MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE

NATIONAL UNIVERSITY OF LIFE
AND ENVIRONMENTAL SCIENCES OF UKRAINE

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EUROPEAN ECONOMIC INTEGRATION

TUTORIAL

Kyiv-2019

UDC 339.922 (4) (072)
BBK 65.5
K 32

Approved for publication by the decision of the Academic Council of National University of Life and Environmental Sciences of Ukraine
(Protocol №2 from 25.09.2019)

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K 32 European economic integration: Tutorial / S.M. Kvasha, O. M. Faichuk, O. V. Faichuk. – K.: NULES of Ukraine, 2019. − 270 p.

The tutorial «European economic integration» is compiled according to the work program of the studying course. The theoretical foundations of interna- tional economic integration are highlighted. The issues of formation and func- tioning of the European Union under conditions of sustainable development are considered. The institutional structure, budget, common agricultural, regional and environmental policies of the EU are analyzed in detail. Particular attention is paid to evaluation of the opportunities and threats to Ukraine's national econ- omy after ratification of the Association Agreement with the EU.

The edition is intended for English speaking students. It can also be useful for teachers, researchers, graduate students, managers and specialists of enterprises, civil servants and those who have an interest in the integration of Ukraine's economy to the European Union.

ISBN 978-617-7630-83-7

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PREFACE

Integration of the Ukrainian economy into the European space continues being the priority vector of its development since independence. Synchronous ratification of the Association Agreement between our state and the European Union by the Verkhovna Rada of Ukraine and the EU Parliament was held on September 16, 2014. It should be noted that it has become the new and most significant step in the history of the formation of foreign economic relations of Ukraine (fully came into effect on September 1, 2017). In addition, the legal basis for the unobstructed movement of goods and services had been laid by the Agreement, which was implemented within the framework of an advanced and all-encompassing free-trade area between Ukraine and the EU. The next stage of European economic integration of our country was the launching of the visa-free regime with the EU on June 11, 2017. It was actually a guarantee for freedom of Ukrainians to move freely in the member-states of the integration group. As a result, today in Ukraine there is a real foundation for the evolution of the national economy to a highly developed European one, which has no barriers to the movement of goods, services, capital, labor force and technologies, as well as a realization of unified economic policy of sustainable development.

In general, economic integration of Ukraine with the EU is a continuous process that requires, on the one hand, raising the level of society's general awareness about the opportunities and threats from gradual advancement towards a regional association, and, on the other hand, concentration of deep knowledge about the European economic integration of future specialists, first of all, in the field of economics and management.

The textbook "European economic integration" was designed to highlight and explain the key principles of the formation and development of economic integration in Europe, both at the theoretical and empirical levels of cognition. As a result, this will enable not only to form qualitative knowledge about the subject, but also teach students to determine the economic consequences for the national economy from the integration of Ukraine into the EU.

The textbook was developed in accordance with the work program of the discipline "International economic integration. European Integration ". The publication was based on foreign sources and official statistics EUROSTAT. In addition, the textbook presents a number of interesting and relevant cases and business games in order to improve the effectiveness of learning process by course listeners.

The first chapter is devoted to the consideration of the theoretical foundations of international economic integration. The reader's special attention in it is drawn to discovering the nature of the integration process in the context of hermeneutics of various historical scientific schools. The goals and stages of regional integration are also clarified, and its static and dynamic effects are revealed through the method of graphical analysis *(prepared by Doctor of Sciences (Economics), Prof. S. M. Kvasha; PhD in Economics, Associate Professor O.M. Faichuk).*

In the second chapter of the textbook the authors highlight the history of formation the economic integration model of Western Europe by revealing the criteria and procedure for accession to the European Union (*prepared by PhD in Economics, Associate Professor O.V. Faichuk*).

The third chapter deals with the management institutes of various spheres of the European Union. First of all, the goals, functions and organizational structure of the seven leading European supranational institutions that provide a high level of efficiency of the functioning of the regional integration group are prepared in detail (*prepared by Doctor of Sciences (Economics), Prof. S.M. Kvasha*).

The fourth chapter of the textbook is devoted to the analysis of the key financial instrument for supranational regulation and implementation of the structural policy of a regional union - the EU budget. Particular attention is paid to the principles and procedure for formation the profitable and expense parts of it at the present evolution stage of the EU (*prepared by PhD in Economics, Associate Professor O.V. Faichuk*).

In the fifth chapter, the author describes the issue of EU common agricultural policy, for which was allocated a significant amount of Community financial resources for a long period of time. The emphasis is on the economic and financial mechanism of reforming the common agricultural policy not only in the current period (2014-2020) but also after 2020 (*prepared by Doctor of Sciences (Economics), Prof. S.M. Kvasha*).

The sixth chapter of the publication is devoted to regional policy of the EU, thus achieves the economic growth and increases the quality of life of people, first of all, in the less developed regions of the integration association. Along with the definition, goals and mechanism of the implementation of the common regional policy, there also highlights issues of new priorities for its realization in the future (*prepared by PhD in Economics, Associate Professor O.M. Faichuk*).

The seventh chapter of the textbook deals with the review of environmental policy and the promotion of sustainable EU development. The author highlights the content, stages and mechanism of the formation and implementation of the environmental policy of the integration group. In addition, the focus is on the main achievements of the EU in the field of environmental protection to maintain the health of Europe's population (*prepared by PhD in Economics, Associate Professor O.M. Faichuk*).

The eighth chapter represents the history of integration of Ukrainian economy into the European Union at the present stage of state formation. Great value is given to the economic consequences of the introduction of the deep and comprehensive free trade areas and visa free regime between our state and the EU (*prepared by Doctor of Sciences (Economics), Prof. S.M. Kvasha; PhD in Economics, Associate Professor O. M. Faichuk*).

At the end of the textbook authors presented «Europe 2020 Strategy» (short overview).

CHAPTER 1

THEORETICAL BASIS OF INTERNATIONAL ECONOMIC INTEGRATION

Key concepts and terminology: international economic integration, globalization, global economy, "demonstration effect", "domino effect", free trade area, customs union, common market, economic union, static effects, dynamic effects.

Having studied the material of the chapter you will get to KNOW:

- ✓ the essence of the definition "international economic integration", its preconditions and goals;
- ✓ various scientific approaches to learn about international economic integration;
- ✓ main stages of regional economic integration and its features;
- ✓ static and dynamic effects of international integration processes.

And also have the ability to:

- ➢ determine the effects of the "creation" and "deviation" of trade as a result of establishment of the customs union between countries;
- ➢ predict the dynamic effects of the implementation of the integration process;;
- ➢ identify the stage that a particular integration group has reached.

1.1. Conceptual essence of the «international economic integration»

One of the main characteristics of contemporary international economic relations is the integration that appeared as a result of deepening the international territorial division of labor under the influence of globalization process. In turn, it gradually initiated the intensification regionalization of trade[1]. So, regional economic integration has become the main subsystem of the world economy[2].

It is worth noting, that the integration processes have intensified in the second half of the 20th century in different parts of the world. Significant increase in competition between enterprise and states for access to production factors and markets led to the need for the unification of the economies of territorially adjacent countries. The creation of a large regional economic area has allowed the member states to strengthen their positions in the global economy and increase their competitiveness in the global market. In general, this process was called the international economic integration.

The founders of economic science had tried to reveal the essence of integration processes. In the 14th - 19th centuries, conducting an analysis of consequences of the first preferential Anglo-Portuguese (1703) and Anglo-French (1860) trade agreements, as well as the German customs union (1834-1871) such scholars-economists as A. Smith, D. Ricardo and J. McCulloch speak out against

[1] *Кваша С.М.* Зміни у тенденціях глобальної торгівлі в напрямах регіональної інтеграції / С.М. Кваша, В.І. Власов // Економіка АПК. – 2014. - №7. – С. 142.

[2] *Огінок С.В.* Еволюція поглядів на проблеми економічної інтеграції та формування єдиного ринку ЄС // Науковий вісник Ужгородського національного університету. – Ужгород. - Випуск 6, Ч 2. – 2016. – С. 138-142.

such trade alliances because according to their convictions it hinder the normal development of international exchange of goods.

Instead, the German economist *Friedrich List* (1789-1846) disagreed with the convictions of British classical political economy supporters. He believed that complete freedom of trade on the contrary hindered the development of productive forces in the national economies of the weaker countries. Confidently standing on the side of protectionism, *F. List* managed to convince the authorities of Germany, Austria and Prussia in the need to establish the customs union. As a result the policy of protection against foreign competition together with the historical and ethnical relationship of the states not only gave a new impetus to the economic development of the region, but also became the basis of the economic tradition for the whole Europe.

It should be emphasized that one of the first scientists who attempted to explain the definition of "international economic integration" was the Swiss economist *V. Ropke* and the French economist *M. Allais* (a representative of the early neoliberalism). Under that they understood the creation of a single market space on a scale of several countries, the functioning of which is based on the actions of the statist market forces and free competition independently of the economic policy of the states and the existing national and international legal acts. In the end, *M. Allais* wrote: "Integration ultimately creates a single market which have no barriers to the movement of goods, capital and people; there are no customs duties or quantitative restrictions, the currency is freely convertible, and capital can be freely invested where is higher profitability; finally, a market in which workers can find work appropriately to their skills "(M. Allais," A United Europe, the Road to Prosperity ")[3].

However, in the 60s of the last century, liberal approaches were criticized by supporters of the structuralist school. They sought to uncover the structural side of the international integration process. In addition, the structuralists were convinced that in practice it makes sense to speak about economic integration only at the stage of the economic union, when the process of interpenetration of national holdings is observed and a qualitatively new economic mechanism is formed. Thus, the well-known representative of the structural direction *P. Streeten*[4] considered integration as a synthesis of common policies - monetary, fiscal, antimonopoly and employment policies. In turn, economical regionalization, according to *A. Marshall*, represents a union of non markets, but holdings in the interests of the population. The scientist wrote: "Integration occurs when the links of solidarity that exist between its participants that full freedom of trade brings no harm to anyone and is beneficial to all" (*A. Marshall*).[5] Similar definition defined other structuralist of the integration engagement F. Perroux, who saw in it the creation of a "space of solidarity"[6] .

In general, under the regional economic integration, structuralists understood the process of deep structural transformations, as a result of which the formation of optimally balanced holdings are expected.[7].

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[3] *Allais M.* L`Europe unie. Rout de la prospérite / M.Allais. – Paris : Calmann-Lévy, 1960. – P. 19

[4] *Streeten P.* Economic Integration. Aspects and Problems. Second Revised and Enlarged Edition. – Leyden, 1964. – P. 16-17.

[5] *Marchal A.* L`Europe solidaire / A. Marchal. – Paris : Cujas, 1964.- P. 180-191.

[6] Международная интеграция: Учеб. пособие / Под. ред. О.Б. Чернеги. – Донецк: ДонГУЭТ, 2005. – С. 21.

