

ECON 414- EUROPEAN ECONOMY

Course Book : European Economic Integration, 4th Edition, Franck McDonald ,
Stephen Dearden

Chapter 1

OBJECTIVES :

By the end of this chapter, students should understand :

LEARNING

- *market integration and internal market issues
- *theories of integration
- *defining economic integration
- free trade area
- customs union
- single market
- eurozone
- fiscal union

KEY POINTS :

- *EU and its member states have been engaged in a process of market integration over a long period
- *an initial key objective of economic integration has been the removal or elimination of barriers between member states' markets
- *to form a basis for deeper integration, in 2006 the European Commission decided to launch a Single Market Review to redefine the strategy and to give the process a new impetus
- *one of the new agreed approaches towards the single market of the 21st century is a shift from the initial emphasis on removing barriers to trade to one of making sure that markets function better and benefit consumers and businesses
- *the removal of barriers was targeted at creating a large integrated market for goods and services, enabling the realisation of economies of scale
- *it was also aimed at providing more incentives for European producers to invest in product and process innovations
- *for European consumers, the internal market also seen as a source of benefits through wider choice and lower prices

- *the important debate between neofunctionalism and (liberal) intergovernmentalism still remains central in understanding the development and set-backs of the EU
- *today there is a relatively new focus on the complex policy making in the EU and Multi-level governance trying to produce a theory of the workings and development of the EU
- *EU operates a single economic market across the territory of all its members, and uses a single currency between the Eurozone members
- *EU has a number of economic relationships with nations that are not formally part of the Union through the European Economic Area and custom union agreements
- *the creation of the EEC eliminated tariffs, quotas and preferences on goods among member states, which are the requisites to define a free trade area
- *EU customs union defines an area where no customs are levied on goods travelling within it
- *a prominent goal of the EU since its creation by the Maastricht Treaty in 1992 is establishing and maintaining a single market
- *single market seeks to guarantee the four basic freedoms, which are related to ensure the free movement of goods, services, capital, and people around the EU's internal market
- *Eurozone refers to the EU member states that have adopted the euro currency union as the third stage of the European Economic and Monetary Union
- *a total 25 states, including 19 EU states and six non-EU members, currently use the euro
- *In the wake of the European sovereign debt crisis, calls for closer fiscal ties, possibly leading to some sort of fiscal union have increased; though it is generally regarded as implausible in the short term, some analysts regard fiscal union as a long-term necessity

Chapter 2

OBJECTIVES :

At the end of this chapter, students should understand :

LEARNING :

- *EU institutions and bodies
- *the commission
- *the council
- *the european Parliament

- *the economic and social committee
- *the european central bank
- *the european investment bank
- *the european court of justice
- *the court of auditors

KEY POINTS :

- *EU has a unique institutional structure
- *EU member nations delegate sovereignty in specific areas to independent institutions, entrusting them with defending the interests of the EU as well as of both its member states and citizens
- *commission initiates EU policy by proposing new legislation to the Council and parliament
- *council of the EU upholds those of the governments of the member nations through their ministerial representatives
- *european parliament upholds those of the EU citizens, who directly elect its members
- *european central bank lies at the very heart of the eurosystem whose primary task is to ensure price stability in the eurozone
- *investment bank's activities promote EU integration in a wider sense. This is because about 10% of its funding goes to projects in applicant countries, Mediterranean nations and the Caribbean and Pacific countries as well as to some Asian and Latin American nations for ventures of common interest
- *european court of justice is vital for guiding national courts in their interpretation of EU law, hence for ensuring that EU legislation is uniformly applied
- *the main function of the court of auditors is to ensure that the EU budget is properly implemented, i.e. it is entrusted with the external monitoring of EU revenues and expenditures

Chapter 3

OBJECTIVES :

By the end of this chapter, students should understand :

LEARNING

- *the Maastricht treaty and the road to economic and monetary union (EMU)
- *the eurosystem and the euro
- *benefits and costs of EMU
- *completing the EMU

KEY POINTS :

*Maastricht criteria (known as the convergence criteria) are the criteria for EU member states to enter the third stage of EMU and adopt the euro as their currency

