List of figures ix
List of tables xi
List of contributors xiv
Preface xv
A guide to the book xvii
Acknowledgements xviii
List of abbreviations xix

1 General introduction: the EU within the global context of regional integration 1

Ali El-Agraa

- 1.1 What is economic integration? 1
- 1.2 Economic integration and WTO rules 3
- 1.3 The global experience 3
- 1.4 The EU 17
- 1.5 The possible gains from economic integration 18
- 1.6 Areas of enquiry 19
- 1.7 About this book 19Appendix 1.1 WTO's Article XXIV 20

Part One EU history, institutions, legal dimension and basic statistics

2 A history of European integration and evolution of the EU 24

Ali El-Agraa

- 2.1 A short history of European unity 24
- 2.2 The evolution of the EU 30
- 2.3 Conclusion 37

3 EU institutions 39

Ali El-Agraa

- 3.1 The Commission 39
- 3.2 The Council 42

3.3	The European Parliament 45
3.4	Types of EU decision 48
3.5	The Economic and Social
	Committee (ESC) 49
3.6	The Committee of the Regions 50
3.7	The European Central Bank (ECB) 50
3.8	The European Investment Bank
	(EIB) 51
3.9	The Courts 51
3.10	The Ombudsman 53
3.11	Institutional reform 53
	Appendix 3.1 Agencies of the
	European Union 55
	Appendix 3.2 The previous
	policy/administrative areas
	of the European Union 55
The legal dimension in EU integration 57	

4

Damian Chalmers

- 4.1 Actor-interest based approaches 58
- 4.2 The structuring of EU integration through EU law 68
- 4.3 Law as the cipher for the legitimacy of the EU 71
- 4.4 Actor network theories 72
- 4.5 Conclusion 73

Notes 74

5 The basic statistics 76

Ali El-Agraa

- 5.1 Area and population concerns 76
- 5.2 GNI per capita and GDP 77
- 5.3 Demand 77
- 5.4 Money, consumer price index and interest rates 78
- 5.5 Direction of trade 78
- 5.6 Income/consumption distribution 79
- 5.7 Tariffs 79 Appendix 5.1 The statistical tables 79

Part Two Theory and measurement of economic integration

6 The theory of economic integration 99

Ali El-Agraa

- 6.1 The customs union aspects 99
- 6.2 Customs unions versus free trade areas 113
- 6.3 Economic unions 1146.4 Macroeconomics of integration 115
- 6.5 Economic integration in developing
- countries 115
 6.6 Economic integration among communist countries 116
- 6.7 New theoretical developments 116 6.8 Conclusions 117

7 Measuring the impact of economic integration 118

Nigel Grimwade

- 7.1 Introduction 118
- 7.2 The effects of economic integration 118
- 7.3 Estimating the trade effects different approaches 121
- 7.4 The nature of European specialization 134
- 7.5 Estimating the income effects 136
- 7.6 Economic growth 1397.7 Conclusion 140

Part Three EU monetary integration

8 The theory of monetary integration 144

David Mayes and Ali El-Agraa

- 8.1 Disentangling the concepts 144
- 8.2 What is monetary integration? 1458.3 The gains and losses 147
- 8.4 A 'popular' cost approach 1538.5 A concluding remark 155
- 9 The development of EU economic

and monetary integration 157 David Mayes and Ali El-Agraa

- 9.1 The Werner Report 157
- 9.2 The EMS 159

- 9.3 The Delors Report and the Maastricht Treaty 161
- 9.4 The transition to EMU 166
- 9.5 The position of the United Kingdom, Sweden and Denmark 170
- 9.6 Conclusions 173 Notes 174

10 The operation of EMU 175

David Mayes

- 10.1 The Eurosystem and the euro 175
- 10.2 The coordination of fiscal
- and other macroeconomic policies 178
- 10.3 Completing EMU 183 Notes 184

Part Four The single European market

11 The economics of the single

market 186

- Iain Begg and Ali El-Agraa 11.1 Why 'the single market'? 186
- 11.2 An evolving programme 188
- 11.3 The benefits of the single market 190
- 11.4 Empirical research on the single market 191
- 11.5 Conclusion 197 Notes 198

12 Competition policy 199

Wolf Sauter

- 12.1 Introduction 199
- 12.2 The rationale for EU competition policy 199
- 12.3 Legal framework 201
- 12.4 Enforcement 204
- 12.5 The public turn 207
- 12.6 Rationalization 208
- 12.7 Modernization 209 12.8 Conclusion 210