[7] Міжнародні інтеграційні процеси сучасності:[монографія] / А.С. Філіпенко, В.С. Будкін, М.А. Дудченко та ін. – К.: Знання України, 2004. – 304 с.

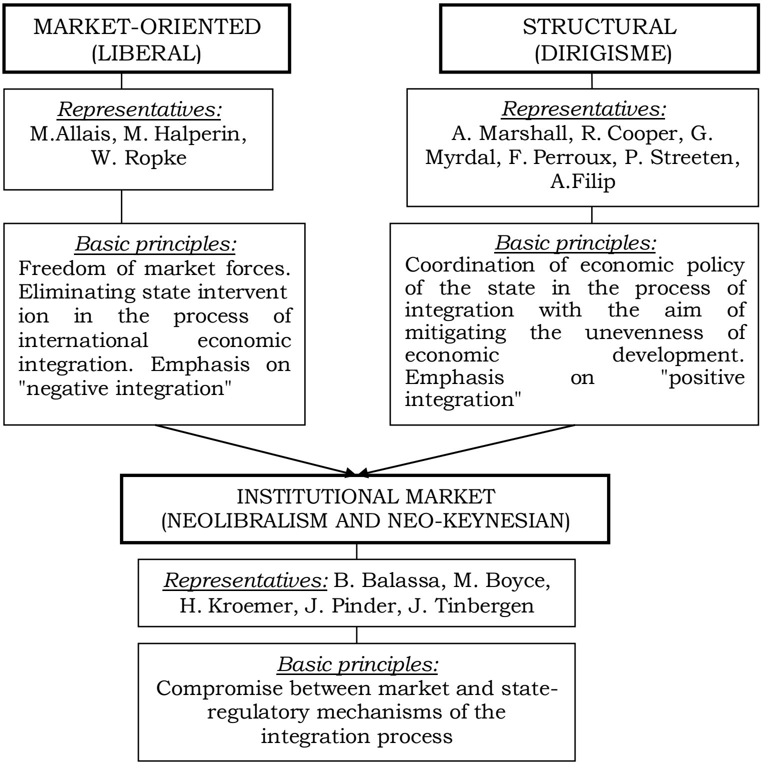

Figure 1.1. Classification of scientific approaches of international economic integration[8].

Instead, the compromise (market-institutional) direction was based on the understanding of the limitation of the classical principle of "laisser faire" and the need for the gradual use of state regulation instruments to direct international economic integration

[8] *Файчук О.М.* Економічні важелі регулювання аграрного ринку України в умовах міжнародної інтеграції [Текст] : дис. ... канд. екон. наук : 08.00.03 / Файчук Олександр Михайлович ; Нац. аграр. ун-т. – К., 2008. – С.16.

in the right direction. Thus, *J.Tinbergen*[9] under integration considered not only the cancellation of various barriers to economic activity, but also the implementation of a purposeful, coherent policy. The scientist wrote: "Under the economic integration, we can understand the creation of the most desirable structure of the international economy by removing artificial obstacles to achieve optimal activity and
introducing all desired elements of coordination and unification. Therefore, the problem of the effectiveness of integration is part of the problem of higher level, the so-called problem of optimal economic policy" (*J. Tinbergen*).[10]

An important place among the scientific doctrines of a market-institutional approach is the formula of "positive" and "negative" integration of *J.Pinder*.[11]. He argued that the effective use of country's resource potential could be achieved through the liberalization of the movement of goods and factors of production that is due to the "negative integration". However, the scientist also considered that the creation of a common market already requires additional measures to harmonize relevant national policies. *J.Pinder* noted that the real economy is regulated by the government through the use of a system of rules, rules and instruments that create barriers to deeper economic integration ("positive integration").

Moreover, one of the most well-known representatives of the market-institutional approach, B. Balassa, recommended to differ the definitions

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[9] *Tinbergen, J.* International Economic Integration / J. Tinbergen. - Amsterdam: Elsevier, 1954. – P.95

[10] Там саме.

[11] *Pinder John.* Policy Networks and European Union Policy Making: A Reply to Kassim // West European Politics. – 1995. - #18(2)

"integration" and "cooperation". He believed that if cooperation involves the use of trade agreements between countries aimed at reducing market discrimination, then the process of integration directly is intended to completely eliminate them. B. Balassa also said: "We propose to define economic integration as a process and as a state. As a process, it involves measures applied to different national states to eliminate discrimination between economic units. As a state, it can be represented as the absence of various forms of discrimination between national economies "(*B. Balassa*).[12]

In the Latin the defenition of "integration" *("integratio")* means merging, combining separate parts into a single whole. It follows that international economic integration is a high level of internationalization of production based on the development of deep stable relationships and the division of labor between national economies, which leads to the gradual merging of reproductive structures[13]. It should be noted that integration is not a spontaneous process. It provides development and implementation of a common policy of the member countries of the integration group for the conscious and purposeful regulation of mutual trade and economic relations.

In other words, international economic integration is a process of rapprochement, interpenetration, integration of national economies and the formation of a holistic regional economic complex. *It has features, which in aggregate distinguished it from other forms of international economic relations:*

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[12] *Balassa B.* Theory of Economic Integration / B. Balassa. – London : Allen & Unwin, 1961. – P.1

[13] *Харламова В.Н.* Международная экономическая интеграция. Учебное пособие. МГИМО. – М.: Изд-во «АНКИЛ», 2002. – 175 с.

– elimination of barriers to the transfer of goods, services, labor and capital between the member countries of the association;

– coordination and harmonization of the economic policy of member-states group;

– interpenetration of production processes in the regions of the regional association, which leads to the formation of technological unity of production;

– intensification of cooperation and international specialization in science and production, as well as introduction a mechanism for financing innovative development of the region;

– structural changes in the national economies of the member-states of the group;

– convergence of legislation, norms and standards between member states of the association;

– purposeful regulation of the integration process;

– appearance of supranational authorities for managing the economic interaction of the member-states of the group.

BUSINESS GAME: «Definitions»

Task:

Determine which of the scholars have the following expressions

1	*Integration occurs when the links of solidarity that exist between its participants that full freedom of trade brings no harm to anyone and is beneficial to all*	***A***	*M. Allais*

Continuation of the table

2	*We propose to define economic integration as a process and as a state. As a process, it involves measures applied to different national states to eliminate discrimination between economic units. As a state, it can be represented as the absence of various forms of discrimination between national economies*	***B***	*A. Marshall*
3	*Under the economic integration, we can understand the creation of the most desirable structure of the international economy by removing artificial obstacles to achieve optimal activity and introducing all desired elements of coordination and unification. Therefore, the problem of the effectiveness of integration is part of the problem of higher level, the so-called problem of optimal economic policy*	***C***	*B. Balassa*
4	*Integration ultimately creates a single market which have no barriers to the movement of goods, capital and people; There are no customs duties or quantitative restrictions, the currency is freely convertible, and capital can be freely invested where is higher profitability; finally, a market in which workers can find work appropriately to their skills*	***D***	*J. Tinbergen*

1.2. Preconditions and goals of integration process

The development of international economic integration implies the presence of certain preconditions:

➢ *approximately the same level of economic development and ripeness of a market economy*. The national economy of the countries that are integrating must be compatible. Moreover, experience shows that the most effective is the process of integration of developed countries. On conversion of Norwegian economist E. Reinert "... free trade is profitable to both parties only if they are at one stage of their development»[14];

➢ *the existence of common borders and historically structured relations.* Typically, those countries that are on the same continent with geographic proximity are integrated because they are easier to solve the problem of transportation, language, etc.;

➢ *the presence of complementary structures in the economies of the countries that are integrated.* The absence of the latter is one of the main reasons for the low efficiency of intagration processes in the African and Middle Eastern countries;

➢ *political will of the leadership of the states, the presence of the leaders of regional integration;*

➢ the "demonstration effect" means that the success results from the integration of certain countries should encourage other states to join this regional association (for example, the positive effect of the EU has encouraged 10 countries of Central and Eastern Europe in 2004 to join the group);

➢ *"domino effect".* Regional integration leads to the reorientation of economic ties within the association, and as a result - to reduce the trade of those countries that are left beyond its borders. In the end, the latter are also compelled to enter into integrationalization.

In return, regional integration has specific goals:

✓ *to increase the competitiveness of national economies and jointly confront the challenges of globalization;*

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[14] *Райнерт Эрик С.* Как богатые страны стали богатыми, и почему бедные страны остаются бедными / Эрик С. Райнерт. – 3-е изд./ пер. с англ. – М.: Издательский дом Высшей школы экономики, 2015. – С. 90,97.

✓ *to obtain the benefits of a "economies of scale"*. We are talking about the need to expand the size of the market, reduce transaction costs, create a new combination of factors of production, as well as stimulate the flow of foreign direct investment;

✓ *to modernize the economy and make positive structural changes*. Usually, developed countries want to involve their neighboring countries in the integration process in order to help the latter to implement market reforms and to form a full-fledged capacious market for their products;

✓ *to strengthen the positions on the world market of integrated countries*. Regional integration allows countries to represent their interests in international organizations (for example, to strengthen their own positions in the WTO negotiations);

✓ *to support the newly created sectors of the national industry*. The formation of a more powerful free market is expected to lead to positive outcomes in the activities of new enterprises or sectors of the economy (this target was pursued by the countries of Latin America and Central Africa during the 60-70s of the last century);

✓ *to make relations between the member-states of the association stronger and more stable*. As a result of regional integration, the causes of confrontation gradually disappear and a favorable foreign environment is created (relevant for the countries of the Middle East and Africa).

CASE STUDY 1.1
«Atag Holdings NV»

"Atag Holdings NV" is a Dutch company whose main business is kitchen appliances. According to "Atag Holdings NV," its location allows you to win from the single market, but the company is still not doing the best. «Atag Holdings NV» plant is located a mile from the border with Germany and near the center of the EU. According to the company's management, it could cater to both "potato" and "spaghetti" belts (so-called consumers in northern and southern Europe), producing two main product lines and selling these standardized "euro-products" to "euro-consumers". The main advantages of this method are economies of scale, obtained through mass production of a standardized range of products.

