European Union and the monetary union

The **European Union** (**EU**) is an economic and political union of 28 member states which are located primarily in Europe. The EU traces its origins from the *European Coal and Steel Community (ECSC)* and the *European Economic Community (EEC)* formed by six countries in the 1950s. In the intervening years the EU has grown in size by the accession of new member states, and in power by the addition of policy areas to its remit. The Maastricht Treaty established the European Union under its current name in 1993. The last amendment to the constitutional basis of the EU, the Treaty of Lisbon, came into force in 2009. The EU operates through a hybrid system of supranational independent institutions and intergovernmentally made decisions negotiated by the member states. Important institutions of the EU include the European Commission, the Council of the European Union, the European Council, the Court of Justice of the European Union, and the European Central Bank. The European Parliament is elected every five years by EU citizens. The EU has developed a single market through a standardised system of laws which apply in all member states including the abolition of passport controls within the Schengen area. It ensures the free movement of people, goods, services, and capital, enacts legislation in justice and home affairs, and maintains common policies on trade, agriculture, fisheries and regional development. A monetary union, the euro zone, was established in 1999 and is currently composed of seventeen member states. Through the Common Foreign and Security Policy the EU has developed a limited role in external relations and defence.

1957 **The Rome Treaty**: France, Germany, Italy, Belgium, the Netherlands and Luxembourg sign this treaty and form the European Economic Community. The objective is to strengthen the economies and the currencies of the member states against external competition. The EEC, generally called the Common Market, later becomes known as the European Community (EC).

1985 **The Schengen Treaty**: Belgium, France, Germany, Luxembourg and the Netherlands decide that they want to remove the frontier controls between them and introduce freedom of movement for people between their countries

1992 **The Maastricht Treaty**: the EEC is now to be known as the European (EU) and to Develop from a

mere economic community into a political union. The proposal of the treaty includes a standardisation of labour laws and workers' rights, the establishment of a centralised banking system, and the adoption of standard tax rates across the EU.An important innovation is the free movement of persons; Union citizens can travel, reside, study and work wherever they wish in the Union.
It is agreed that, from December 31St 1992, the EU becomes a Single Market. Is called ' the free movement of goods, capital, services and people'. The treaty also aims to the replacement of individual national currencies with a single EU currency

1997 **The Amsterdam Treaty**: it strengthens the Union policies and powers, particularly in judicial cooperation, the free movement of person, foreign policy and public health. Revelance is given to the rights of individuals such as combating discrimination, poverty and eliminating inequalitiers between men and women. The states create an 'area of freedom, security and justice' working, for example, together on the status of refugees, to combat terrorism and drug-trafficking.

The European Institutions

The European Parliament has got 626 members; It is elected for five years by direct universal suffrage; the Parliament normally meets in Strasbourg. Its Powers are : legislative power-it can make laws; budgetary power-it approves the Union's every year; supervision of the executive. **The European Council** called the 'European Summit is composed of the Heads of State and Government; It meets twice a year. **The European Commission s a** the executive institution made up of twenty members.Its **Powers are :** to ensure that the treaties are observed; to propose European legislation; to administer Union policies and international trade relations. **The Council of Ministers** is the principal decision-making institution of the EU; It shares executive power with the Commission; It is made up of Member States' government ministers for each specific area (agriculture, finance, transport, etc.). **The Court of Justice -** ensures that law is observed in the interpretation and application of the Treaties. **The Court of Auditors** is responsible for checking that the EU spends its money according to its budgetary rules and regulations. **The decision-making process :**

- The European Commission makes proposals for new laws.
- The European Parliament gives its opinions about the proposals and suggests amendments.
- Other bodies are consulted. For instance the **Economic and Social Committee**, which provides advice on various economic and social aspects, and the **Committee of the Regions**, which consists of representatives from individual countries.
- The Council of Ministers votes in the new laws.