*the four criteria are defined in article 121 of the treaty establishing the European community . They impose control over inflation, public debt and the public deficit, exchange rate stability and the convergence of interest rates

*all 28 EU member states take part in the economic union, some countries have taken integration further and adopted the euro , together these countries make up the euro area

*economic integration brings the benefits of greater size, internal efficiency and robustness to the EU economy as a whole and to the economies of the individual member states

*EMU offers opportunities for economic stability, higher growth and more employment – outcomes of direct to EU citizens

*EMU means;

-coordination of economic policy-making between member states

-coordination of fiscal policies, notably through limits on government debt and deficit

-an independent monetary policy run by the ECB

-single rules and supervision of financial institutions within the euro area

-single currency and the euro area

*Eurogroup, coordinates policies of common interest for the euro-area member states

*eurosystem consist of the ECB and the central banks of the member states that belong to the eurozone (their function is to apply the monetary policy decided by the ECB)

*the primary objective of the eurosystem is price stability, secondary objectives are financial stability and financial integration

*euro is the official currency of the eurozone, which consists of 19 of the 28 member states of the EU

*euro is the second largest reserve currency as well as the second most traded currency in the world after the US dollar

*following the outbreak of the economic and financial crisis, the EU took unprecedented measures to improve the economic governance framework of EMU (such as the strengthening of the Stability and Growth Pact or the adoption of new mechanism to prevent economic imbalances and better coordinate economic policies)

*the presidents of five European institutions laid down a roadmap to deepen the EMU in two stages as of July 2015 and complete it by 2025 at the latest

Chapter 4

OBJECTIVES :

At the end of this chapter, students should understand :

*budget of the EU (main concepts,structure and principles)

*revenue : where the money comes from

*expenditure : how the money is spent

*EU budget 2015 – 2016

KEY POINTS :

*Every year the European Commission tables a draft EU budget. It proposes how to distribute the amounts under the different areas of spending (headings) according to the political priorities of the EU and within the limits set by the 2014-2020 Multiannual Financial Framework, the seven-year budget cycle of the EU

*EU budget is used in areas where it makes sense to pool resources for the good of Europe as a whole, such as :

-improving transport, energy and communications links between EU countries

-protecting the environment Europe-wide

-making the European economy more competitive globally

-helping European scientists and researchers join forces across borders

*the lion's share of the EU budget supports growth and jobs. Another significant share goes on agriculture and rural development (2015)

*the EU budget for 2016; biggest increases in political priority areas such as competitiveness for growth and jobs, security and citizenship (including migration) and global action (including humanitarian aid and crisis management and European neighbourhood policy)

*EU budget :

- is funded chiefly (99%) from the EU's own resources, supplemented by other sources of revenue

-is based on the principle that expenditure must be matched by revenue

-has in-built schemes to compensate certain EU countries

-own resources account for 99% of the budget, they are not allowed to exceed 1.23% of the EU's gross national income

-the remaining 1% of budget revenue comes from other sources of income

*Revenue (sources of income) :GNI,VAT,traditional own resources,other

Chapter 5

OBJECTIVES :

By the end of this chapter,students should understand :

*eu competition law

- *cartels and collusion
- *mergers and monopolisation
- *state policy

KEY POINTS :

- *eu competition law concerns regulation of competitive markets in the EU, particularly to ensure that corporations do not create cartels and monopolies that would damage the economic interests of society
- *eu competition law today derives from articles 101 to 109 of the Treaty on the functioning of the EU, as well as a series of Regulations and Directives
- four main policy areas include :
 - cartels, or control of collusion and other anti-competitive practices, under article 101 of the Treaty on the Functioning of the EU (TFEU)
 - market dominance, or preventing the abuse of firms' dominant market positions under article 102 TFEU
 - mergers, control of proposed mergers, acquisitions and joint ventures involving companies that have a certain, defined amount of turnover in the EU, according to the merger regulation
 - state aid, control of direct and indirect aid given member states of the EU to companies under TFEU article 107
- *EU is made up of independent member states, both competition policy and the creation of the european single market could be rendered ineffective were member states free to support national companies as they saw fit
- *a 2013 Civitas report lists some of the artifices used by participants to skirt the state aid rules on procurement
- *possibly the least contentious function of competition law is to control cartels among private businesses
- *all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between member states and which have as their object or effect the prevention, restriction or distortion of competition within the common market (Article 101- 1)
- *the european commission became able not only to regulate the behaviour of large firms it claims abuse their dominant positions or market power, but also the possibility of firms gaining the position within the market structure that enables them to behave abusively in the first place
- *competition law requires that firms proposing to merge gain authorisation from the relevant government authority, or simply go ahead but face the prospect of demerger should the concentration later be found to lessen competition