Unfortunately, "Atag Holdings NV" soon realized that the "euro-consumer" theory was baseless. In different countries, the preferences of consumers differ considerably deeper than the company imagined. Consider an example with equipment for tiled stoves. "Atag Holdings NV" planned to trade in EU countries with only two varieties, but it turned out that there should be 11 of them. Belgians that cook food in huge pots require very large burners. The Germans prefer pots of oval shape, and, consequently, burners that would fit this dish. The Frenchmen need small burners with low combustion temperatures for slow cooking sauces and broths. The Germans like the oven handles on top, and Frenchmen - in front. Most Germans and French enjoy black and white stoves, and British need a wide range of colors, up to peach, gray-blue and pale green. Despite these problems, the volume of foreign sales of kitchen appliances "Atag Holdings NV" grew by 4% of gross revenues in 1985 and up to 25% in 1994. However, today, the company is much more realistic about the benefits of the single market of a group of countries, whose culture and traditions are significantly and often fundamentally different. Today, according to "Atag Holdings NV", the competitiveness of the company is supported not by the magic concept of "euro-product", designed for the "euro-consumer", but by the variety of design and *product quality. But the costs of "Atag Holdings NV" are now higher than they were when the firm was able to adhere to a greater standardization of products.* [15]

Source: *Гіл, Чарльз В. Л. Міжнародний бізнес: конкуренція на глобальному ринку / В.Л.Чарльз Гіл / Пер. з англ. А.Олійник, Р. Ткачук. – К.: Вид-во Соломії Павличко «Основи», 2001. – 856 с.*

<u>Questions to the case:</u>

1. What is the objective pursued by the Dutch company in terms of European integration?

2. Why "Atag Holdings" plans were not implemented in practice?

1.3. Stages of international economic integration

On the way to the formation of a single territorial economic complex, international economic integration takes place in a series of successive stages. The representative of the neoliberal school B. Balassa distinguishes and interprets the following:

1. Free trade area;
2. Customs union;
3. Common market;
4. Economic union;
5. Complete economic integration[16].

The first stage of the international integration process is *the free trade area*, which is characterized by the complete abolition of tariff and non-tariff barriers between the member-states of the group for the free movement of goods, works and services.

Table 1.1

Peculiarities in stages of international economic integration[17]

Stages of integration	Elimination of customs barriers in common trade	Common customs tariffs for the third countries	Free movement of capital and labor	Harmonization of economic policy	Implementation of a common economic policy
Free trade area	+	-	-	-	-
Customs union	+	+	-	-	-
Common market	+	+	+	-	_
Economic union	+	+	+	+	_
Complete economic integration	+	+	+	+	+

At this stage, each of the participating countries retains its own level of protectionism (the size of tariffs and/or quotas) pertaining to the third countries. The feature of the functioning of the free trade area is that the member states follow WTO rules and implement an independent foreign and domestic policy towards other states[18]. It should be noted that this stage, according to *J. Pinder's* classification, refers to the so-called "negative integration". The main objectives of establishing a free trade area are: to enable consumers [16]of trade union

[16] *Шемятенков В.Г.* Европейская интеграция: учеб. пособие для студ., обуч. по спец. «Мировая экономика». – М.: Международные отношения, 2003. – 400 с.

[17] Міжнародні інтеграційні процеси сучасності: [монографія] / [А.С. Філіпенко (кер. авт. кол.), В.С. Будкін, М.А. Дудченко та ін.]. – К.: Знання України, 2004. – 304 с.

member countries to buy cheaper goods and to promote the competitiveness of the national economy through the mechanism of international competition within the integration group. Currently, one of the most developed free trade areas is the European Free Trade Association (EFTA). Since 1960, the integration group has 7 countries: Austria, Iceland, Liechtenstein, Norway, Finland, Sweden and Switzerland.

The customs union, as the second stage of regional integration, is essentially a free trade area in which trade tariffs with so-called third countries are unified. In other words, at this stage, a common and agreed tariff and customs policy is being reformed. It should be emphasized that the customs union also refers to the "negative" integration, which continues to apply the terms of the WTO. The key objective of the customs union is to further deepen trade cooperation between its member countries. Today, among the examples of customs unions in the world, one can be distinguished – the Andean Pact, which was signed by Bolivia, Ecuador, Colombia and Peru. The last one initiated free trade between the member states and introduced a common tariff for the import of goods from third countries in the range from 5 to 20%[19].

The common market, essentially, is the beginning of industrial integration, because at this stage the process of internationalization goes from trade to production ar-

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[18] Там саме

[19] *Гіл Чарлз В.Л.* Міжнародний бізнес: конкуренція на глобальному ринку / Пер. з англ. А.Олійник, Р. Ткачук. – К.: Вид-во Соломії Павличко «Основи», 2001. – 856 с.

eas. Free movement of inputs (capital, labor force and technologies) is added to the free movement of goods, works and services. At this stage, the first primitive steps towards the agreement of the member states with the grouping of certain spheres of economic policy (agrarian, monetary, fiscal, etc.) can be observed. Despite the fact that the countries of the common market are already beyond the scope of the WTO rules, the process of integration is still negative. It should be noted that the *MERCOSUR* South American Integration Group (Argentina, Brazil, Paraguay and Uruguay) for a long period tends to evolve into a common market.

The economic union is a synthesis of the common market and the complete harmonization of all elements of macroeconomic policy to eliminate negative weights that arise as a result of the natural forces of the market. It becomes clear why *J. Pinder* began to consider "positive" integration from the stage of the economic union. Moreover, the last one aims at equalizing indicators of economic development of the member countries of the association.

Complete economic integration (or political integration). At this stage, there is the formation of supranational authorities that must unify the anti-crisis, currency and other policies of the member countries. In other words, "full economic integration between countries involves an alliance with a common economic policy and "supranational" government of this confederation with great economic authorities"[20]. Undoubtedly, at this stage[17] of regional integration, the member states are

[20] Міжнародні інтеграційні процеси сучасності: [монографія]/ А.С. Філіпенко, В.С. Будкін, М.А. Дудченко та ін. – К.: Знання України, 2004. – 304 с.

forced to give up their sovereignty more and more. The main objective of complete economic integration is the achievement of high standards and living conditions of people as a result of creating a unified and qualitatively new economic environment. Clearly, the USA and Canada are at this stage since the unification of independent states into a single nation[21].

1.4. The economic effects of regional integration

Under conditions of regulation by the state of the process of trade between the countries applied aspects of foreign economic theory got development. In particular, it is a question of *the theory of customs unions*, which was proposed by a Canadian economist, representative of the scientific course of the new classicism of the Chicago School of Economics by *Jacob Viner* (1892-1970). One of his most famous works is the book "Question of the customs union" (1950). In it, *J. Viner* analyzes the trade between the states in the conditions of existence in each of them their own customs tariff and in the condition of signing of a customs union agreement between them, which eliminates the tariffs in mutual trade. According to *Viner*, as a result of the establishment of a customs union (the import duty is canceled in the mutual trade of member countries and the creation of a common customs

[21] *Гіл Чарлз В.Л.* Міжнародний бізнес: конкуренція на глобальному ринку / Пер. з англ. А.Олійник, Р. Ткачук. – К.: Вид-во Соломії Павличко «Основи», 2001. – 856 с.

territory) two variants of economic effects for each of them are traced:

- ✓ *static effects* – the consequences that arise in the first years, immediately upon the admission of a particular country to a customs union;
- ✓ *dynamic effects* – this is a variety of long-term changes in the national economy of the member countries of the customs union (it is difficult to estimate).

The static effects of participation in the customs union are limited to two types: *"trade creation"* and *"trade diversion"*.

"Trade creation" is a reorientation of local consumers from a less efficient domestic source of supply of goods to a more efficient external source (import), which became possible due to the abolition of import duties within the customs union. The removal of trade barriers caused by entry into the trade and economic union provides an opportunity for the development of a greater specialization in accordance with the principle of comparative advantages;

Let's consider graphically how the effect of "trade creation" is realized from the standpoint of a separate country (*Figure. 1.2*).

By the moment of the launch of the integration process, the price for goods inside country A is (P_0 + *tariff)* (the price of cheaper foreign goods, with the payment of import duty). At this price, native producers are able to produce goods in quantity Q_2, while local consumers are able to buy in quantity Q_3. The difference between consumption and production amounts $(Q_3–Q_2)$ is the import value.

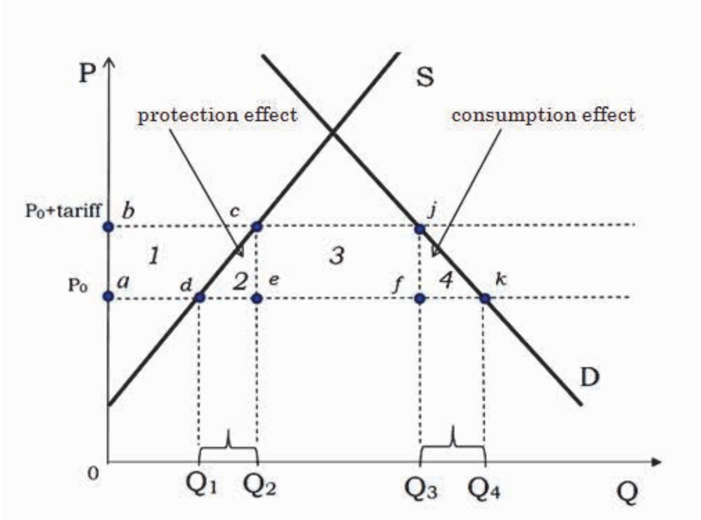


Figure. 1.2. The effect of "trade creation" as a result of economic integration.

After the creation of a customs union (or free trade area) between countries A and B, which stipulates a bilateral abolition of import duties, domestic consumers are given the opportunity to purchase goods from a more efficient foreign producer from country B at the price P_0. Obviously, at a lower price, domestic producers will be interested in developing and placing fewer goods on the market, in particular Q_1, while consumer purchasing power will rise to Q_4. As a result, the value of physical imports will increase naturally and will amount to $(Q_4 – Q_1)$. This means that there is an effect of expansion (creation) of trade.

Trapezium area abcd (1) – this effect of redistribution, that is, the transfer of part of the surplus profits of domestic producers of goods to more effective foreign competitors. In turn, *the area of the rectangular triangle dce* (2) illustrates the effect of protection, which demonstrates the growth of income of the country, resulting from the fact that due to the abolition of customs duties more effective in the production of foreign goods are imported, replacing the domestic less effective in the production of local analogues. *The effect of income* (direct loss for the country) is illustrated by *the area of the rectangle ejj* (3). As a result of the abolition of import duties, the area of the last one indicates the amount of funds that, after the creation of a customs union, are no longer in the state treasury. Finally, *the area of the rectangular triangle fjk* (4) shows the effect of consumption, that is, as the consumption of goods in the country A increases, when there is a decrease in its price. It follows that the total economic gain of consumers in country A due to the integration process will increase by the size of the sum of the areas of geometric figures - (1), (2), (3), (4). However, since the sum of the areas of figures (1) and (3) means loss for the state, the net static gain for the analyzed country will be: [(1 + 2 + 3 + 4) – (1 + 3)] or [2 + 4].

The next static effect for the country from joining the customs union is the effect of *"trade diversion"*. This is a reorientation of local consumers for the purchase of goods into a more efficient non-integrated source of supply to a less effective internal integration source, which is the consequence of the abolition of import duties within the customs union.

