Chapter 24 –The European Union (EU)
Supplementary notes to the course book

Introduction

- Economic and Political Union of 25 member states that co-operate on a range of issues.
- Common market with free trade, movement of labour/capital and common external tariff.
- Established in 1957 – Treaty of Rome – EEC – European Economic Community – cooperation mainly on Economic Matters.
- Now is called European Union - member states cooperate on economic, monetary and political matters.
- Treaty of Nice 2000 – provided the structural reform or the enlargement of the EU from 15 to 28 member states.

Importance (Benefits) of the EU (apply to Ireland)

- **Brings EU states closer together** so that the possibility of war between them would decline – Such conflicts were a feature of the continent for hundreds of years – WWII.
- **Free Trade and the Single Market** has meant that trade between the various member states (Including Ireland) has flourished and firms have increased their **international competitiveness** which in turn has also increased efficiency and encourages innovation.
- **EU policies on fishing, agriculture and community development etc.** are designed to promote economic activity and improved living standards of members.
- **The EU has helped to improve the underdeveloped regions of Europe** so that all member states have good infrastructures and high standards of living.
- **The Various Regulations and directives of the EU** harmonise laws throughout the Union, making it easier for EU states to do business with each other.
- **Grants and loans:** Ireland receives a lot of finance from the EU in the form of grants and loans.
- **Consumer Choice: The EU is now one of the largest trading blocs in the world**, being responsible for over 20% of the entire world trade. The Irish economy has benefited greatly from our membership.

The Single European Market (SEM)

- Came into effect on 1 January 1993.
- **It implemented :**
    - Free movement of goods, services, labour and capital between member states.
    - A common tariff on imports to the European Union from Non – EU countries.

Implications of the Single European Market for Ireland (pg.398)

Opportunities for Irish Business:

- **Access to EU** markets for exports- 400 million people!
- **The Free Movement of Goods and Services** puts pressure on Irish firms to be competitive and produce at a low cost. If they are efficient, **exports will increase and employment will rise.**
- Firms that take advantage of the larger market can have much greater production runs and benefit from **Economies of Scale** and the lowering of costs.
- The influx of new goods benefits consumers due to **greater choice**.

- **Contracts to supply services an goods to governments of the EU** are now open to all firms. E.g. Telephone directories, construction of roads & motorways.
- **Mutual Recognition Of vocational qualifications** opens up **job opportunities** for Irish nationals as well as citizens of other states in Ireland. Still have rights and social security. Qualifications awarded in Ireland will be recognized in other EU states. E.g Degree in Business
- **Banks and Insurance companies are now open to sell their products and set up in any member state** while still being controlled by their own regulatory authority(Central bank). E.g AIB has set up in Poland.
- **Special Cohesion and structural Funds** were put in place to improve the economies of member states so that they could meet convergence targets laid down for economic and monetary union and also gain from infrastructural development.

Challenges for Irish Business

- Irish Firms may have **difficulty surviving against foreign competition** and imports from other EU countries; firms may be forced to merge to survive.
- **Rising Unemployment** due to closures of Irish firms from competition.
- Irish firms **must produce top quality products to compete successfully** abroad with foreign products imported to Ireland
- **Skilled workers** may move to other European countries.
- High costs of operating in a huge international market - travel and insurance costs etc.

The 5 main institutions of the European Union:

1. European Commission (P393)

- Based in **Brussels** – 20 members- **Ireland has one commissioner** – 5 year term
- Commissioner is a former minister of a member state, who is nominated by their government and who agrees to act independently of their own country and to dedicate themselves to EU interests.
- **Main body responsible for running the EU.**

Role:

- Responsible for making sure EU treaties are obeyed and for seeking greater European Unity.
- Initiates policies and proposes new laws.
- Ensures that all laws passed by the EU are implemented by member states.
- Prepares the EU budget.

2. The Council Of Ministers (P393)

- **Consists of government ministers from member states.**
- Each member state holds the presidency for 6 months.
- Meetings attended by different ministers depending on agenda e.g. Agriculture.
- Meet mostly in Brussels but sometimes in Luxembourg.
- Each member state has permanent representatives in Brussels – **Civil service of Council of ministers (Coreper)** and ensures that the work of the council is carried out efficiently.