*state aid law is an important issue for all public sector organisations and recipients of public sector support in the EU, because unlawful aid can be clawed back with compound interest

Chapter 6

OBJECTIVES :

At the end of this chapter, students should understand :

*What is the EU industrial policy ?

*types of industrial policy

*industrial policy in the treaties

*competitiveness EU industrial policy

KEY POINTS :

*EU industrial policy aims to stimulate growth and competitiveness in the manufacturing sector and the EU economy as a whole

*the integrated industrial policy includes a full range of EU priorities such as trade, innovation and energy, which impact industrial competitiveness

*industrial policy can be based on three different approaches ; horizontal, vertical and mixed industrial policy.

*the first treaty provision for industrial policy was in the Treaty of Paris. The treaty of Rome scarcely mentions industrial policy

*EU industrial policy include :

-fostering competitiveness

-encouraging innovation by supporting actions related to innovation and research

-promoting businesses that produce in a sustainable and socially responsible way

-working to ensure that enterprise and industry has access to resources, including finance, skilled labour, energy, and raw materials

-a well-functioning internal market

-promoting a business friendly environment

-supporting the internationalisation of EU enterprise and industrial goods and services

-providing support for the protection of intellectual property rights

* Internal market and services directorate general, industry, entrepreneurship and SMEs is committed to helping EU enterprise and industry be competitive and generate growth and new jobs

*the aim is that industry accounts for approximately 20% of GDP by 2020, from 15.1% currently

*EU has become concerned with promoting competitiveness and innovation among European firms and the conditions under which SMEs can flourish. This

has led to the development of a rationale for EU strategic industrial policies for three main reasons (Navarro, 2003)

Chapter 7

OBJECTIVES :

By the end of this chapter, students should understand :

- *why is tax harmonization necessary ?

- *the principles of tax harmonization

- *EU's experience of tax

- *tax harmonization

KEY POINTS :

- *the current EU taxation framework leaves member states free to decide on their tax systems provided they comply with EU rules

- *the development of EU tax provisions is linked with the completion and proper functioning of the single market, with indirect taxes addressed earlier and more in-depth than direct taxes

- *taxation provides revenues for national budgets emanating from national taxes, local taxes and social contributions which are levied on consumption, labour or capital

- *taxes have complex impacts and as such have consequences for multiple policies, mainly applied in the EU context to support the proper functioning of the single market

- *in competition policy, state aid provisions also apply to direct business taxation

- *tax competition favours certain taxpayers to the detriment of others, and the same holds, true for member states when they compete on taxation to attract economic activity or tax revenue .Digitalisation creates new business models and affects the economy as a whole

- *globalisation and digitalisation both trigger a need to update and adapt tax systems.They offer the opportunity to modernise tax systems generally considered as complex and consequently having the side effect to creating undesirable potential for avoidance and evasion

- *tax restructuring must serve to stimulate growth, in particular by altering the way the tax burden is split between labour and consumption and preferring tax-base broadening over raising tax rates

- *fighting tax evasion and tax fraud, and the related opacity and secrecy, requires actions at EU and international level.These aims to increase transparency, which can contribute to reducing the available space for such behaviour

- *tackling harmful tax competition and aggressive tax planning is a major aim of cooperation at EU level, in particular in business taxation, where the objective

is to reduce the number of loopholes stemming from the complex array of rules, assessment bases and rates which may apply to a single firm

Chapter 8

OBJECTIVES :

At the end of this chapter, students should understand :