Let's show this effect *in figure 1.3*. Assume that country A has trade relations with the countries B and C. In addition, the formation of a customs union between the states A and B is expected. In the country C, the internal unit price of a particular product is P_1, and in country B – P_0.

Since the import of this product into country A is subject to customs duties, in the domestic market, the goods imported by the country C will cost *(P_1 + tariff)*, while the price of the similar product imported from the country B – *(P_0+tariff)*. It is clear that under such market conditions country A will import goods from the country C.

Now, if countries A and B have agreed to create a customs union, this means that the goods to country A will be supplied from country B at the price P_0, because after the cancellation of the import duty they became cheaper than in country C in relation to which continues to charge a duty.

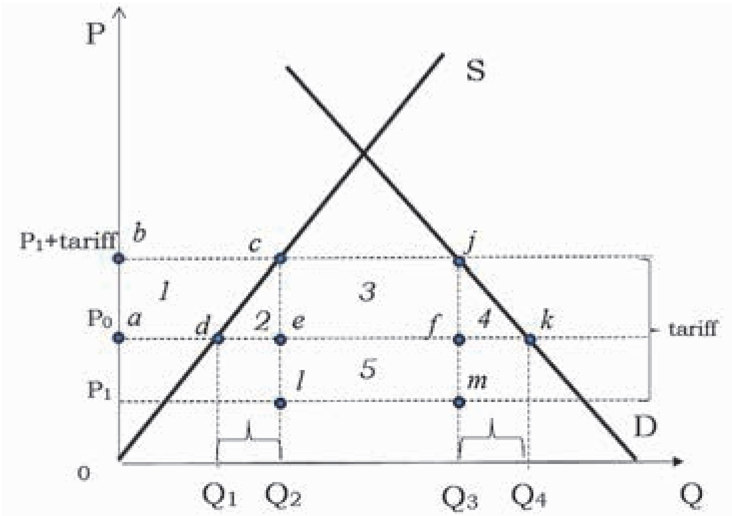


Figure 1.3. The effect of "trade diversion" as a result of economic integration.

Based on the previous graphical analysis (look at the figure 1.2), as a result of the integration process, the growth of net economic welfare of the country will also be determined by the size of two rectangular triangles (2) and (4). However, as noted earlier, before the creation of a customs union, country A received a receipt for payment of import duties from importing goods from the country C. Graphically, this is equal to the area of the two rectangles *ecjf* (3) and *lefm* (5). If the size of the figure (3) after the integration process has been transformed into a part of the total economic gain of the consumers of country A, then the area of the figure (5) represents the difference between the import value from country C and B and it is lost after the establishment of the customs union. In other words, it is the price of transition to consumption of goods, the production of which is marked by higher costs. Now it becomes clear that the net economic gain from the integration process for country A is: [(1 + 2 + 3 + 4) – (1 + 3 + 5)] = [2 + 4–4]. In the case where the area of the figure (5) is greater than the sum of the areas of figures (2) and (4), then there is every reason to assert the net loss for the country, that is, the so-called effect of "trade diversion".

In turn, *the dynamic effects* of a long-term nature reflect the overall transformation of the national economy as a result of the integration process.

These effects include:

– creating more competitive environment for national commodity producers and reducing the level of monopolization of the state's economy in connection with the reduction (or complete abolition) of restrictions on the movement of goods and inputs;

– the emergence of the economies of scale effect on production, which manifests itself in reducing the costs of enterprises due to the expansion of economic activity in the country's participation in the international integration group;

– the growth of the intra-industry exchange of goods between the member countries of the integration group and the reduction of inter-industry exchange through the deepening of the production specialization;

– an increase in investments in the economies of member countries, due to structural changes in production and consumption, rising incomes, as well as economies of scale;

– the growth of the mobility of inputs within the integration association (capital and labor are moved to those industries where their deficit is observed), which leads to an increase in the economic efficiency of production, etc.

However, in addition to the positive effects of the integration process, there can be negative ones. First, as a result of international integration, the outflow of resources from the country (distribution of resources in favor of stronger union members) or in the direction of the geographical center of the union may take place; and secondly, there can be losses from an increase in production due to the creation of too large companies that are becoming ineffective; and thirdly, the costs of functioning of the customs union may increase, etc.

CASE STUDY 1.2.
«Influence of NAFTA on textile industry in USA»

When the North American Free Trade Agreement came into force in 1994, many people feared that due to the transfer of production from the United States to Mexico, the American textile industry would lose many jobs. Opponents of NAFTA are persistent, but unsuccessfully argued the ineffectiveness of signing the deal because of its negative impact on employment in the United States, especially in areas such as textiles.

In retrospect, four years after the signing of NAFTA, we see that the critics obviously were right. From 1994 to middle of 1997, about 149,000 US workers lost their jobs that is more than 15% of all employed in the textile industry. This loss was largely attributable to the movement of production to Mexico. From 1994 to 1997, exports of textile from Mexico to the United States tripled and reached $ 3.3 billion. In 1993, the American manufacturer of jeans "Guess" produced 95% of its products at home. Now it receives about 60% of textile from outside the United States, and Mexico is one of its largest suppliers. Similarly, Fruit of the Loom Inc, the largest whitewear manufacturer in the United States in 1995, promised to close 6 of its domestic factories and reduce the volume of operations on the other two, freeing about 3200 workers, or 12% of the American workforce. The company announced that the closure of factories was a part of its plans to move production to cheaper foreign factories, for example in Mexico.

Until the closure of plants, less than 30% of the total textile was carried out outside the United States. However, "Fruit of the Loom Inc" was planning to move most of the production to Mexico.

Having carefully studied all the information, we could see that the problem is complicated. In fact, in the US textile industry, jobs have been decreased, but clothing prices in the United States since 1994 have been decreased as well because fabric production has shifted from high-cost American to low-cost Mexican producers. Obviously, US consumers who now could spend more on other goods have obviously benefited from this. For example, the price for a typical pair of fashion jeans fell from $ 55 *in 1994 to $ 48 in 1997. Such a fall in prices was not a simple consequence of the shift of production from the United States to Mexico. NAFTA has also transfer of production from Asia to Mexico. In 1980, 83% of all American textile were imported by Asia. Until 1997, only 41% of the total US imports of textile were from Asian producers, as companies moved their production from Asia to Mexico. The example of this trend is the clothing retailer The Limitted Corporation Inc., which in 1997 moved its textile from Sri Lanka to Mexico. According to the representative of The Limitted, howewer salaries in Mexico tripled $ 60 in a month, which workers are getting in Sri Lanka, combination of production in Mexico and the United States is quickly and more profitable. NAFTA does not have import tariffs from Mexico, but there is a 19% tariff for textile imported from Sri Lanka. Taking into account all these factors, fabrication of textile in Mexico is cheaper than in Sri Lanka. Consequently, as a result of the conclusion of NAFTA, production has transfered to an independent source with lower consumption. The Limitted has plans to transfer its savings to US consumers in the form of lower prices.*

In addition to lower prices, moving textile production to Mexico has given the US economy some benefits. First, it was contributed to the growth of exports of American textile manufacturers and workers in the chemical industry. By signing NAFTA, American manufacturers such as Burlington Inustrie and E.I.Du Inc. supplied small volumes of textile and yarn to Mexican manufacturers. Now, as the production of clothing has transfered from Asia to Mexico, the export of textile and yarn to this country has significantly increased. American manufacturers supply raw materials to Mexican sewing factories. From 1994 to 1997, the exports of textile and yarn in the form of ready-to-stitching almost doubled-all to Mexico and amounted to 2.5 billion dollars annually. In addition, American textile manufacturers have increased their sales, as garment factories in Mexico order this of equipment. Export of textile machines to Mexico in 1995 in compare to the previous year almost doubled and amounted to 35.5 million dollars.

While the US textile industry has been reducing many jobs, NAFTA supporters argue that the US economy has achieved a net *gain in the form of lower clothing prices and an increase in exports of textile and yarn producers as well as textile manufacturers. Due to the NAFTA signing, trade was formed. Gains from trade have been achieved by American consumers and producers in certain sectors. As always, someone from the free trade area wins, and someone loses, however, according to the convictions of supporters of this idea, profits obviously outweigh the losses.*

Source: *Гіл, Чарльз В. Л. Міжнародний бізнес: конкуренція на глобальному ринку / В.Л.Чарльз Гіл / Пер. з англ. А.Олійник, Р. Ткачук. – К.: Вид-во Соломії Павличко «Основи», 2001. – 856 с.*

Questions to the case:

1. What static effect of the American Textile Industry had Mexico from joining NAFTA?

2. What dynamic effects did the US have? Was NAFTA justified for the American textile industry?

CONTROL QUESTIONS

1. What is the international economic integration?
2. Which economic schools were engaged in issues of international economic integration?
3. What is the difference between market and structuralist scientific schools of international economic integration?
4. Describe the features of international economic integration.
5. Describe the preconditions for international economic integration.
6. What the effects are as a result of international economic integration?
7. On the basis of which models are empirical studies of the effects of international economic integration carried out?
8. What do the effects of "creation" and "deviation" of trade mean?
9. What the objectives are belong to regional integration?

10. How is the "economies of scale" associated with international economic integration?
11. What are the main stages of the international integration process?
12. What is the difference between a free trade area and a customs union?
13. What the negative economic consequences in the long run could be as a result of regional integration?

CHECKING TEST

1. What is the main factor that in the XX century initiated the process of regional economic integration:

a) competition in the global market;
b) economic crisis;
c) scientific and technological progress;
d) World War II.

2. Which of the prominent German economists, defending the protectionism, managed to persuade the leadership of Germany, Austria and Prussia in the expediency of creating the customs union ?:

a) K. Marx; b) F. List;
c) D. Ricardo; d) J. Schumpeter.

3. Complete the sentence:

The process of approaching, interpenetration, unification of national economies and the formation of a integral regional economic complex is …………….

4. Which of the economists in the mid-twentieth century proposed the theory of customs unions?:

a) A. Smith; b) J. Viner;
c) B. Balassa; d) V. Leontief.

5. Fill in the missing word:

The reorientation of local consumers from a less efficient internal source of supplies to a more efficient, external source (import), which became possible due to the abolition of import duties within the customs union – is the effect of ……………… trade.

6. Fill in the missing word:

The reorientation of local consumers for the purchase of goods from a more efficient non-integrated supply source to a less effective internal source resulting from the abolition of import duties within the customs union – is the effect of ……………… trade.

7.Which country is not part of NAFTA?

a) Canada;
b) Costa Rica;
c) the USA;
d) Mexico.