Role:

- Main decision making body of the EU and sets the EU political objectives.
- Proposals from the European Commission are examined by the Council of ministers and decisions are then taken, based on its findings. Decisions are made by majority voting, but unanimous decisions are required for important issues.

3. European Parliament (P394)

- Based in **Strasbourg** and is made up of politicians who are directly elected by voters in their own countries for 5 year periods- MEP’s.
- Over 600 members – Ireland 15 MEP’S.

Role:

- Debates new legislation – adopts, amends or rejects.
- Has power to amend and eventually approve EU budget.
- Acts as a supervisory body over the activities of the Commission and advises the Council Of ministers.
- It also approves the appointment of the Commission.
- Also deals with problems that extend beyond the boundaries of EU member states e.g. pollution, waste disposal, terrorism, drug trafficking and money laundering.

4. Court Of Auditors (P394)

- Ensures that the EU budget s spent in an efficient and responsible manner.
- Made up of 15 members including the president.

Role:

- Auditing and checking all accounts of the EU and related bodies.
- Supervising the financial management practices and budgets of the EU.
- Making an annual report to the Council of Ministers and the European Parliament and preparing a statement of assurance that the accounts are reliable.

5. European Court of Justice (P394)

- Ensures that EU law is observed in all member states.
- Made up of 15 judges – 1 made president.

Role:

- Interprets laws of the EU and decides whether or not they are being applied correctly.
- Impose fines on states breaking the laws.
- Rules n disputes between other institutions.

Decision Making in the EU. (important, see pg395)

<u>Proposal stage</u>: European Commission **proposes** legislation
<u>Consultative stage</u>: European Parliament **debates proposals and possibly modifies** them.
<u>Re-Drafting stage</u>**: Commission may amend its proposal in light of the parliament’s opinions**
<u>Approval stage</u>**: Council of Ministers makes decisions** - accepts of rejects proposals. Only when it accepts the proposals does it become EU legislation

Steps:

In making its decision the council can use the following approaches:

1. **The consultation procedure:** requires Parliament to deliver an opinion on the law proposed by the Commission. Only then can it be accepted unanimously by the council.
2. **The Cooperation procedure:** Allows proposals to be considered twice by the Parliament thus giving it a stronger voice in the decision making process. The Council of Ministers adopts proposals under this procedure by majority vote after accepting amendments suggested by the Parliament. This procedure is used for issues relating to EMU.
3. **The Co-Decision procedure**: Allows the Parliament on behalf of EU citizens and the Council on behalf of member states to enact legislation as equal partners.

5. **<u>Implementation stage</u>**: European Court of Justice passes judgement of EU laws. The Council Of Ministers decides how new EU laws should be implemented. EU law is implemented by the issue of:

1. **Regulations**
    - A regulation is applicable to all member states.
    - Does not need the national law of member states to ensure it is adopted.
    - If it conflicts with national law, regulation takes precedence.
    - Regulations are binding on all member states.
    - Example: **Common policies on fishing and agriculture.**
2. **Directives**
    - Provides an outline to member states of legislation to be achieved in a specific area and the date by which it is to be done.
    - Requires member states and their national laws to implement the directive.
    - Member state decides ho best to implement the legislation in its own country.
    - Directives are binding on member states.
    - Examples: **Directive on Health and Safety at Work.**
3. **Decisions**
    - Decisions are binding agreements addressed to named member states, organisations or individuals – Binding only to the parties involved.
4. **Recommendations**
    - Not binding on the groups involved and generally accepted by member states.
    - It is a decision reached by the council of ministers or the Commission expressing an opinion on policy issues that have not reached directive or regulation stage.

Directives, Regulations and Decisions are introduced because:

- They harmonise law in the EU, which facilitates the growth of business.
- They ensure a common approach to problems in each member state which encourages the growth of a single market and makes it easier for free movement of people.
- They eliminate bad practices or laws in the member states.

Harmonising law costs money and reduces the power of national parliaments!

Interest Groups (see pg. 396) can also influence the decision process of the EU through lobbying on behalf of their members(the process of persuading or pressurising decision makers to alter their positions in a particular way).For example:

- MEP's can be persuaded to raise issues in Parliament or with the Commission.
- The Commission can be contacted directly with complaints or suggestions regarding EU laws.
- The Council of ministers can be contacted through the relevant Irish government ministers on the council with the help of TD's.

Examples of Lobby Groups: Irish Farmers Association: Who try to influence decisions in relation to Agriculture and proposed changes in the Common Agricultural Policy.