- *the development of transport policy

- *infrastructure

- *the railways

KEY POINTS :

- *a key sector of the economy, transport is a major contributor to the economy,(4.8 % for the 28 EU countries), and sustains over 11 million jobs in Europe

- *the European Commission aims to develop and promote transport policies that are efficient, safe, secure and sustainable, to create the conditions for a competitive industry that generates jobs and prosperity

- *EU policy seeks to help transport systems meet the major challenges facing them

- congestion affects both road and air traffic it costs Europe around 1% of annual GDP

- oil dependency-despite improvements in energy efficiency, transport still depends on oil for 96% of its energy needs

- greenhouse gas emissions-by 2050 the EU must cut transport emissions by 60%

- infrastructure-quality is uneven across the EU

- competition-the EU's transport sector faces growing competition from fast developing transport markets in other regions

- *Europe's transport sector leading to ;

- safer skies, seas and roads

- decent working hours for people travellers and business

- less pollution

- technological progress towards cleaner transport

- *more competition :

- road : lorries can now operate in countries other than their country of registration

- air : flying is becoming easier and cheaper with new airlines

- *EU travellers are protected by the best passenger rights in the world, which covers all means of transportation ; planes, trains, ships and buses or coaches

Chapter 9

OBJECTIVES :

By the end of this chapter, students should understand :

- *EU energy policy

*the treaties and energy

*energy crises

*the new energy policy:competition and the environment

KEY POINTS :

*EU Treaty of Lisbon 2007 legally includes solidarity in matters of energy supply and changes to the energy policy with the EU

*prior to the Treaty of Lisbon, EU energy legislation has been based on the EU authority in the area of the common market and environment

*in January 2014, the EU agreed to a 40% emissions reduction by 2030, compared to 1990 levels, and 27 % renewable energy target

*the Energy Union Strategy is a project of the European Commission to coordinate the transformation of European energy supply .It was launched in February 2015, with the aim of providing secure,sustainable,competitive, affordable energy

* the European Council concluded on March 19, 2015 that the EU is committed to building an Energy Union with a forward looking climate policy on the basis of the Commission's framework strategy, with five priority dimensions :

-energy security, so solidarity and trust

-a fully integrated European energy market

-energy efficiency contributing to moderation of demand

-decarbonising the economy

-research, innovation and competitiveness

*the strategy includes a minimum 10% electricity interconnection target for all member states by 2020, which the Commission hopes will put downward pressure on energy prices, reduce the need to build new power plants, the risk of black-outs, improve the reliability of renewable energy supplies, and encourage market integration

Chapter 10

OBJECTIVES :

At the end of this chapter,students should understand :

*EU's environmental policy

*environmental protection

*EU as a global environmental actor

KEY POINTS :

*EU's environmental legislation addresses issues such as acid rain,the thinning of the ozone layer,air quality, noise pollution,waste and water pollution

*the institute of European Environmental Policy estimates the body of EU environmental law amounts to well over 500 directives,regulations and decisions

*EU environmental policy is shaped by a variety of actors including all of the main EU institutions as well as lobby groups which make up the wider Brussels policy making community

*Chapter

*a new Europe 2020 strategy replaced the Lisbon strategy in 2010; it reduced the environmental dimension to energy and resource efficiency

*the Water Framework Directive is an example of a water policy, aiming for rivers, lakes, ground and coastal waters to be of “good quality” by 2015

Chapter 11

OBJECTIVES :

By the end of this chapter, students should understand :

*the common agricultural policy

*changes in farm policy

*funding European farming

KEY POINTS :

*EU farm policy-the common agricultural policy- serves many purposes :

-help farmers produce sufficient quantities of food for Europe

-protects farmers from excessive price volatility and market crises

-help them invest in modernising their farms

-sustains viable rural communities, with diverse economies

-creates and maintains jobs in the food industry

-protects the environment and animal welfare

*EU farm policy evolved considerably in recent decades to help farmers face challenges and also in response to changing public attitudes

*the most recent reforms, in 2013, shifted the focus towards ;

-greener farming practices

-research and the spread of knowledge

*a fairer support system for farmers

-a stronger position for farmers in the food chain