8. Match the scientific schools to their representatives in the context of the study of international economic integration:

№	Scientific school	№	Representatives
1	Market (liberal)	**A**	J.Pinder, Jan Tinbergen, B.Balassa
2	Structuralist (dirig-isme)	**B**	M.Alle, M.Galperin, V.Repke
3	Market-institutionl	**C**	R.Kuper, F.Perroux, P.Streeten, A.Filip

9. Which countries are included in EFTA?

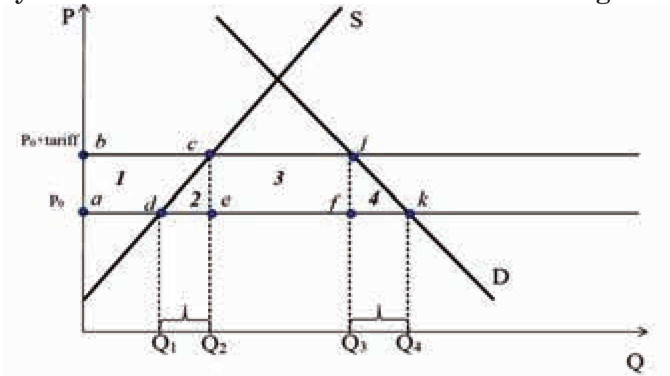
а) Norway, Switzerland, Liechtenstein, Iceland;
б) Switzerland, Norway, Luxembourg, Ireland;
в) France, Italy, the Netherlands, Luxembourg;
г) Italy, the Netherlands, Norway, Switzerland.

10. Select the dynamic effects of international economic integration:

а) the effect of "economies of scale";
б) increasing competition;
в) growth of foreign investments;

d) lower prices for goods due to the abolition of import duties.

11. Where does the picture show a net static gain for society from trade creation due to economic integration?



12. Fill in the missing word:

Representatives of .... direction were convinced of the limited principle of "laisser faire" and the need for moderate introduction of state-owned shares in order to direct the process of international economic integration in the right direction.

13. Match the forms (stages) of the international economic integration with their characteristics:

№	Scientific school	№	Representatives
1	Free trade area	**A**	represents a synthesis of the common market and the complete harmonization of all elements of macroeconomic policy to eliminate the negative effects that arise as a result of the action of the natural forces of the market.

Continuation of the table

2	Customs union	**B**	is the beginning of industrial integration, because at this stage the process of internationalization is shifting from the area of trade to production. Freedom of inputs (capital, labor force and technologies) is added to the free movement of goods, works and services.
3	Common market	**C**	provides an alliance with a single economic policy and "supranational" government of this confederation with great economic powers. Undoubtedly, at this stage of regional integration, the member states are forced to give up their sovereignty more and more.
4	Economic union	**D**	is, in fact, a free trade area in which unification of trade tariffs with so-called third countries takes place. In other words, at this stage a common and agreed customs and tariff policy is implemented.

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CHAPTER 2

ESTABLISHMENT AND PRINCIPLES OF ENLARGEMENT OF THE EUROPEAN UNION

Key concepts and terminology: European Union, Schumann plan, The Single European Act, The Maastricht treaty, Copenhagen criteria, *acquis communautaire*, European Economic Community.

Having studied the material of the chapter you will get to KNOW:

- ✓ the essence, time of foundation and main characteristics of the European Union;
- ✓ the main stages of the European Union formation and their peculiarities;
- ✓ the main stages of the country's accession to the EU;
- ✓ criteria for state membership in the European Union.

And also have the ability to:

- ➢ determine at what stage of the accession process is an applicant country for EU membership;
- ➢ determine whether the country is ready for accession to the EU (meets the Copenhagen criteria).

2.1. History of Western European economic integration

European Union (EU) – the unification of European states with a kind of institutional and political system that has no analogues in the history of international relations[1]. naselennya.

The total area of the EU is 4.5 million km^2 with a population of 508 million people (a third after China and India). It is 6.9% of the world population.

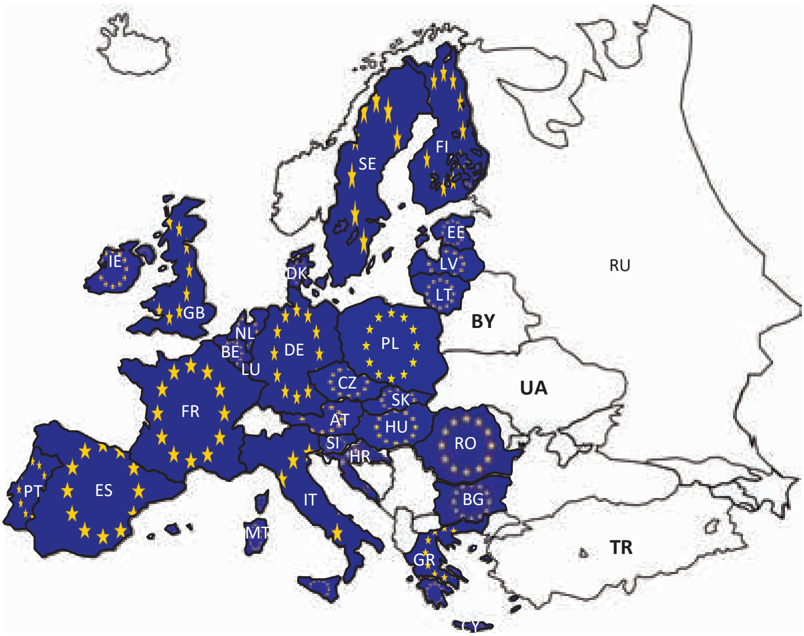

Figure. 2.1. Map of the European Union at the end of 2018.

The EU consists of 28 countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom. 19 of these countries are in the eurozone, that officially use the euro currency. The GDP of the integration group is larger than in the US and by the end of 2017 was € 15.3 trillion. The EU's share in world trade is 15.6%. EU economic policy is looking for sustainable development through investments in transport infrastructure, energy and research - while minimizing the impact of economic development on the environment.[1]

The beginning of the European Community was laid after the Second World War, namely in the late 40's of the twentieth century. The political component of European integration was seen as a priority, and economic integration was a turning point.[2]

In general, the evolution of the EU can be represented in the following stages:

1945-1957 – "The World in Europe - The Establishment of Cooperation". The EU was formed as a result of comprehension of the tragic events of the Second World War and the desire for a rapid recovery of the economies of European states. The first steps towards European integration were connected with the implementation of the so-called "Schumann plan". On May 9, 1950, the French Foreign Minister, R. Schuman, proposed the creation of a European coal and steel association (ECO) in order to prevent the beginning of a

[1] https://europa.eu/european-union/about-eu/figures/economy_en#tab-6-13

[2] Оцінка можливостей розширення і заміщення ринків збуту для продукції підприемств реального сектора України: монографія / За ред. д.е.н., проф. .О. Кизима, к.техн. н., проф. І.Ю. Матюшенка. – Х. : ВД «ІНЖЕК», 2014. – 280 с.

new war by establishing international control over key branches of production for the military industry. In the end, on April 18, 1951 in Paris, six countries - France, Germany, Italy, Belgium, the Netherlands and Luxembourg - signed the Treaty establishing the ECSC (entered into force on July 25, 1952). *Jean Monnet* was elected President of the ECSC High Authority.[3]. During the 1950s, the confrontation between the West and the East unfolded in the format of the Cold War. For example, protests by the Hungarian population against the communist regime led to the introduction of Soviet tanks in the country in 1956. On the background of the deployment of a geopolitical conflict in Western Europe, attempts have been made to expand integration into the sphere of foreign policy and defense, which failed to succeed. Thus, there was a realization of the need to develop an economic association, as well as to coordinate efforts in the field of peaceful use of nuclear energy. As a result, on March 25, 1957, in Rome, the ECSC member countries signed two agreements that envisaged the establishment of the European Atomic Energy Community (Euratom) and the European Economic Community (EEC).

1958-1968 - "The period of economic growth". The EEC was a customs union covering the entire trade in goods and which prohibited the use of import and export duties or any equivalent charges in trade relations between member countries. The Community has also established a common customs tariff for third countries. The main objectives of the EEC were to promote: harmonized and balanced development of economic activity within the framework of the integration

[3] *Примітка:* ЄОВС завершила своє функціонування 22 червня 2002 р., оскільки втратив чинність Паризький договір.

association, stable and non-inflationary economic growth taking into account environmental problems, high level of employment and social protection, raising living standards, economic and social cohesion of the participating countries due to the formation the common market and the economic and currency union. It should be noted that during this period, the member countries agreed to launch a common agricultural policy so that every European could fully meet its food needs and then produce surplus food for export. At the end of the EEC, it was possible to complete the budgetary settlement of the common market, to determine the plan for the transition to the formation of the budget of the regional grouping at the expense of its own, resources independent of national governments. In addition to the common agricultural policy, a common fisheries, environmental and industrial policy of the EEC was launched.

1969-1979 - "The Growing Community - The First Wave of enlargement". In the early 1970's, a system was established for harmonizing the foreign policy courses of the EEC member states. On January 1, 1973, the number of members of the integration association increased to 9 states. In particular, Denmark, Ireland and the United Kingdom joined the EEC. The Arab-Israeli War in October 1973 provoked an energy crisis and economic problems in Europe. Disintegration processes started in the region. As a result of the first expansion of the EEC, the functioning of its institutions became more complicated, the Community's position in competition with the United States and Japan weakened in the direction of structural transformation and the implementation of the achievements of scientific and technical progress. However, the EEC member states continued the integration process. In this period, a significant achievement of the integration group was the establishment of the European Monetary System on the basis of a single unit of account – SUA, which withstood the second oil crisis and the rise of the US dollar. Moreover, at this time, the role of the European Parliament is intensifying, and since 1979, all citizens of the Community were able to elect their candidates for the first time directly. It is worth noting that in the world of the 70's there were protests in the society against environmental pollution. As a result, the EEC has adapted legislation on environmental protection, introducing emission fees for the first time.

1980-1989 - "Changing the image of Europe - the fall of the Berlin Wall". In 1981, Greece became the 10th member of the EEC. In general, since the mid-1980s, an intensification of the integration process has been seen in the EEC. In particular, in 1986, Spain and Portugal entered the EEC. On February 27, 1986, the Single European Act (SEA) was signed, which approved the program of creation of the common market by the end of 1992. However, the fall of the Berlin Wall took place on November 9, 1989, which meant the unification of East and West Germany for the first time in 28 years (October 1990).

1990-1999 - "Europe without frontiers". In central and eastern Europe, the communist regime collapsed, bringing the region closer to the EEC. A new stage in the development of Western European integration aimed at building economic, monetary and political alliances began with the signing of the Treaty on European Union on May 7, 1992 in Maastricht. The number of EU member states at that time was 12, which was reflected on the official flag of the integration group.