13 Industrial policy 212

Victoria Curzon Price

- What is industrial policy? 212
- 13.2 Industrial policy: for and against 214

CONTENTS

13.3	Industrial policy in the	EC:
	the control of state aid	218

13.4 Industrial policy in the EU: research and technological development 228

13.5 Conclusion 235 Notes 237

14 Tax harmonization 238

Brian Ardy and Ali El-Agraa

- 14.1 Why is tax harmonization necessary? 238
- 14.2 The principles of tax harmonization 239
- 14.3 The EU's experience of tax harmonization 240
- 14.4 Tax harmonization today 243
- 14.5 Conclusion 253 Notes 253

15 Transport policy 256

Kenneth Button

- 15.1 Introduction 256
- 15.2 The European transport system 257
- 15.3 The initial development of a CTP 258
- 15.4 The CTP and other aspects of policy in the 1990s 262
- 15.5 The 2004 enlargement 267
- 15.6 Conclusions 269 Notes 269

16 Energy policy and energy markets 270

Stephen Martin and Ali El-Agraa

- 16.1 Introduction 270
- 16.2 The need for a EU energy policy 270
- 16.3 Past attempts and present successes 271
- 16.4 Energy markets 278
- 16.5 Primary energy 279
- 16.6 The internal market in energy 282
- 16.7 Conclusion 287 Notes 288

17 Environmental policy 290

Alan Marin

- 17.1 Background 290
- 17.2 Economic (or economists') assessment of environmental policies 292
- 17.3 Further implications for EU policies 301
- 17.4 Conclusions 305 Notes 306

18 Factor mobility 311

David Mayes and Juha Kilponen

- Single market 313
- 18.2 Capital movements 314
- 18.3 On the determinants of direct investment 318
- 18.4 Capital movements in Europe 319
- 18.5 Labour movements 323
- 18.6 Labour flows in the EU 325
- 18.7 Capital and labour movements combined 330 Notes 332

Part Five EU budget and structural policies

19 The general budget 334

Brian Ardy and Ali El-Agraa

- The economic theory of the state 335 19.1
- Fiscal federalism 336 19.2
- The EU and fiscal federalism 338 19.3
- 19.4 Budget rules and procedure 33919.5 EU budget revenue 340
- EU budget expenditure 343
- 19.6 19.7 Net contributions to the EU budget 347
- The EU budget and EMU 348 19.8
- The EU budget and enlargement 349 19.9
- 19.10 Conclusion 351 Notes 352

20 The Common Agricultural Policy 354

Ulrich Koester and Ali El-Agraa

- 20.1 General background 355
- 20.2 The problems of agriculture 355
- 20.3 Objectives of the CAP 362
- 20.4 The birth of the CAP and institutional setting 363
- 20.5 The market organizations of the CAP 371
- 20.6 Structural policy 381
- 20.7 The future of the CAP 385
- 20.8 Conclusion 388 Notes 390

21 The Common Fisheries Policy 391

Ella Ritchie and Ali El-Agraa

- Introduction 391
- 21.2 Background 392

riii	
21.4 21.5	Policy objectives 394 Policy process 397 Reform of the CFP? 398 Conclusion 400 Note 400
22 Regi	ional policy 401
	ey Armstrong
22.1	The case for a EU regional policy 401
22.2	The effects of integration on EU regional
	disparities 405
22.3	EU regional policy in the period
	2000-2006 411
22.4	Some key issues for the future 416
23 Soc	ial policies 421
Dor	een Collins and Robert Salais
23.1	Introduction 421
23.2	
23.3	The Single European Act and the Social
	Charter 423
23.4	• -
23.5	The Treaty of Union and
	its perspectives 425
23.6	
23.7	1 ,
23.8	
23.9	1
	10 Education and vocational training 433
	11 Consumer policy 436
23.	
12	industrial relations 437 Health and safety 439
	13 Fleatin and safety 437

Part Six EU external relations

24 External trade policy 450

23.15 Social exclusion 442 23.16 Migration and asylum 444 23.17 An overall view 446

Marius Brülhart and Alan Matthews

- EU trade and specialization patterns 451 24.1
- 24.2 The Common Commercial Policy (CCP) 456
- 24.3 Trade relations with the main partners 462

