



# **EURO** CHALLENGE

## 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 region in the world.
- World's most successful model for advancing peace and democracy (2012 Nobel Peace Prize winner).
- World's largest donor providing assistance to developing countries.



# Sizing up the European Union

**28** member states

over **500** million  
combined population

**24** official  
languages

**22%**  
of global GDP

**4.3** million km<sup>2</sup>  
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 €uro Currency and the Monetary Union***

- United in Diversity



## ***The European Union and the United States***

- Partners in Global Leadership

# The Plan for a Peaceful Europe After WWII: Coal and Steel

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.

# The Rome Treaties Set the Stage for Further Widening and Deepening

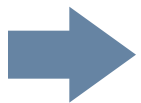
**1957**



[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



1973

1981

1986

1995

2004

2007

2013

 Denmark  
 Ireland  
 United Kingdom

 Greece

 Portugal  
 Spain

 Austria  
 Finland  
 Sweden

 Cyprus  
 Czech Republic  
 Estonia  
 Hungary  
 Latvia  
 Lithuania  
 Malta  
 Poland  
 Slovakia  
 Slovenia



 Bulgaria  
 Romania

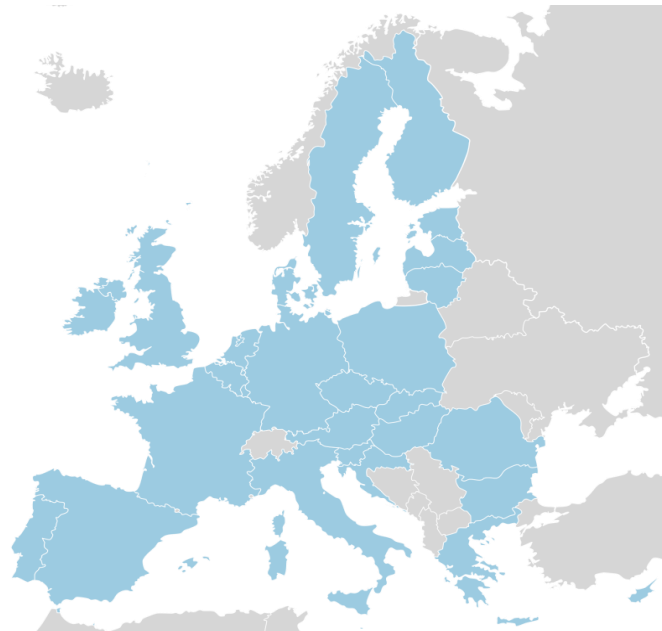
 Croatia

## Candidate Countries:

 Albania  
 FYR Macedonia  
 Turkey  
 Serbia  
 Montenegro

## Potential Candidate Countries:

 Bosnia & Herzegovina  
 Kosovo\*



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# European Commission – Promoting the Common Interest



**Jean-Claude Juncker**  
President of the European Commission

- 28 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.
- Negotiates trade agreements and manages Europe's multilateral development cooperation.

## **Council of the EU (Council of Ministers by field, e.g., agriculture, foreign policy, economy)**

- EU's main decision-making body, comprised of ministers of 28 Member States, representing Member State's point of view.
- European Council meets at the level of heads of state and government to set the main political direction of the EU.
- The President represents the Council for a 2 ½ year term (renewable one); but a country “presidency” rotates among Member States every six months.

# 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.

## 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.

*(Parliament in session pictured below)*



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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



# 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



**19**  
member  
states

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

**28**  
member  
states

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

**28**  
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 28 EU Member States today,  
19 have adopted the euro**

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

**What about the other 9?**

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

Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, and Sweden  
**aim to adopt the euro eventually, when  
they are ready.**



# 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



# Benefits & Cost of Adopting the Euro

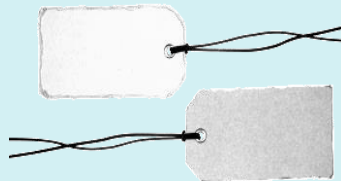
**Price stability and security of purchasing power**



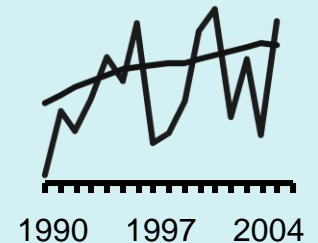
**Elimination of transaction costs**



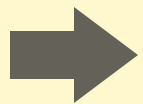
**Price transparency across countries**



**Elimination of exchange rate risks**



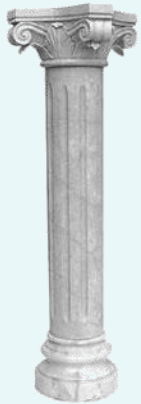
**Interest rates are set for the euro area as a whole**



**Individual countries give up the ability to set their own 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

- 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: Euro Area and the U.S.

US

Euro area

Monetary  
policy



Fed Chair: Janet Yellen



ECB President: Mario Draghi

Fiscal  
policy



Treasury Secretary  
Steven Mnuchin + Congress



Eurogroup Finance Ministers

➔ Eurogroup: economic policy co-ordination is required

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# US and EU – Partner in Global Leadership



**Federica Mogherini**

(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.



# US and EU – A Dynamic Transatlantic Economy

- Together, the EU and the US account for nearly half of world GDP and generate more than a billion dollars in transatlantic trade every day.
- The transatlantic economy employs 15 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.





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# Good luck in the 2018 Euro Challenge!