In 1993, the common market was completely formed with the "Four Freedoms": the movement of goods, services, people and capital. At that time, Europeans were concerned about environmental protection and security. In 1995, another 3 states joined the EU: Austria, Finland and Sweden. The small village of Schengen (*Luxembourg*) gave its name an agreement that allowed Europeans to travel without a passport check at the border. *The objectives of the EU were*:

- to provide peace and well-being to the citizens of the association;
- to guarantee independence, security and the rule of law without internal frontiers;
- to implement sustainable development based on the balance of economic growth and price stability, highly competitive, full-time, social, and environmental market economy;
- to overcome social exclusivity and discrimination;
- to implement scientific and technological progress;
- to increase economic, social and territorial cohesion and solidarity among the EU member states;
- respect cultural heritage and languages;
- to establish an economic and monetary union with the currency of the euro[4].

At the same time, the main values of the EU were proclaimed: human dignity, independence, democracy, equality before the law, the rule of law, the guarantee of human rights.

It should be emphasized that the Maastricht Treaty introduced changes to the institutional framework and decision-making mechanisms in the EU, in particular by enhancing the role of supranational bodies – the European Commission and the European Parliament.

[4] https://europa.eu/european-union/about-eu/eu-in-brief_en

On October 2, 1997, the Amsterdam Treaty (which came into force on 1 May 1999) was signed, which introduced changes to the EU founding treaties. This document updated the issue of human rights and freedoms, gave the EU policy of cultural and social dimensions, increased openness and democracy in the functioning of institutions, integrated the Schengen agreements into the EU legal system.

2000-2009 - "Further enlargement". During this period, the euro currency was put into circulation, and the European Central Bank and the European System of Central Banks were established to manage the Economic and monetary Union (EMU). There were 12 EU member states that became participants in the euro zone (euro area), with the exception of the United Kingdom, Denmark and Sweden. Since January 2007, Slovenia, Cyprus, Malta and Slovakia have also become members of the EMU.

In December 2002, at the Copenhagen Summit of the EU, a decision was taken on further enlargement of the EU. Thus, in 2004, another 10 countries joined the EU – Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Cyprus, Malta and Slovenia, while in 2007 Bulgaria and Romania joined the group.

On December 13, 2007, the solemn signing of the Lisbon Treaty (entered into force on December 1, 2009) was held, which was aimed at strengthening the effectiveness of the EU and its ability to effectively achieve its goals, simplifying the mechanism of governance in the union, and strengthening European democracy, reinforcing the powers of the European

Parliament and the role of national parliaments in European affairs.[5]

2010 – present – "Decade of Challenges". The global economic crisis has seriously affected the EU economy. At the same time, in 2012 the EU was awarded the Nobel Peace Prize. In 2013, Croatia became the 28th EU Member State. Climate change issues are still important for the group.

In 2014, elections were held in the European Parliament, where a large number of euroskeptics got. Due to the rise in religious extremism in the Middle East and the onset of hostilities, much of the region's population emigrates to the EU. At the same time, the EU faces a number of terrorist attacks.[6]

It should be noted that the success of the European Union has become possible due to the unique combination of factors contributing to integration in Europe. Among them are: the presence of developed industrial potential, the presence in the unification of several large countries of the same size, close historical and cultural community, as well as features of the postwar position of Western Europe. However, at the beginning of the twenty-first century, the balance of power between large and small EU members was violated, and cultural traditions became subjected to external influence.

In the end, the activity of the integration group generates persistent contradictions. Their source is the incompatibility of common and national interests, the need to delegate national sovereignty to supranational bodies, and the difficulty of maintaining a single pace of integration by all member states.

[5] Treaty of Lisbon Amending the Treaty on European Union and the Treaty Establishing the European Community // Official Journal of the European Union. – 271 p.

[6] https://europa.eu/european-union/about-eu/history_en#1980-1989

CASE STUDY 2.1
«History of the EU origin»

The idea of a European economic union existed for a long period of European history. In 1849, in Paris, at the Euro-Congress of pacifists ***(A)*** *........................ supported the idea of the creation of* ***(B)*** *........................ .. which in the 1930's was unveiled by the Italian revolutionary, founder of the organization "Young Europe" D. Madzini. In 1926, at the First Paneuropean congress, the Paneuropean Union was proclaimed.*

In 1929, the Austrian leader and founder of the Paneuropean movement earl K. Kalierry called for the creation of ***(C)*** *.............. .... Europe, giving an example of the Swiss Confederation (1848). On September 5, 1929, in the League of Nations, a well-known speech by the French foreign minister, A. Briane, was proclaimed. He proposed to create a European association within the League of Nations. However, the global crisis that began, and then the Second World War forced them to postpone the implementation of these projects.*

Two world wars have led Europeans to the idea that the gradual formation of close political and economic relations between Germany and the rest of the European countries, especially France, will be a solid bastion for a new war. Immediately after the end of the Second World War, there were three important initiatives for full liberalization of trade: the General Agreement on Tariffs and Trade was launched, and the Organization for European Economic Cooperation and the European Economic Cooperation Payments Union). These agreements were outside the institutional framework of the European Union, but they can be considered as a global beginning, hence the beginning of European economic integration.

The idea of integration as a guarantee of peace on the continent was based on the plan of the French diplomat Jean Monet (1888-1979) on the transfer of production management of ***(D)*** *............ and* ***(E)*** *......... .. to a single supranational body. This plan was aimed at preventing preparations for a new* ***(F)*** *......... ... The idea was to transfer the sectors that are decisive for the* *military industry under international control by means of a treaty that is binding in the light of international law. This plan was proposed on May 9, 1950 by the Minister of Foreign Affairs of France **(G)** .... (1886-1963). The idea was supported by Italy, France, Germany and the **(H)** .... countries, therefore, on April 18, 1951, was signed **(I)** .... an agreement on the creation of a European coal and steel association, which came into force on August 10, 1952, headed by Jean Monet, the first president of the ECSC.*

Source: *Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – С. 56-57.*

<u>Task to the case:</u>

Insert the missing words into the text:

Benelux, war, coal, Parisian, pacifists, Robert Schumann, United States of Europe, United States, steel, V. Hugo.

2.2. Procedure for joining the European Union

The Maastricht Treaty provided the transition of the European Community to a higher level of regional integration and creation of the European Union. In addition, this document declared the right of Eastern European countries to join the EU.

In general, there are five main stages of the process of accession the state to the EU[7]:

1. *Consultation phase*. It takes all the time until the country applies for accession to the EU. As experience shows at the consulting stage the applicant country for joining to the association should conclude one of the three type of associative agreements:

[7] Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – 373 с.

a) the European Agreement – in the 1990s, such agreements were concluded with the ten former socialist countries of Central and Eastern Europe: Poland (1991), Hungary (1991), Romania (1993), Bulgaria (1993), Czechoslovakia (1993), Slovakia (1993), Estonia (1995), Lithuania (1995), Latvia (1995) and Slovenia (1996);

b) Association Agreement (Association Agreement) - was signed with Turkey (1963), Malta (1970) and Cyprus (1972);

c) Stabilization and Association Agreement (Stabilization and Association Agreement) – was concluded with the Balcons.

It should be noted that the consultation phase will be established if the applicant country applied for EU membership.

2. *Evaluation stage*. It begins when the applicant country submits an application for entry and ends before the negotiation process begins. At the evaluation stage, states should to achieve special EU membership criteria. At the end of the period, the country officially becomes a candidate country for accession to the EU.

3. Negotiation stage - continues from the beginning to the end of the accession negotiations. During the negotiations are announced the conditions to join the EU, as well as the terms of adoption, implementation and legalislation of the acquis communautaire (the so-called reached EU work). Each of candidate country works on a separate schedule and may be admitted to the EU when it achieve the criteria for membership and its obligations. Negotiations are held in the format of bilateral conferences between member states and each of the candidate countries for each of the 31 sections of the acquis communautaire:

The results of the negotiation process are included in the draft agreement about the accession of the candidate country to the EU.

4. The ratification stage. Begins with the moment of signing an entry agreement and ends with its ratification. Before signing the accession agreement must be submitted to the Council of the EU for its approval and to the European Parliament - in order to obtain consent. After signing, the accession agreement is sent to the EU member states and candidate countries. They must ratify the relevant agreement and decide if the country could join the EU (if necessary, it could be done with a referendum). It follows that the successful conduct of the negotiations is not a guarantee of the accession of the state to the EU.

5. Implementation stage. It begins after all the ratification procedures complete, and it becomes clear when the agreement enters into a force. Only then state will become a full member of the EU.

Each EU institutional body has its own authority to host new members in a regional association. *From the algorithm of the implementation the powers of certain EU institutions (first of all, the Council, the Commission and Parliament) could be divided into 12 steps*[8]*:*

1) country applies for membership of the EU Council;

2) the Council of the EU requests the European Commission to formulate and submit its assessment of the application filed;

3) the European Commission passes its assessment to the EU Council;

[8] Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – 373 с.

4) the Council unanimously adopts a decision to open a negotiation process with the accession candidate state;

5) the European Commission recommends, while the Council of the EU unanimously approves the main aspects and principles of the EU position in negotiations with the candidate country;

6) EU Council negotiates with candidate country;

7) the draft agreement on entry is agreed between the EU and the candidate state;

8) the draft agreement on entry is submitted to the Council of the EU and the European Parliament;

9) the European Parliament adopts agreement on entry of a majority of votes;

10) the Council of the EU unanimously approves agreement on entry;

11) the member states and the candidate country formally sign the agreement on entry;

12) the member states and candidate countries ratify the agreement on entry in accordance with their own constitutional rules. The candidate country becomes a member of the EU.

CASE STUDY 2.2.
«Successful negotiations are not a guarantee of accession to the EU»

Norway, whose government twice (in 1972 and 1994) successfully negotiated and even signed the Treaty on European Union, did not become a member of the EU, since the question of joining the EU failed to find support of the population twice. In 1972, 78% of the population participated in the referendum, of which 53.5% were protesting against joining the EU. In 1994, opponents of the membership in the EU again won, gaining 52.3%

of the vote. Only 47.7% of those who came to the referendum spoke for joining. Switzerland also applied for membership, but the process was not completed, as at the referendum in December 1992, the Swiss voiced opposition to the ratification of the agreement on the European Economic Area.

Source: *Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – С. 67.*

Questions to the case:

1. Why did not the Norwegians and Swiss people in the majority want their states to join the EU?

2. Do you want Ukraine to join the EU in the long term? Indicate the reasons for your reply.

2.3. Criteria for joining the European Union

On June 21-22, 1993, at the European Council meeting in Copenhagen (Denmark), the conditions for joining the EU were determined. According to the latest, the associated states of Central and Eastern Europe can become EU members. However, joining will only take place if the Associated State is in a position to assume its membership obligations. Moreover, the candidate country must also satisfy specific political and economic requirements. These requirements were called *the Copenhagen Criteria* [9]:

1) *political criterion* – concerns the stability of institutions that are guarantors of democracy, the rule of law, human rights and respect for and protection of minorities;

[9] Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – 373 с.

