

# From Europe to the Euro

2012 Euro Challenge Student Orientation  
Florida International University  
December 6<sup>th</sup>, 2011

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*Washington, DC*

[www.euro-challenge.org](http://www.euro-challenge.org)



## 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 km<sup>2</sup>  
total surface area

**20%** of global  
exports and imports



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## 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

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### 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.

Images: National Archives of the United States, German Federal Archive

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### 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*

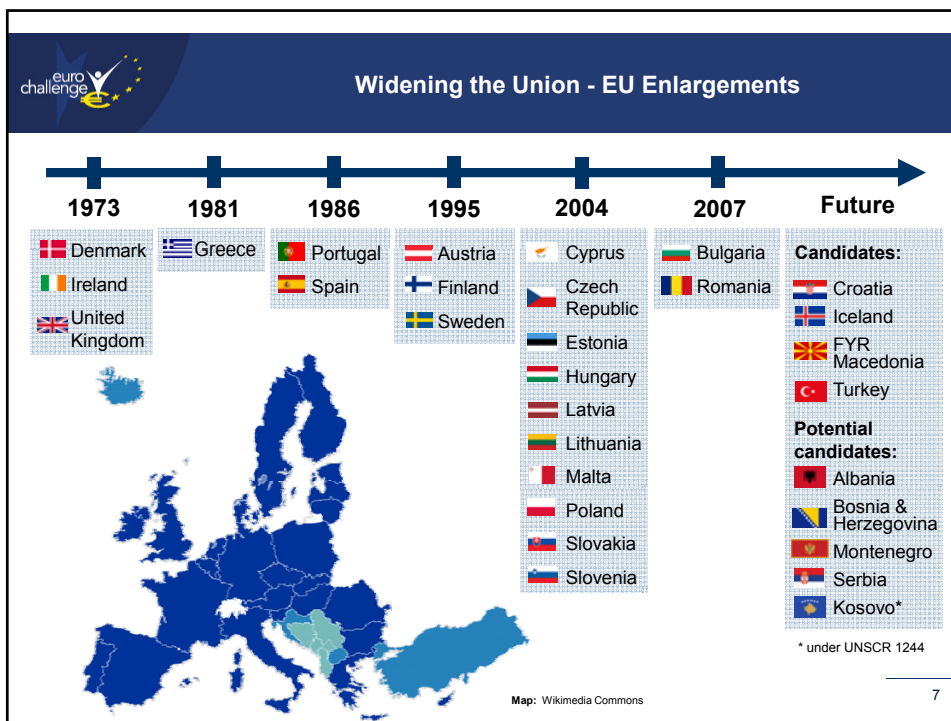
Six founding countries **expanded cooperation to other economic sectors**, creating the **European Economic Community (EEC)** – or "common market".



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

\* A tariff is a tax on imports or exports

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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.

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## 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 and European Court of Justice

### 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



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## EMU? Euro? Single Market? Some Definitions...

*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 ≠ European Union

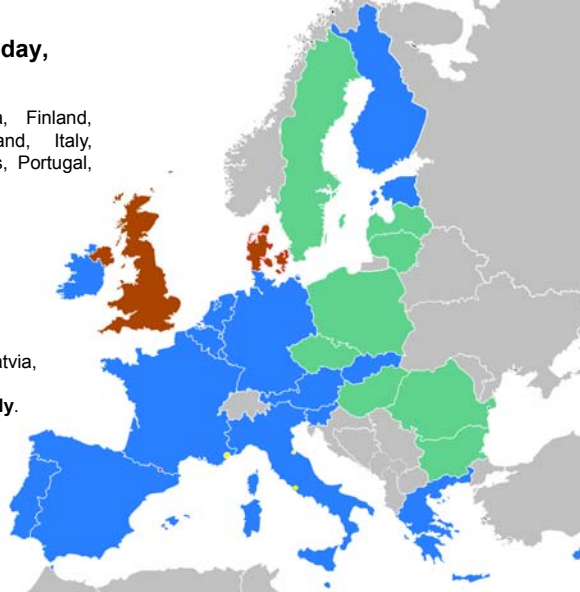
**Of the 27 EU Member States today,  
17 have adopted the euro**

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.**



Map: Wikimedia Commons

## 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?

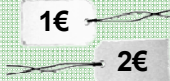
**Price stability and security of purchasing power**



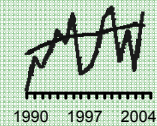
**Elimination of transaction costs**



**Price transparency across countries**



**Elimination of exchange rate risks**



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

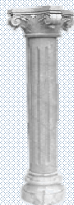


Countries **cannot have an independent monetary policy!**

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## 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**



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## 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.



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## The euro area's economic model

**A single monetary policy  
run by the ECB**



**Fiscal and other policies  
remain in national hands**



**How well has this model worked in the crisis?**

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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

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## 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."*

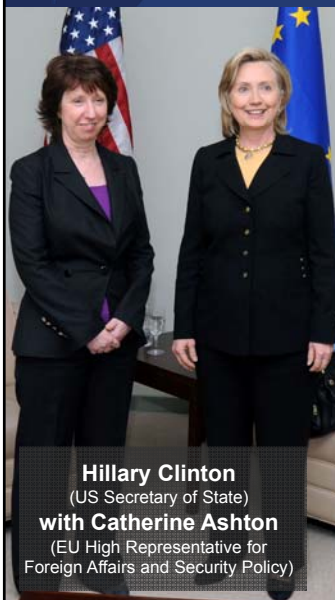
*"The relationship between the United States and Europe is the world's strongest, most comprehensive, and strategically important partnership. The United States, and a united Europe – this is really the indispensable partnership."*

**José Manuel Barroso**  
President of the  
European Commission



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## 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.

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## 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.

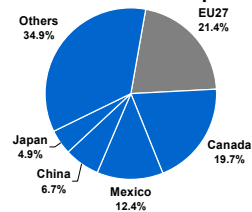


EU Police Mission in the  
Palestinian Territories

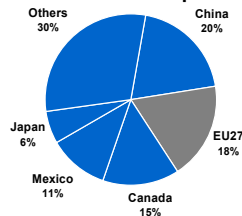
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## US and EU – A Dynamic Transatlantic Economy

### EU is the most important destination of US exports



### EU is the 2<sup>nd</sup> largest source of US imports



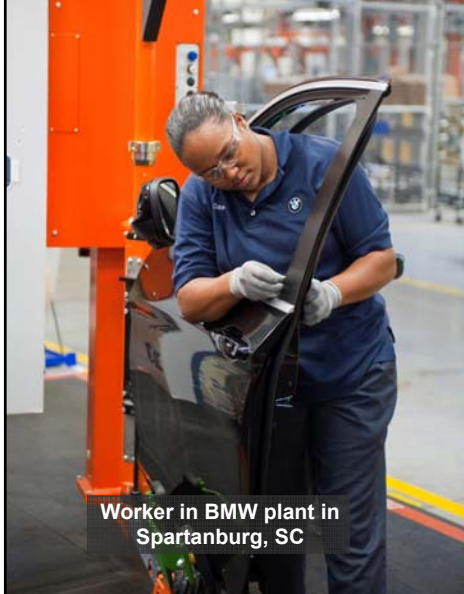
- The EU and the US are by far the two largest economies in the world. They account together for about half the entire world economy.
- EU and U.S. together account for 40% of total global trade (more than \$1.7 billion in transatlantic trade every day).
- The \$3.75 trillion EU-U.S. transatlantic economy 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.

Source: Eurostat, data for 2009

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## 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

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## Good luck for the Euro Challenge 2012!



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High School Competition"

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