MEMBER STATES **-** The European Union is composed of 27 sovereign MemberStates: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic,Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands,Poland, Portugal, Republic of Ireland, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. There are other official candidates .

Legal System - The EU is based on a series of treaties. These are power-giving treaties which set broad policy goals and establish institutions with the necessary legal powers to implement those goals. These legal powers include the ability to enact legislation which can directly affect all member states and their inhabitants. **Fundamental rights -** The treaties declare that the EU itself is "founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities ... in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail." In 2009 the Lisbon Treaty gave legal effect to the Charter of Fundamental Rights of the European Union. The EU also promoted human rights issues in the wider world. The EU opposes the death penalty and has proposed its world wide abolition. Abolition of the death penalty is a condition for EU membership. **Acts -** The main legal acts of the EU come in three forms: regulations, directives, and decisions. Regulations become law in all member states the moment they come into force. Directives require member states to achieve a certain result while leaving them discretion as to how to achieve the result. Decisions offer an alternative to the two above modes of legislation. They are legal acts which only apply to specified individuals, companies or a particular member state. **Justice and Home affairs -** Since the creation of the EU in 1993, it has developed its competencies in the area of justice and home affairs. To this end, agencies have been established that co-ordinate associated actions: Europol for co-operation of police forces, Eurojustfor co-operation between prosecutors, and Frontex for co-operation between border control authorities. The EU also operates the Schengen Information System which provides a common database for police and immigration authorities. This cooperation had to particularly be developed with the advent of open borders through the Schengen Agreement and the associated cross border crime. Furthermore, the Union has legislated in areas such as extradition, family law, asylum law, and criminal justice. **Foreign Relations -** Steps for a more wide ranging coordination in foreign relations began in 1970 with the establishment of European Political Cooperation which created an informal consultation process between member states with the aim of forming common foreign policies. It was not, however, until 1987 when European Political Cooperation was introduced on a formal basis by the Single European Act. EPC was renamed as the Common Foreign and Security Policy (CFSP) by the Maastricht Treaty. The aims are to promote both the EU's own interests and those of the international community as a whole, including the furtherance of international co-operation, respect for human rights, democracy, and the rule of law. **Military -** The European Union does not have one unified military. The predecessors of the European Union were not devised as a strong military alliance because NATO was largely seen as appropriate and sufficient for defence purposes. Following the Kosovo War in 1999, the European Council agreed that "the Union must have the capacity for autonomous action, backed by credible military forces, the means to decide to use them, and the readiness to do so, in order to respond to international crises without prejudice to actions by NATO". EU forces have been deployed on peacekeeping missions from Africa to the former Yugoslavia and the Middle East.

Internal market - The single market involves the free circulation of goods, capital, people and services within the EU, and the customs union involves the application of a common external tariff on all goods entering the market. Once goods have been admitted into the market they cannot be subjected to customs duties, discriminatory taxes or import quotas, as they travel internally.

The **euro** (Greek: Ευρώ, Evró) (sign: €; code: **EUR**) is the official currency of the eurozone: 17 of the 27 member states of the European Union. It is also the currency used by the Institutions of the European Union. The eurozone consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. The currency is also used in a further five European countries and consequently used daily by some 332 million Europeans. Additionally, over 175 million people worldwide - including 150 million people in Africa - use currencies which are pegged to the euro. The euro is the second largest reserve currency as well as the second most traded currency in the world after the United States dollar. As of November 2011, with nearly €891 billion in circulation, the euro has the highest combined value of banknotes and coins in circulation in the world, having surpassed the US dollar. Based on International Monetary Fund estimates of 2008 GDP and purchasing power parity among the various currencies, the eurozone is the second largest economy in the world. The name *euro* was officially adopted on 16 December 1995. The euro was introduced to world financial markets as an accounting currency on 1 January 1999, replacing the former European Currency Unit (ECU) at a ratio of 1:1. Euro coins and banknotes entered circulation on 1 January 2002. Since late 2009 the euro has been immersed in the European sovereign debt crisis which has led to the creation of the European Financial Stability Facility as well as other reforms aimed at stabilizing the currency.