2) economic criterion – notes the level of competitiveness of the market economy and the credibility of the candidate country for the success of competing for competitors and natural forces in the EU;

3) membership criterion – shows the level of emergence of a market economy and the ability of a candidate country to oppose competition and spontaneous market forces in the EU;

4) independent criterion - demonstrates the ability of the EU to accept new members without inhibition of the positive trend of European integration. Its goal is to strengthen European integration.

Political criterion include a number of sub-criteria:

-guaranteeing will of citizens in parliamentary and presidential elections, and even in elections to local authorities;

-creation and expansion of work of democratic institutions, non-governmental organizations, independent mass media;

-adoption of legislation that reliably protects the rights of social minorities and provides the establishment of appropriate institutions;

-activation of the fight against organized crime and corruption;

-solving problems of legal support and activation the fight against money laundering;

-creation of reliable institutes in the field of justice and internal affairs, guarantees of independence the judiciary, improvement of the functioning the courts;

-protection of human rights and freedoms.

The decisions of the European Council, held from 12 to 13 December 1997 in Luxembourg, indicated that the Copenhagen political criterion was an important precondition for start of the association process.

In turn, *the economic criterion is divided into several subcriteria:*

a) *"the existence of a market economy" (should be satisfied before the start of negotiations)* and evaluated with the help of the analysis of the following indicators:

- the balance between supply and demand, which is achieved by free play of market forces; liberalization of prices and trade;

- the balance of significant barriers to entering and leaving the market;

-formation of normative-legal provision, including the guarantee of property rights; enforcement of laws and contracts;

- achievement of macroeconomic stability, first of all with stabilizing of prices and ensuring the stability of public finances and external balance;

- consensus on the basis of economic policy;

- sufficient development of the financial sector with the purpose of investing accumulated funds in the development of production spheres;

b) "The ability of a candidate country to oppose competition and spontaneous market forces in the EU" (to be met in the medium term - 5 years) is evaluated by analyzing the following indicators:

- presense of a functional and stable market economy;

- enough number of human and material resources, including infrastructure (energy supply, telecommunication, transport, etc.), education and research, and the perspective to work in this area;

- level of state's impact on competitiveness through trade policy instruments, competition policies, support for small and medium-sized business, etc.;

- level and pace of trade integration of country with the European Union before enlargement;

- a sufficient proportion of small enterprises in the current structure of the economy (as a rule, small firms get benefit from simplified market access, while a big percentage of large companies may mean greater inertia and inability to adapt to market conditions).

The criteria for joining the Economic and Monetary Union of the European Union were defined by The Treaty of Maastricht and provided:

- budget deficit is not more than 3% of GDP;

- state debt not more than 60% of GDP;

- inflation no more than +1.5 % to the average inflation rate of the three EU countries with the most stable prices;

- average long-term level of rate is not higher than 2.0 % to the average level in the three EU member states with maximum price stability;

- maintenance of the current exchange rate in the EU.

After following the achievement of the Maastricht criteria of congruence in the stability of prices, national currency and interest rates, budget deficits, and public debt, member states of the association become fully-legal members of *the Economic and Monetary Union*.

A membership criterion is the most difficult criteria for achieving. During the negotiation process for membership of the EU 31 membership criteria were specified, each corresponding to one of the 31 sections of the EU (*acquis communautaire*): free movement of goods; free-movement of labor; free movement of capital; law for regulation enterprises activity; competition policy; Aariculture; fish farming; transport policy; tax policy; Economic and Monetary Union; statistics; social policy and employment; energetic; industrial policy; small and medium enterprises; scientific and research activity; education and training; telecommunications; cultural and audiovisual policy; regional policy; ecology; consumer protection and health protection; justitia and internal affairs; customs union; foreign economic relations; common foreign and security policy; trade; budget and financial control; protection of intellectual property rights; conformity of standards of industrial products.

It should be noted that the Copenhagen criteria, by their very nature, have become the EU's response to the numerous appeals to it of the countries of Central and Eastern Europe (the end of 1991 - the beginning of 1992). At that time, the Visegrad Group turned to the institutes of the integration group with a request to formulate the conditions for joining the EU and determine the regime of the negotiations.

At the current stage, candidate countries for joining to the EU include Albania, Montenegro, Serbia, Macedonia and Turkey. At the same time, potential candidates are Kosovo and Bosnia and Herzegovina[10].

CONTROL QUESTIONS

1. What is European Union?
2. What are the main stages of formation of the European Union.
3. Who was the initiator of European integration?
4. When was signed the Paris Treaty on the Establishment of the European Coal and Steel Community (ECSC)?
5. When did the Roman treaties come into being and what was their essence?
6. What is the difference between the European Economic Community (EEC) and the European Union (EU)?

[10] https://europa.eu/european-union/about-eu/countries_en

7. What countries have joined the European Union and when?
8. When and by whom was the Maastricht Treaty concluded? What is its essence?
9. What are the main goals of the EU?
10. Describe the procedure for joining the European Union.
11. What is the essence of the consultative stage of the process of joining the country to the EU?
12. List the criteria for joining the European Union.

CHECKING TEST

1. When was signed the Paris Treaty Establishing the ECO?

a) April 18, 1951; b) March 8, 1945;
c) March 21, 1957; d) February 1, 1992.

2. How many countries are included in the EU ?:

a) 26; b) 15; c) 35; d) 28.

3. The EU share in world trade is:

a) 20%; b) 50% c)15,6% d) 25,5%.

4. When were signed the Rome Treaty on the establishment of the EEC and Euratom?:

a) April 18, 1951; b) March 25, 1957;
c) July 1, 1987; d) September 15, 1964.

5. In what city was signed an agreement on the beginning of a new stage development of Western European integration in the direction of building an economic, monetary and political union?

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6. What contract was signed on October 2, 1997, which introduced changes to the EU founding treaties?

a) Maastricht; b) Amsterdam;

c) Roman; d) Lisbon.

7. How many stars are represented on the EU flag?:
a) 6; b) 12; c) 27; d) 28.

8. When was signed the Treaty on the European Union?
a) 1957; b) 1962; c) 1968; d) 1992.

9. Finish the sentence: "In the process of negotiations on gaining membership in the EU, 31 ____________ is specified.

10. Match the name to the description of the stage the joining process to the EU:

	Stage name		**Stage description**
1	Consultation stage	**A**	begins with the signing of the accession agreement
2	Negotiation stage	**B**	continues between the submission by an applicant country of application for entry and the start of accession negotiations
3	Ratification stage	**C**	continues from the beginning to the end of accession negotiations
4	Evaluation stage	**D**	begins after all the ratification procedures and an agreement goes into effect
5	Implementation stage	**E**	continues before an application for accession by the country

11. What are the Copenhagen Criteria for joining the EU ?:
a) political criterion;
b) economic criterion;
c) criterion of membership;
d) independent criterion;
e) full economic integration.

12. Insert the missing words:

The criteria for joining the Economic Monetary Un-ion were defined by the Maastricht Treaty and provided: the budget deficit is not more than ____% of GDP; state debt not more than ____% of GDP; ________ no more than +1.5 pp to the average inflation rate of the three EU countries with the most stable prices; the average long-term level of _____ is not higher than 2.0 pp to the average level in the three EU member states with maximum price stability; the maintenance of the current ________ in the EU.

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CHAPTER 3

INSTITUTIONAL SYSTEM OF THE EUROPEAN UNION

Key concepts and terminology: European Parliament, The Council of the European Union, The European Commission, European Council, EU Court, House of Auditors, European Central Bank, Directorate- General, General Council.

Having studied the material of the chapter you will get to KNOW:

- ✓ the essence, functions, structure and principles of work the European Parliament and the Council of the EU;
- ✓ the essence, functions, structure and principles of work the European Commission and the European Council;
- ✓ the essence, functions, structure and principles of work the Court of Justice of the EU, the Chamber of Auditors and the European Central Bank.

And also have the ability to:

- ➢ to identify the actual problems of the citizens of united Europe, based on political groups in the European Parliament;
- ➢ to envisage political and economic decisions in the EU in accordance with the actual state of the main institutions of the regional association.

The EU institutional system is unique because it is partially supranational and interstate. At the same time, the institutional system of the EU is complex and ramified, since it aims to spread values and achieve the EU objectives, to meet the interests of citizens of the united Europe, and guarantee the coherence, efficiency and consistency of the EU policies.

It should be noted that in the process of the evolution of regional integration in Western Europe there were formed *7 main institutions* with the status of the body and are reflected in the constituent documents of the EU:

1. The European Parliament;
2. Council of the EU;
3. The European Commission;
4. European Council;
5. The EU Court;
6. EU Chamber of Auditors;
7. European Central Bank.

CASE STUDY 3.1

«Background and Evolution of Creation the European Parliament»

The history of the creation of the European Parliament is i linked with the European integration processes that began in the first post-war decade. Then the Treaty of the Establishment was signed ***(1)________,*** *according to which the General Assembly was established. The powers of the Assembly were limited and consisted mainly of controlling the activities of the Supreme body of the* ECSC *and of certain areas of activity of the association. The procedure for the formation of this body was also far from perfect: although the Treaty of the Establishment* ***(2)_________*** *was provided that the members of the Assembly were directly chosen by citizens of the member states, the formation of this* *representative body was carried out by indirect elections - 78 deputies were elected from the members of the nationalnal parliaments.*

After came into force of ***(3)*** *______________ in 1958, was made a decision to establish a single representative body for the three European Communities* ***(4)_______, _______,*** *________ European Parliamentary Assembly. It consisted of 142 deputies, and the first meeting took place in* ***(5)________*** *on March 19, 1958. The full authority of this body was to control over the executive organs of the relevant regional organizations and advisory functions. The deputies of the European Parliamentary Assembly on March 30, 1962, decided to change its name to the "European Parliament". Until 1979, the European Parliament was chosen indirectly by elections: each National Parliament of the States Parties* ***(6)______,*** *assigned to the country concerned, elected its representatives to the European Parliament in accordance with the system established by national law. Only in September 1976 was made a decision to hold general direct elections, which was fixed by the domestic legislation of the member states only in 1979.*

Since 1979, the European Parliament has elected a direct general ***(7) __________.*** *The level of representation of a state depends on* ***(8)_______*** *of the population and on its* ***(9)*** *______ on solving common problems of the EU member states. In this case,* ***(10)_______*** *states receive a few more sits than they would have been able to obtain if they had a proportional representation. The application of the principle of decreasing proportionality is aimed at protecting the interests of small countries: the minimum of representatives from the state is 6 persons, the maximum - 96 persons, and the total number of deputies can be not exceed* ***(11)*** *_____ persons plus the President.*

Source: *Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – С. 77-78.*

Task to the case:

Insert the missing words into the text*:*

750, influence, voting, ECSC, ECSC, ECSC, *EEC, Euratom, quotas, quantities, small, Treaty of Rome, Strasbourg.*

3.1. European Parliament and the Council of the EU

The European Parliament (European Parliament) is a representative body of the EU, supranational in nature. He has 3 functions: legislative, supervisory and budgetary. *The legislative role is:*

- adoption of the EU of the laws in cooperation with the Council of the European Commission new proposals;
- observation of international agreements;
- making a decision about further enlargement of the EU;
- control of the Commission's work program;

In turn, the European Parliament's *supervisory function* is implemented through:

- democratic check of all EU institutions;
- election of President of the European Commission and approval of the Commission as a body;
- approval of directions for spending EU budgets (grants);
- study of citizens' petitions and creation of queries;
- discussion of monetary policy with the European Central Bank;
- survey of the European Commission and the EU Council;
- election observation.

