

Supplementary Reading for Chapter 3 Borders and Barriers

The Euro

The euro (EUR or €) is the currency of twelve of the fifteen countries that form the European Union (and some outside it). It is the result of the most significant monetary reform in Europe since the rise of Rome. Though the introduction of the euro can be seen simply as a mechanism for perfecting the Single European Market, facilitating free trade between the members of the European, the euro is also a key part of the European project of political integration.

Characteristics

The euro is divided into 100 cents. All euro coins have a common side showing the worth and a national side showing an image particular to the country it was issued in. Euro banknotes have a common design for each denomination on both sides. All the different coins can be used in all the participating member states: a euro coin bearing an image of the Spanish king is legal tender not only in Spain, but also in Finland (and other nations where the euro is in use). (This practice is similar to that used on sterling pound coins: there are Scottish, Welsh, Northern Irish, English and 'Royal' designs for one side, while the other side features a uniform design, and each is legal tender throughout the United Kingdom.)

Official practice followed in English-language EU legislation is to use the words euro and cent as both singular and plural. However normal usage outside of such legislation is to use the plurals euros and cents; this somewhat inconsistent position is actually endorsed by the European Commission Translation Service. A small amount of variation of these basic terms exists in the various languages of the member states: for example the Finnish term for the cent is sentti and the Greek term is $\lambda \epsilon \pi \tau \sigma$ (lepto). The plurals euros and cents are also officially used in Spanish and French. In Portugal, the plural euros is used and the words cêntimo/cêntimos are widely used instead of cent/cents. Although cent is the official term in France and Belgium, most French and French-speaking Belgian people still use the older term centime to avoid confusion with the word cent meaning hundred, and in the habit of the subdivision of a French Franc divided into 100

centimes. Likewise, in Spain céntimo is still frequently heard. In Irish one speaks of euro and ceint as the plurals. In English-speaking Ireland, both euros and euro may be heard for the plural, or occasionally quid. Speaking of several cent would be unusual.

The euro is administered by the European System of Central Banks (ESCB), composed of the European Central Bank (ECB) and the national central banks of the member states participating in the euro. The ECB (headquartered in Frankfurt am Main, Germany) has sole authority to set monetary policy; the other members of the ESCB participate in the printing, minting and distribution of notes and coins, and the operation of the Eurozone payment system.

Transition

The euro was established by the provisions in the 1992 Maastricht Treaty on European Union relating to establishing an economic and monetary union. In order to participate in the new currency, member states had to meet strict criteria such as a budget deficit of less than 3% of GDP, a debt ratio of less than 60% of GDP, combined with low inflation and interest rates close to the EU average.

The currency was introduced in non-physical form (traveller's checks, electronic transfers, banking, etc.) at midnight on January 1, 1999, when the national currencies of participating countries (the Eurozone) ceased to exist independently in that their exchange rates were locked at fixed rates against each other, effectively making them mere subdivisions of the euro; the Euro thus became the successor to the older European Currency Unit (ECU). The notes and coins for the old currencies, however, continued to be used as legal tender until new notes and coins were introduced on January 1, 2002 and the changeover period ended on February 28, 2002.

The changeover period during which the former currencies' notes and coins were exchanged for those of the euro generally lasted two months. The official date on which the national currencies ceased to be legal tender varied from member state to member state. The earliest date was in Germany, where the Deutschmark officially ceased to be legal tender on December 31, 2001, though the exchange period lasted two months. The final date was February 28, 2002, by which all national currencies ceased to be legal tender in their respective member states. (Note that some of

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these dates were earlier than was originally planned.) However, even after that they will continue to be accepted by national central banks for several years, and in some states for decades hence. The earliest coins to become non-convertible were the Portuguese escudos, which ceased to have monetary value after 31 December 2002, although banknotes remain exchangeable until 2022.

Although some countries are not printing the bigger banknotes such as 500 euro and 200 euro, all banknotes are legal tender throughout the Eurozone. Finland decided not to mint or circulate 1 cent and 2 cent coins, except in small numbers for collectors. All cash transactions in Finland ending in 1 or 2 cents are rounded down and 3 or 4 cents are rounded up.