24.4	Trade policy in a globalizing world	465
24.5	Conclusions 468	
	Notes 470	

25 The EU and the developing world 471

Alan Matthews

- 25.1 Trade policy 474
- 25.2 Development cooperation 481
- 25.3 Conclusions 491

Part Seven Enlargement, success and future of the EU

26 Enlargement 494

David Mayes

- 26.1 The process of enlargement 495
- 26.2 Deciding on a wider membership 498
- 26.3 Coping with a larger Union 502
- 26.4 Coping without enlargement 508
- 26.5 Concluding remarks 510 Appendix 26.1 Guide to the negotiations - chapter by chapter 511

27 Has the EU been successful? 513

Ali El-Agraa

- 27.1 The aims set for 1969 513
- The aims set for the period from 1969 to the early 1980s 514

- The aims set for the period from the mid-1980s to the present 517
- 27.4 Conclusion 518

Notes 511

28 The future of the EU 519

Ali El-Agraa

- 28.1 The vision of the founding fathers 519
- 28.2 The vision of contemporary politicians 520
- 28.3 The Convention for the Future of Europe 525
- 28.4 Conclusion 527

References 529 Author index 554 Subject index 557

List of figures

when dominant W has no tariffs/transport costs 111 Dominant W has no tariffs/transport 6.9 costs - non-discriminatory tariffs by H/P and a CET consistent with WTO rules: case I 112 Dominant W has no tariffs/transport 6.10 costs - non-discriminatory tariffs by H/P and a CET consistent with WTO rules: case II 113 Capital mobility: (a) the home country; 6.11 (b) the partner country 114 The Fleming-Corden analysis of monetary 8.1

The expectations-augmented Phillips

augmented Phillips curves 151 Krugman's (1990) cost–benefits of

Monetary integration with expectations-

Performing to the convergence criteria,

(percentage of directives not transposed) 188

primary energy supply, 1966-2000 272

Transposition deficit, 1992-2002

The structural reform 'j'-curve

(trajectory of the economy) 191 Share of net energy imports in total

A proliferation of PTAs 16

industrial production 103

argument 104

country 107

integration 149

curve 150

EMU 154

The co-decision procedure 46

Trade creation and trade diversion 100

General equilibrium of the Cooper-Massell

Customs unions and the terms of trade 108

Vindicating the Cooper-Massell criticism

Marginal 'degree of preference' for

Internal economies of scale 106

Social costs and economies of scale:

UTR versus customs unions 110

(a) the home country; (b) the partner

1.1

3.1

61

6.2

6.3

6.4

6.5

6.6

6.7

6.8

8.2

8.3

8.4

9.1

11.1

11.2

16.1

EU energy balances, 1966-2000 (millions of tonnes of oil equivalent; TPES = energy production plus net imports minus stock increases) 275 EU energy demand indicators, 1966-2000 (TPES = total primary energy supply (millions of tonnes of oil equivalent); electricity consumption measured in kilowatt hours; oil supply measured in tonnes of oil equivalent; GDP measured in 1000 1995 US\$) 279 Technical openness (percentage share of interconnector capacity in total national installed capacity, summer 2001) and percentage of imported capacity in total

electricity supplied (1999), selected EU

Social and private costs of pollution 293

EU 15 own resource contributions and

Costs and benefits of pollution

EU revenue, 1971-2001 341

Pollution threshold 294

GNP per head 342

member states 286

abatement 293

16.2

16.3

16.4

17.1

17.2

17.3

19.1

19.2

20.2

20.3

20.4

20.5

prices 372

- EU budget expenditure, 1965-2001 343 19.3 CAP and structural expenditure, 19.4 1999-2000 344 Net contribution to the EU budget and 19.5 GNP per head, 1999-2000 347 Welfare effects of suboptimal use 20.1 of land. If farm A increases use of land and farm B reduces use of land,
 - aggregate welfare will increase by the area a 360 The decision-making process: a stylized model 365
 - Development of EU and world market prices for agricultural prices 368 The development of the EU trading situation 371 The impact of variable levies on domestic

20.6	The effect of variable levies or fixed
	tariff rates 373
20.7	The impact of preferential access to EU
	markets 374
20.8	The impact of subsidized export
	constraints 375

constraints 375
20.9 The importance of intervention prices 376
20.10 The effect of export subsidies on

