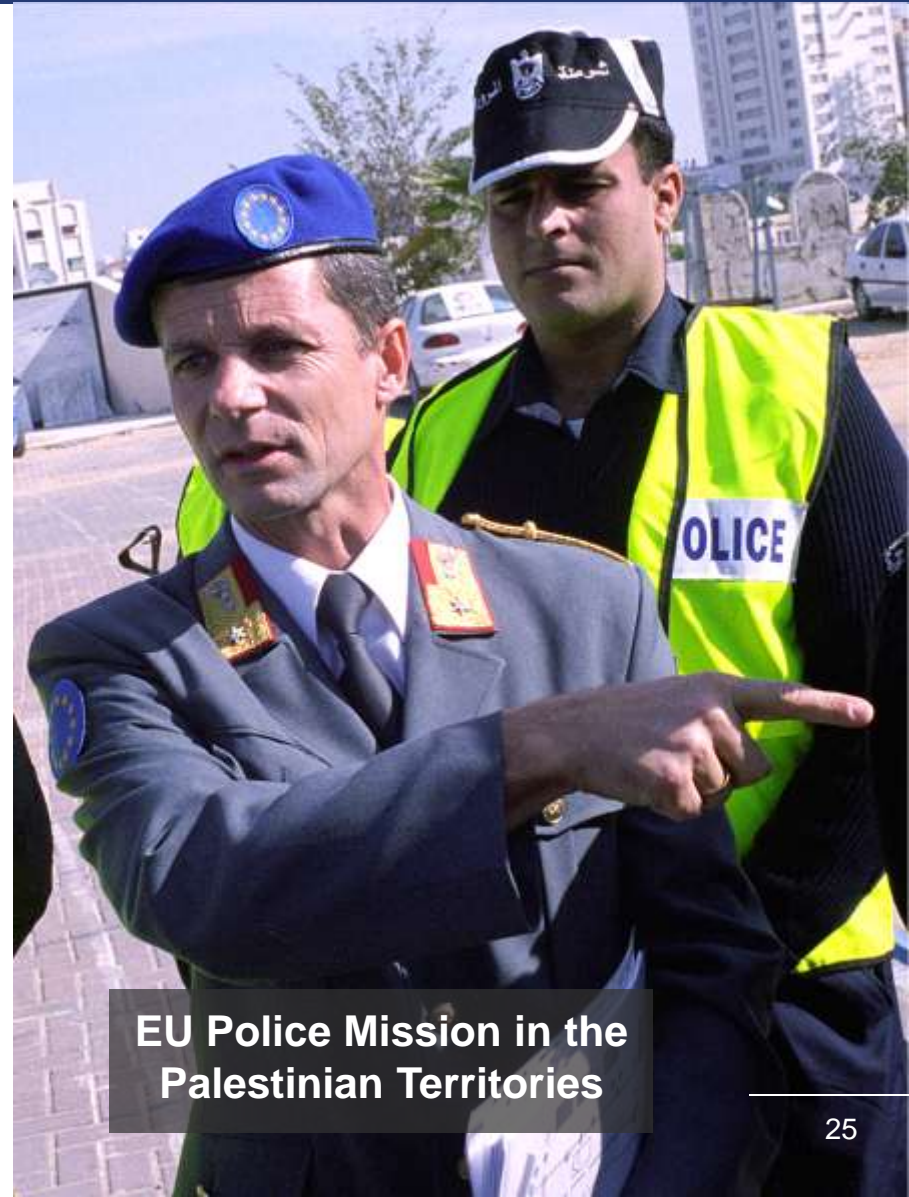
with Catherine Ashton

(EU High Representative for
Foreign Affairs and Security Policy)

- EU and U.S. work together to develop international standards:
 - Fighting terrorism and transnational crime
 - Advancing global trade liberalization
 - Combating piracy and intellectual property violations
 - Spreading benefits of globalization
- EU and its Member States are helping restore peace and stability in Afghanistan.
- EU and U.S. work together in the Middle East Quartet to advance the peace process.
- When the EU and U.S. agree, others tend to follow.

US and EU – Shared Values and Responsibilities

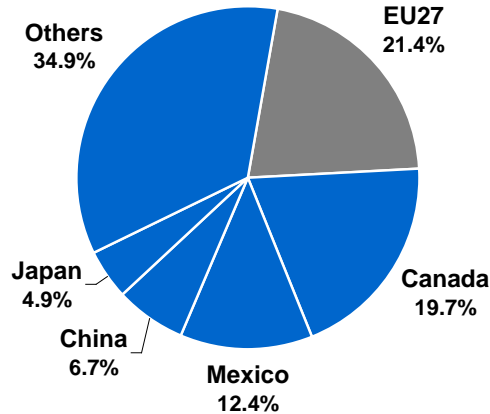
- **Freedom & Democracy**
Support free elections, good governance, human rights, and the rule of law around the world.
- **Security**
Cooperate to fight terrorism, limit the spread of nuclear weapons, and work for global peace.
- **Development**
Together, EU and U.S. provide 80% of global development assistance and an even larger share of global humanitarian aid in times of disaster and conflict.



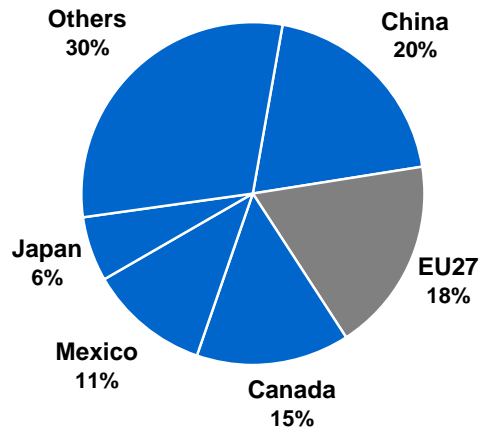
EU Police Mission in the
Palestinian Territories

US and EU – A Dynamic Transatlantic Economy

EU is the most important destination of US exports



EU is the 2nd largest source of US imports



- The EU and the US are by far the two largest economies in the world. They account together for about half the entire world economy.
- EU and U.S. together account for 40% of total global trade (more than \$1.7 billion in transatlantic trade every day).
- The \$3.75 trillion EU-U.S. transatlantic economy employs 14 million workers on both sides of the Atlantic.
- Since 2001, Europe has accounted for roughly two-thirds of total global investment flows into the U.S. – by far the most significant source of foreign investment in the U.S. economy.

US and EU – Deep Transatlantic Integration



Worker in BMW plant in
Spartanburg, SC

- **European companies** are the leading foreign investors in the U.S.
 - The UK, Germany, France, and the Netherlands – top four sources of jobs created by foreign investment in the United States.
- **American companies** invest far more in EU countries than in Asia.
 - U.S. investment in India is half of American investment in Sweden and roughly the same as in Poland, the Czech Republic, and Hungary
 - Between 2000 and 2008, US firms invested \$26.4 billion in China, less than U.S. investment in Belgium and less than half of American investment in Ireland

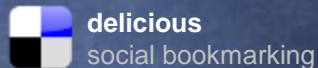
Good luck for the Euro Challenge 2012!



“The Euro Challenge
High School Competition”



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delicious.com/eurochallenge