Monetary union - The creation of a European single currency became an official objective of the European Economic Community in 1969. However, it was only with the advent of the Maastricht Treaty in 1993 that member states were legally bound to start the monetary union no later than 1 January 1999. On this date the euro was duly launched by eleven of the then fifteen member states of the EU. It remained an accounting currency until 1 January 2002, when euro notes and coins were issued and national currencies began to phase out in the eurozone, which by then consisted of twelve member states. The **transition period** (January 1st, 1999-December 31st, 2001): The euro is the legal currency in the euro zone. Conversion rates between the euro and the old national currencies were legally fixed on January 1st, 1999. The **'dual circulation' period** (January 1st, 2002-June 30th, 2002): Euro banknotes and coins are introduced in the euro zone on January 1st, 2002. Between this date and June 30th, 2002, both euro notes and coins and the old national currency notes and coins are in use to help everyone get used to the euro. By June 30th, 2002 old national notes and coins are withdrawn from circulation. The eurozone has since grown to seventeen countries, the most recent being Estonia which joined on 1 January 2011. All other EU member states, except Denmark and the United Kingdom, are legally bound to join the euro when the convergence criteria are met, however only a few countries have set target dates for accession. Sweden has circumvented the requirement to join the euro by not meeting the membership criteria.

The euro is designed to help build a single market by, for example: easing travel of citizens and goods, eliminating exchange rateproblems, providing price transparency, creating a single financial market, price stability and low interest rates, and providing a currency used internationally and protected against shocks by the large amount of internal trade within the eurozone. It is also intended as a political symbol of integration and stimulus for more. Since its launch the euro has become the second reserve currency in the world with a quarter of foreign exchanges reserves being in euro. The euro, and the monetary policies of those who have adopted it in agreement with the EU, are under the control of the European Central Bank (ECB). The European Central Bank (ECB) is the central bank for the eurozone (consisting of the EU member states which have adopted the euro), and thus controls monetary policy in that area with an agenda to maintain price stability. It is at the centre of the European System of Central Banks, which comprehends all EU national banks, and is guided by a board comprising of the President of the European Central Bank, who is appointed by the European Council, and national bank governors. Two of the original core objectives of the European Economic Community were the development of a common market, subsequently renamed the single market, and a customs union between its member states. The single market involves the free circulation of goods, capital, people and services within the EU, and the customs union involves the application of a common external tariff on all goods entering the market. Once goods have been admitted into the market they cannot be subjected to customs duties, discriminatory taxes or import quotas, as they travel internally. The non-EU member states of Iceland,Norway, Liechtenstein and Switzerland participate in the single market but not in the customs union. Half the trade in the EU is covered by legislation harmonised by the EU. Free movement of capital is intended to permit movement of investments such as property purchases and buying of shares between countries. Until the drive towards Economic and Monetary Union the development of the capital provisions had been slow. Post-Maastricht there has been a rapidly developing corpus of ECJ judgements regarding this initially neglected freedom. The free movement of capital is unique insofar as it is granted equally to non-member states.The free movement of persons means that EU citizens can move freely between member states to live, work, study or retire in another country. This required the lowering of administrative formalities and recognition of professional qualifications of other states. The free movement of services and of establishment allows self-employed persons to move between member states in order to provide services on a temporary or permanent basis. While services account for 60–70% of GDP, legislation in the area is not as developed as in other areas. This lacuna has been addressed by the recently passed Directive on services in the internal market which aims to liberalized the cross border provision of services. According to the Treaty the provision of services is a residual freedom that only applies if no other freedom is being exercised.

Advantages of the euro

- Cheaper transaction costs
- Exchange rate certainty
- Transparent price differences