20.10 The effect of export subsidies on domestic prices 376

20.11 Price cuts and direct payments: the case of grains 377

20.12 Average costs in milk production and milk prices 378
 20.13 Budget effects of EU demand for domestic

20.13 Budget effects of EU demand for domestic consumption as compared to export subsidization 379
 20.14 Welfare effects of consumer subsidies 379

LIST OF FIGURES

- 20.15 The effect of price support on productivity 388
- 22.1 Regional gross domestic product per head, at purchasing power parities, 2000 406
- 22.2 Regional unemployment rates (males plus females), 2001 407
- Convergence of USA state personal incomes per capita, 1880–1992 411
 Structural funds (2000–2006): eligible
- regions under Priority Objectives 1 and 2, together with regions eligible for transitional assistance 413 25.1 Total net ODA from the EU member
 - 25.1 Total net ODA from the EU member states to the EC and the EDF (two-year averages (1999 prices US\$m), net disbursements) 485

List of tables

1.1	Schematic presentation of economic integration schemes 1
1.2	Economic integration in Europe 5
1.3	Regional trade arrangements in Africa 8
1.4	Regional trade arrangements in the western hemisphere 10

- 1.5 Regional trade arrangements in Asia-Pacific and the Middle East 14
 2.1 Results of the referendums on EU
- membership 37
 3.1 EU Directorates General and services 41
 3.2 Committees of the European Parliament 47
- 3.3 Members of the European Parliament, 1999–2004 48
- A3.1 Agencies of the European Union 55
 A5.1 Area, population and life expectancy 79
- A5.2 Health expenditure, mortality and fertility 81
- A5.3 Expenditure on education, 2000 82 A5.4 Labour force and unemployment 83
- A5.4 Labour force and unemployment 83
 A5.5 GNI per capita, 2001 84
- A5.6 Structure of output, 2001 85
- A5.7 Growth of output 86
 A5.8 Structure of demand, 2001 87
- A5.8 Structure of demand, 2001 87
 A5.9 Central government budget, 2000 88
- A5.10 Exports and imports of goods and services, current account balance and international reserves 89
- A5.11 Official development assistance and gross foreign direct investment 90
- A5.12 Money and consumer price index 91
 A5.13 Exports to EU (12, 15) countries (except
 - for Turkey, data for the candidates is too meagre to warrant inclusion) 92
- A5.14 Imports from EU (12, 15) countries (except for Turkey, data for the candidates is too meagre to warrant inclusion) 93
- A5.15 Distribution of income or consumption 94
- A5.16 Average tariffs (%), 1958 95

II.2	Butter 98
II.3	Beef 98
II.4	Butter 98
7.1	Changes in ex-post income elasticities of
	import demand in the EC 124
7.2	Estimated annual effects of European
	integration on trade flows in manufactured
	products 126
7.3	Estimated impact of the single market on
	market shares 131
7.4	Changes in trade patterns in manufacturing
	resulting from the single market - an
	ex-ante simulation by EU Commission
	and CEPR 132
7.5	Changes in trade patterns in manufactures
	resulting from the single market - an ex-post
	simulation by the EU Commission 133
7.6	A summary of the results of attempts to
	estimate trade creation and trade diversion
	in the EC 134
7.7	Representative ratios of trade balances for
	91 product groups for EEC member states,
	1958-1970 135
7.8	Estimates of intra-industry trade for EC
	member states, 1970-1985 135
7.9	Share of inter-industry and intra-industry
	trade in intra-EC trade 1987-1994 136

Changes in GDP and welfare resulting

The effects of economic integration

on the growth rate of member states, 1961–1972 and 1974–1981 140 EU member states' performance to