Problems with the EU decision making process (P396)

Q: State and explain three problems with the decision making process of the EU?

EU Policies and their impact on Business (P397).

- EU policies set out strategies in many different areas.
- A common policy means that a common and agreed approach is adopted in a certain area of the EU's activities.
- EU has common policies for the following reasons
    - To ensure that each country follows the same line of action.
    - To make sure all the members develop in a coordinated fashion.
    - To improve living standards in the Union.
    - To ensure proper treatment of all EU citizens.

1. COMMON AGRICULTURAL POLICY (CAP)

- Introduced to ensure security of supply and to make food available to EU consumers at affordable prices.

3 Main Principles:

- *Single Market:* All agricultural produce to move freely in a single market.
- *EU Preference:* All products from the EU to be given preference.
- *Finance:* To finance intervention buying and the provision of grants to farmers.

Objectives Of CAP

- To increase agricultural productivity.

- To ensure a fair standard of living for the farming community.
- To purchase surplus produce at a guaranteed price **(intervention)** and store it until conditions improve.
- To guarantee minimum prices for farm output.
- To guarantee regular supplies.
- To ensure reasonable prices for consumers.
- To make provision for the training of young farmers by providing grants under the European Agricultural and Guarantee Fund (EAGGF).

Problems with CAP
- Became a victim of its own success.
- Agricultural output grew so fast it outstripped consumption **(overproduction)** while the cost of purchasing surplus stock to support farmer's incomes became so large at one stage it was 80% of EU budget.

As a result CAP had to be reformed:
- **Levies (fines)** introduced to penalise farmers who overproduced milk.
- A **retirement scheme** was introduced for those who wanted to quit farming.
- Grants were given to farmers to **set-aside** their land and produce zero output.
- The **guaranteed price paid for produce was reduced** to encourage less production and greater competitiveness which would eventually benefit farmers and consumers.
- **Subsidies** were also given to encourage farmers to diversify into alternative enterprises e.g. deer farming.

  Nowadays there is more emphasis on direct income as oppose to price support for farmers but with new technological development , farmers output is still increasing while the CAP wants it to decrease.

2. COMMON FISHERIES POLICY (CFP)
- Set of rules which aims to improve the management of EU's fishery resources.

Aims
- To support fishermen's incomes.
- To achieve a steady supply of quality fish products.
- To provide a reasonable fish price for consumers.

Main Elements

1. Conservation and Management of Fish Stocks
- Coastal states can reserve an inshore fishing zone of up to 22km to preserve own fish stocks.
- To prevent over fishing, the EU fixes each year the Total Allowable Catch (TAC) – Quota.
- Minimum mesh sizes for nets have been introduced.
- Fishing banned / restricted in areas where stocks are low.
- Fishing activities are monitored and inspected to prevent illegal fishing.

2. The CFP also provided structural funds to enable fishermen either to upgrade their boats and for those who wanted to leave the industry.

3. The CFP also sought to improve the marketing and consumption of fish throughout the Union.

3. COMMON COMPETITION POLICY

Aim: To ensure that consumers get quality goods at reasonable prices by restricting anti competitive practices. The policy protects the consumer against:

1. **The formations of Cartels** which fix prices or share markets between them and block new firms from entering the market.
2. **Dominant Firms** who abuse their dominant position to increase prices and take-overs if it believes they might restrict competition.
3. **Mergers and Takeovers:** The EU has the power to prevent large mergers and takeovers if they believe they might restrict competition.

4. COMMON SOCIAL POLICY

- **Policy directed towards improving living standards and working conditions.**
- Also **ensures minimum standards at work and equal treatment of men and women**.
- In 1989 the heads of state of Government adopted the so called **'Social Charter'.**
- **This charter sets out the social rights of workers in the EU**
- The charter is **not law** and it is the responsibility of individual member states to implement these rights.
- **The European Social Fund** provides funds to member states to provide training and educational courses to prevent the drift of people into long term unemployment, to encourage women into work, to promote entrepreneurship and a trained, skilled and adaptable workforce.
- There are increased costs for businesses as a result of complying with the social charter.