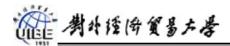
Eurozone membership

At present the member states participating in the euro are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. These countries are frequently referred to as the "Eurozone" or as "Euroland".

Andorra, Monaco, San Marino, and Vatican City also use the euro, although they are not officially euro members, nor members of the EU. (They had previously used currencies that have been replaced by the euro.) Of these, Monaco, San Marino and Vatican City mint their own coins, with their own national symbols on the reverse. Andorra uses French and Spanish coins, since it used to use the French franc and Spanish peseta as its currencies. These countries use the euro by virtue of agreements concluded with EU member states (Italy in the case of San Marino and Vatican City, France in the case of Monaco), approved by the Council of the European Union.

Montenegro and Kosovo, which used to have the German mark as their currency, also adopted the euro, although unlike the above four countries, they have not entered into any legal arrangements with the EU explicitly permitting them to do so. The countries which had their currencies fixed to the mark, such as Bulgaria and Estonia, have consequently fixed to euros. Cape Verde that had its currency fixed to the Portuguese escudo, have also fixed to euros. Since February 2, 2002, the Lithuanian litas (LTL) has been repegged to euros from US dollars.

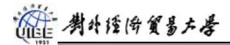
Denmark and the United Kingdom were granted derogations in protocols to the Treaty on



European Union; they are not legally required to join the euro unless their governments decide otherwise. Sweden was not granted a derogation by any protocol; nevertheless, Sweden decided in 1997 not to join the euro from the outset, and therefore made no effort to fulfil the required criterion of a stable exchange rate. Sweden had a referendum on the euro on September 14, 2003, and the voters decided against the euro, with the following figures: Yes 41.8%, No 56.1%. This postponed a decision for at least five years.

The British government under prime minister Tony Blair has committed itself to a triple-approval procedure before joining the euro, involving approval by the Cabinet, Parliament, and the British electorate in a referendum. Unlike in many other European countries, where the euro is seen as an essential building block in a more politically integrated Europe, in the United Kingdom the possible benefits of eurozone membership are seen as principally economic, and an assessment of British membership based on five economic tests was published on June 9, 2003 by Chancellor of the Exchequer Gordon Brown. Though maintaining the Government's positive view on the euro, the report came out against membership for the moment, citing the fact that four out of five tests were failed. Brown also said that the best exchange rate for the UK to join the euro would see it valued at 73 pence [1], a value which it has not so far attained, though this value has not been formalised as an official condition of entry. Opinion polls in the UK have shown an increasing majority of the British public to be against joining the euro on grounds of perceived loss of political and economic sovereignty, and a referendum in the near future is generally considered to be increasingly unlikely.

To any new members of the EU that are to join after the euro was introduced the single currency is part of the package of EU membership. Showing the ability to move towards the criteria of euro membership is one condition to EU membership and once they become EU members they will participate in the European Exchange Rate Mechanism, linking their currencies to the euro. Once they fulfill all the necessary conditions to adoption of the euro they will join the single currency, there being no derogations for new members for staying out. Ten countries are set to join the EU on May 1, 2004: Estonia, Latvia, Lithuania, Poland, the Czech Republic, Hungary, Slovakia, Slovenia, Malta and Cyprus and these can be expected to one day adopt the euro, though this is not expected to happen until at least 2007.



Effects of a single currency

Having a single currency is expected to increase the economic interdependency of and the ease of trade between the EU members that have adopted the euro. This is likely to be beneficial for all citizens of the euro area, as increases in trade are historically one of the main driving forces of economic growth. Moreover, this would fit with the long-term purpose of a unified market within the European Union.

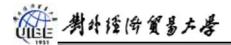
A major benefit is the removal of bank currency transaction charges that previously was a significant cost to both individuals and businesses when changing from one currency to another. Conversely, banks will suffer a significant reduction in profits with the loss of this income.

A second effect of the common European currency is that differences in prices - in particular in price levels - will decrease. Differences in prices can trigger arbitrage, e.g. trade between countries, which will equalise prices across the euro area. Often this will also result in increased competition between companies, which should help to contain inflation and which therefore will be beneficial to consumers.