Benefits of the internal market 196

Accumulated data on state subsidies,

State aid as a percentage of GDP 222

State aid to manufacturing by objectives 222

State aid to the manufacturing sector 223

in the single market 138

convergence criteria 165

1970-2001 220

from trade creation and trade diversion

7.10

7.11

9.1

11.1

13.1

13.2

13.3

13.4

13.5

13.6

13.7

13.8	Instruments of state aids, 1998-2000 227
13.9	Reimbursements demanded by the
	Commission, 1982–1993 227
13.10	
	as of 2001 (inclusive) 228
13.11	Various R&TD programmes subsequently
	integrated into the multiannual framework
	programmes 231
13.12	Aims of EU R&TD multiannual
	framework programmes: trends from
	1984 to 2006 232
13.13	Annual R&TD expenditures at Community
	level, 1984–2006 234
14.1	EU 15 tax structure, 2000 243
14.2	VAT in EU member states, 2002 245
14.3	Cigarette taxation in EU member
	states, 2002 246
14.4	Alcohol taxation in EU member
	states, 2002 247
14.5	Taxes on petrol and diesel fuel 248
14.6	EU taxes on company earnings in 2002 250
14.7	EU 15: effective average corporation tax
	rates (EATR) 251
15.1	Summary of the policy of EC 9 259
16.1	The EU energy objectives for 1985, 1990.
	1995 and 2010 274
16.2	Composition of primary energy supply,
	EU, 2000 280
16.3	Projected oil and gas consumption, share of
	imported energy in EU energy consumption
	1998-2030 280
16.4	World crude oil proven reserves, production
	by region, 2001 281
16.5	World natural gas proven reserves and
	marketed production, by region, 2001 281
16.6	Herfindahl index (H) , numbers equivalent
	(1/H), market share of leading supplier
	(CR1), and share of public ownership (%),
	EU electric power generation, selected
	member states, 1999 284
16.7	1998 prices per kilowatt hours 285
17.1	Greenhouse gas emission changes from

1990 to 2010 299

Barriers to trade and investment 315

18.1

Ad hoc aid to individual enterprises,

Ad hoc aid to individual enterprises:

State subsidy decisions by member state, 1997 and average 1999/2001 225

1992-2000 224

country breakdown 224

18.2	Direct investment flows of EU countries, 1987–2000 316
18.3	US direct investment in the EU,
10.5	1980–2001 321
18.4	Mergers and acquisitions involving EU
10.7	firms 322
18.5	
10.5	The ten largest deals involving EC
18.6	enterprises in 2000 and 2001 323
10.0	Inflows of foreign workers in European countries 326
18.7	
18.8	Stock of foreign labour by nationality 327
10.0	Labour force by nationality in EU member
19.1	states, 1990, 1995 and 1997 328
17.1	Expenditure at different levels of
10.3	government in federal states 337
19.2	Federal government expenditure by main
19.3	function 337
19.3	The distribution of GDP per capita in the EU
10.4	and GSP per capita in the USA 338
19.4	Tax revenue of different levels of
10.5	government in federal states 340
19.5	Tax systems: federal systems and the EU 341
19.6	Sources of EU revenue, 2000 and 2001 342
19.7	EU expenditure, 2000 and 2001 344
19.8	EU financial perspective for 2000–2006 350
20.1	Share of agriculture in total labour force
20.2	and GDP 356
20.2	Size distribution of agricultural holdings 357
21.1	Fish catch, 1999 392
21.2	A comparison of total allowable catches,
22.4	1998-2003 396
22.1	Indicative allocations, by Objective and
	member state for the 2000–2006 structural
22.2	funds 415
22.2	EU budget commitments, 2000–2006 418
24.1	The EU in world merchandise
	trade, 2001 451
24.2	EU merchandise trade by area, 2001 452
24.3	Commodity composition of EU trade with
	major trading groups, 2001 452
24.4	Extra-EU trade in selected products, 1980
2. -	and 2001 455
24.5	Production-weighted average applied MFN
	tariff rates in selected countries, 1996 457

25.1 Growth of real per capita GDP by region,
1971-2015 472
25.2 Commitments of EU funds for external

agreements, 2000 461

The EU's network of preferential trade

24.6

25.2 Commitments of EU funds for external relations by main instruments in 2000 485

LIST OF TABLES

25.3	Net disbursements of ODA to EU regiona
	programmes 486

- 25.4 Evolution of EDF and EIB resources 488
- 26.1 Basic data for applicant CEECs and EU member states, 1998 500
- 26.2 Main indicators of economic structure in 2001 (as of 3 September 2002) 501
- 26.3 Financial framework for enlargement agreed at Copenhagen total commitment appropriations, 2004–2006 503

	enlargement-related commitments,
	2004-2006, for 10 new member states
	agreed at Copenhagen 504
26.5	Structural indicators in the accession
	countries, 2001 506
27.1	EC intra-area tariff reductions 514
27.2	The establishment of the CET 514
27.3	New members' intra-tariff reductions 516
27.4	Approaching the CET 517

26.4 Financial package for maximum