5. EU ENVIRONMENTAL POLICY (P404)

6. STRUCTURAL POLICIES AND STRUCTURAL FUNDS

- **Structural Policies:** Policies related to improving the structures of the EU's regions and industries.
- E.g. social policy and certain sections of the CAP.
- Structural funds are provided to countries for this.
  - European Regional Development Fund – helps peripheral regions achieve economic growth.
  - European Social Funds: assists in training and retraining workers and help them adapt to industrial change by giving them necessary skills to enter and stay in the workplace.
  - European Agricultural and Guarantee Fund in the CAP.
  - Financial Instrument for Fisheries Guidance in the CFP.

Ireland has used structural funds to help it:

- Improve infrastructure (M50).
- Assist in local development (e.g. County Enterprise Boards)
- To develop agriculture, tourism, industry and natural resources
- Develop human resources i.e. funds have been provided for the training of workers and the long term unemployed.

Economic and Monetary Union (EMU)

- Policy designed to achieve not only a single market but also a single currency and monetary policy.
- Single market (free movement of goods/services/labour/capital) needs a single currency to help it operate effectively because free movement of goods and services is hampered by high transaction costs involved in converting currencies an by uncertainties associated with unstable exchange rates.

EMU

- To have an effective single currency a single monetary policy for all participating states is needed.
- Member states must also cooperate in implementing their economic and fiscal policies.
- The countries wishing to take part in the single currency had to meet certain economic conditions which were referred to as **convergence criteria**(economic principles regarding inflation, interest rates, exchange rate stability, government deficits, national debts etc).
- These made sure that the economies of the countries involved were behaving in a broadly similar fashion and thus were able to implement a common monetary, economic and fiscal policy.
- These criteria must be continually met if countries want to remain in the EMU.

Benefits of Economic and Monetary Union for Ireland

- **European Exporters no longer have to worry** about getting paid in a currency that could rise or fall in value.
- **Goods and Services are priced in the same currency**, making it easier for producers and retailers to make purchasing decisions.
- **Exporters and importers no longer have to pay** bank exchange charges or other cross border trade costs**.**
- **Increased Tourism:** No currency conversion required for travel within Europe- cheaper travel and less hassle.
- **Price stability** should lead to lower inflation.
- Because of the strength of the EU market, the **euro is likely to become one of the strongest currencies in the world.**

Drawbacks

- **UK non participation** causes problems.
- Very **costly** to introduce the Euro – new ATM's etc.
- Loss of a national currency **reduces national sovereignty.**
- **Wealth may flow out of Ireland in the long run** and go to the countries where the greatest return can be earned.

Past Exam Questions :
Higher Level
2006 Section 3 Q 3

(a) (i) Outline the decision making process of the EU.
(ii) Explain the term 'EU Directive' and outline the effect of one of them on Irish Business (25)
(b) Evaluate the impact on Ireland of any 2 of the following:
(i) The Common Agricultural Policy.
(ii) The Competition Policy.

(iii) The European Social Charter. (20)

2005 Section 3 Q3

(a) Explain the opportunities and challenges for Irish Business as a result of the new member states who joined the Single European Market in 2004(25). **Also Sample paper!**

(b) Outline the importance for Ireland of:

(i) Any 1 policy of the EU *or*

(ii)Any 1 institution of the EU.

2003 Section 3 Q3

(a) Evaluate the significance of the single European Market for Irish Business. (40)

(b) Illustrate with a relevant example the impact of a EU policy on Economic activity in Ireland(20).

2001 Section 3 Q 3.

(b) Explain the decision making process of the EU. Include the relevant institutions in your answer.(25)

2000 Section 3 Q3.

(b) Outline the purpose of the European Unions Competition Policy (10)

1999 Section 3 Q3.

(b) Explain the importance for Ireland of :

(i) Any 1 of the policies of the European Union.

(ii) Any one of the institutions of the European Union (30)

Ordinary Level

2006 Section 2 Q3

(b) Outline 3 benefits of the EU for Irish Business.(20)

2005 Section 2 Q3

(d) State 3 advantages to Ireland of membership of the EU.(15)

(e) Name 2 EU Institutions. Explain the role of 1 of them.(20)

2004 Section 2 Q 3

(c) Outline 3 effects of the Single European Market on Irish Firms (15)

2002 Section 2 Q3

(a) Identify the effects of the single European Market in Irish Business.(20)

(b) Explain the role of any one of the EU institutions (15).

2001 Section 2 Q3

(e) Discuss the opportunities facing Irish Business with the introduction of a Single European Currency (15)