Some economists are concerned about the possible dangers of adopting a single currency for a large and diverse area. Because the Eurozone has a single monetary policy, set by the ECB, it cannot be fine-tuned for the economic situation in each individual country. Public investment and fiscal policy in each country is thus the only way in which economic changes can be introduced specific to each region or nation.

Others point out that the Eurozone is similar in size and population to the United States, which has a single currency and a single monetary policy set by the Federal Reserve. However, the individual states that make up the USA have less regional autonomy and a more homogeneous economy than the nations of the EU. Of particular concern is the notion that the economies of the EU may not all be 'in sync' -- each may be at a different stage in the boom and bust cycle, or just be experiencing different inflationary pressures.

It has been said that the euro would add great liquidity to the financial markets in Europe.

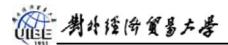


Governments and companies can now borrow money in euro instead of their local currency, and this allegedly would allow access to many more sources of funds. Other economists consider that the potential strength of Euroland would be in the coherent efforts of a virtual greater super-economy, in which it is now potentially easier to create stronger financial associations, rather than in the mere sum of single liquidities.

A final and possibly decisive effect is on the pricing of oil. Euroland consumes more imported oil than the United States. This would mean that more Euros than US dollars would flow into the OPEC nations, except that oil is priced by those nations in US dollars only - Iraq under Saddam Hussein was the exception, until the 2003 invasion of Iraq. There have been frequent discussions at OPEC about pricing oil in Euros, which would have various effects, among them, requiring nations to hold stores of Euros to buy oil, rather than the US dollars that they hold now. This would be a transfer of a 'float' that presently subsidizes the United States to subsidize the European Union instead. Venezuela under Hugo Chavez has been a vocal proponent of this scheme, despite selling most of its own oil to the United States.

Euro exchange rate

After the introduction of the euro, its exchange rate against other currencies, especially the U.S. dollar, declined heavily. At its introduction in 1999, the euro was worth USD1.18; by late 2000 it had fallen to below USD0.85. It then began what at the time was thought to be a recovery; by the beginning of 2001 it had risen to USD0.95. It declined again, finally reaching a low of below USD0.84 in July 2001. The currency then began to recover against the U.S. dollar. In the wake of U.S. corporate scandals, the two currencies reached parity on July 15, 2002, and by the end of 2002 the euro had reached USD1.04 as it climbed further. There is speculation that this strength relative to the dollar might encourage the use of the euro as an alternative reserve currency. On May 23, 2003, the euro surpassed its initial trading value for the first time as it again hit USD1.18, and in the last days of December 2003 the euro even climbed above USD1.26, the highest exchange rate since its introduction. Part of the euro's strength is thought to be due to more attractive interest rates in Europe than in the United States. The expensive Euro has been seen to be hurting European export.



Euro symbol

The international three-letter code (according to ISO standard ISO 4217) for the euro is EUR. A special euro currency symbol (\in) was also designed. After a public survey had narrowed the original ten proposals down to just two, it was then up to the European Commission to choose the final design. The eventual winner had been designed by Arthur Eisenmenger and was inspired by the Greek letter epsilon (ϵ), as well as being a stylised version of the letter "E".

The euro is represented in the Unicode character set (code point U+20AC or decimal 8364) as well as in updated versions of the traditional Latin character sets. Western nations should switch from ISO 8859-1 (Latin 1) to ISO 8859-15 (Latin 9) in order to represent this character. ISO 8859-16 represents this character also.

The European Commission caused some annoyance to designers, type foundries etc. by originally specifying that the euro character was to have exact proportions, not varying from font to font - effectively creating a logo - rather than having it as a proper designable character such as the letters or other currency symbols like the dollar and pound signs. Keeping it to exact measurements would have made it rather broad in comparison to other symbols and digits in most fonts and would have given layout problems in many instances.

However, most type designers have ignored the commission and designed their own variants for each font often based upon the capital letter C, so that it works properly like other currency symbols and looks good with the rest of the typeface. The reader may care to make their own comparison of the euro symbol in a few popular fonts to see that this is so: had the commission's specification been followed, they would be identical, but if it has not, they will be different. The illustration at the top of this article is of the official, invariant symbol.