The budget function of the European Parliament is to confirm the EU budget with the EU Council.

The European Parliament was established in 1952 as a Joint Assembly of the ECSC. During the 1950s and 70s, the Parliament was formed from representatives of the national legislatures of the member states, and deputies of the Parliament have been elected by direct universal suffrage for a term of 5 years since 1979. According to the Lisbon Treaty (2007), the total number of deputies was fixed –751; the minimum representation from one country is 6, and the maximum is 96, regardless of the number of member states. It should be noted that the number of deputies from each country is mostly determined in proportion to the number of its citizens (*see table 3.1*).

Table 3.1

Distribution of deputies of the European Parliament by EU member states[1]

№	Name of the EU Member State	The population for 01.01.2015, thousand people	Deputies, persons
1	Germany	81197,5	96
2	France	66415,2	74
3	United Kingdom	64875,2	73
4	Italy	60795,6	73
5	Spain	46449,6	54
6	Poland	38005,6	51
7	Romania	19870,6	32
8	The Netherlands	16900,7	26
9	Belgium	11258,4	21
10	Greece	10858,0	21
11	Czech Republic	10538,3	21
12	Portugal	10374,8	21

[1]https://europa.eu/european-union/about-eu/institutions-bodies/european-parliament_en

Continuation of table 3.1

13	Hungary	9855,6	21
14	Sweden	9747,4	20
15	Austria	8576,3	18
16	Bulgaria	7202,2	17
17	Denmark	5659,7	13
18	Finland	5471,8	13
19	Slovakia	5421,3	13
20	Ireland	4628,9	11
21	Croatia	4225,3	11
22	Lithuania	2921,3	11
23	Slovenia	2062,9	8
24	Latvia	1986,1	8
25	Estonia	1313,3	6
26	Cyprus	847,0	6
27	Luxemburg	563,0	6
28	Malta	429,3	6
	Total	*508450,9*	*751*

In addition, the formation of political groups (factions) in the European Parliament is carried out not on ethnic nationalities, but on the basis of political interests. The European Parliament has a unicameral structure. Place of meetings - Strasbourg (France) - monthly plenary meetings are held; Brussels (Belgium) - additional sessions and meetings of parliaments committees and Luxembourg, where the headquarters of the General Secretariat are located. The head of the European Parliament is the President, elected for 2.5 years and whose duties include: holding meetings, and to do administrative and representative functions. For today, *Antonio Tajani* is the president of the European Parliament.

In structure of the European Parliament are 8 political groups:

1) *Group of the European People`s Party (Christian Democrats -EPP*);

2) *Group of the Progressive Alliance of Socialists and Democrats in the European Parliament* – S&D;

3) *European Conservatives and Reformists - ECR*;

4) *Alliance of Liberals and Democrats of Europe - ALDE*;

5) The Greens/European Free Alliance - Greens/EFA;

6) *European United Left/Nordic Green Left European Parliamentary Group – GUE/NGL*;

7) *Europe of Freedom and Direct Democracy Group - EFDD*;

8) *Europe of Nations and Freedom – ENF*.

Task:

According to the names of following political groups of the European Parliament find out area of actual citizens problems. Indicate the reasons for your reply.

It should be emphasized, that the work of *the European Parliament manages in 25 constant committees*:

1) *Committee on Foreign Affairs – AFET*,

2) *Committee on Human Rights – DROI*,

3) *Committee on Security and Defence - SEDE*,

4) Committee *on Development – DEVE*,

5) *Committee on International Trade – INTA,*

6) *Committee on Budgets - BUDG*,

7) *Committee on Budgetary Control - CONT*,

8) *Committee on Economic and Monetary Affairs – ECON*,

9) *Committee on Employment and Social Affairs - EMPL*,

10) *Committee on Environment, Public Health and Food Safety - ENVI*,

11) *Committee on Industry, Research and Energy - ITRE*,

12) *Committee on Internal Market and Consumer Protection - IMCO*,

13) *Committee on Transport and Tourism – TRAN*,

14) *Committee on Regional Development - REGI,*

15) *Committee on Agriculture and Rural Development – AGRI*,

16) *Committee on Fisheries – PECH*,

17) *Committee on Culture and Education – CULT*,

18) *Committee on Legal Affairs – JURI*,

19) *Committee on Civil Liberties, Justice and Home Affairs – LIBE*,

20) *Committee on Constitutional Affairs – AFCO*,

21) *Committee on Women`s Rights and Gender Equality – FEMM*,

22) *Commit-tee on Petitions – PETI*,

23) *Committee on Terrorism – TERR*,

24) *Committee on EU authorization procedure for pesticides – PEST*,

25) *Committee on Financial crimes, tax evasion and tax avoidance – TAX3*.

The work of the European Parliament proceeds in two stages. At the first stage, work is underway on the preparation of legislation in the committees. The second stage is a plenary meeting, where voting on draft laws passes. Usually it takes place for four consecutive days a month in Strasbourg (sometimes there are additional sessions in Brussels).

As noted earlier, the European Parliament has a legislative function in conjunction with *the Council of the European Union*. Moreover, the latter *is the main* *legislature* of the EU. The Council of the EU also presents the governments of member countries of the group and coordinates its policies. The EU Council was established in 1958. It is an institution with functions of a supranational and intergovernmental organization. On the one hand, the EU Council is one of the EU bodies and, on the other hand, it is a kind of forum in which EU member states have the opportunity to voice their national interests.

Since December 1992, the main placement of the EU Council is Brussels. EU Council meets several times a month. All her meetings are open.

The Council of the EU consists of representatives of the EU member states at the level of ministers of the governments of member states (that is why the Council of the EU is sometimes called the Council of Ministers of the EU), which in various ways accountable to the parliaments of their states.

It should be noted that there is no fixed number of members of the EU Council. At the same time, the Council of the European Union operates in 10 configurations, each of which corresponds to the area of debate that must be discussed.[2]

In work of The Council of the EU takes part one minister per member state, depending on which issues are being considered.

Decisions in the EU Council are taken by the vote of the ministers participating in the meeting. According to the new system introduced on November 1, 2014, a qualified majority should decide on a new "double majority" principle. Unlike the previous rules, which provided greater support to small and medium-sized member countries, the new system focuses on the size of

[2] https://europa.eu/european-union/about-eu/institutions-bodies/council-eu_en

the population of the member states. The EU Council now requires the approval of 55% of the member states (16 states) or 72% if the document was not proposed by the Euro Commission, which should represent at least 65% of the EU population (at present it is about 330,5 million people from the total number of EU citizens - 508.5 million people). In order to limit the capacity of larger states to join forces to block proposals, this coalition should include at least four member states of the group representing at least 35% of the total population of the EU. In cases where not all EU member states vote (for example, regulations adopted only by the eurozone or the Schengen zone), the qualified majority is calculated on the basis of the participating countries association[3] (see table 3.2).

Table 3.2

Distribution of votes of member states in the EU Council[4]

№	Name of the EU member state	The population for 01.01.2015, thousand people	Share of member states in the total population of the EU,%	Share of member countries in the euro area in the total population of the EU,%
1	Germany	81197,5	15,97	24,0
2	France	66415,2	13,06	19,6
3	Great Britain	64875,2	12,76	
4	Italy	60795,6	11,96	18,0
5	Spain	46449,6	9,14	13,7
6	Poland	38005,6	7,47	
7	Romania	19870,6	3,91	

[3] Changed rules for qualified majority voting in the Council of the EU. At a glance. December 2014 [Електронний ресурс]. – Режим доступу: http://www.europarl.europa.eu/RegData/etudes/ATAG/2014/545697/EPRS_ATA%282014%29545697_REV1_EN.pdf

[4] Там саме

Continuation of table 3.2

8	The Netherlands	16900,7	3,32	5,0
9	Belgium	11258,4	2,21	3,3
10	Greece	10858,0	2,14	3,2
11	Czech Republic	10538,3	2,07	
12	Portugal	10374,8	2,04	3,1
13	Hungary	9855,6	1,94	
14	Sweden	9747,4	1,92	
15	Austria	8576,3	1,69	2,5
16	Bulgaria	7202,2	1,42	
17	Denmark	5659,7	1,11	
18	Finland	5471,8	1,08	1,6
19	Slovakia	5421,3	1,07	1,6
20	Ireland	4628,9	0,91	1,4
21	Croatia	4225,3	0,83	
22	Lithuania	2921,3	0,57	0,9
23	Slovenia	2062,9	0,41	0,6
24	Latvia	1986,1	0,39	0,6
25	Estonia	1313,3	0,26	0,4
26	Cyprus	847,0	0,17	0,3
27	Luxemburg	563,0	0,11	0,2
28	Malta	429,3	0,08	0,1
	EU, total	*508450,9*	*100*	×
	Eurozone, total	*338471*	×	*100*

The EU Council fulfills six main functions:

1) adopt EU legal acts (in many areas this coincides with the European Parliament);

2) coordinate a single economic policy of the EU member states;

3) concludes international agreements between the EU and third countries or international organizations;

4) approve the EU budget with the European Parliament;

5) develop a common foreign and security policy of the EU, based on the guidelines formulated by the European Council;

6) coordinates cooperation between national courts and police forces in criminal matters.

The organizational structure of the EU Council distinguishes *Committee of Permanent Representatives*, which is a permanent body, and provides organizational and procedural assistance in decision-making by the EU Council. It consists of permanent representatives of the EU member states that protect the national interests of their country in the EU Council.

Also, the General Secretariat, headed by *The General Secretariat of the Council of the European Union*, plays a central role in the Council of the EU, which carries out organizational work and ensures the permanent functioning of the Council of the EU at all levels. It consists of a legal service and 8 general directorates:

1) personnel and administration;
2) agriculture and fisheries;
3) competitiveness, innovation and research, industry and the information society, internal market, customs, transport and energy;
4) external and political-military affairs;
5) the press, the exchange of information;
6) economic and social affairs;
7) justice and internal affairs;
8) climate change, environmental protection, food security, consumer safety, food, education, youth, culture, audiovisual services.

It should be emphasized that Secretary General of the Council of Europe under the Treaty of Amsterdam holds the post of *High Representative of the Union for Foreign Affairs and Security Policy*.[5]

3.2. European Commission and European Council

European Commission – It is a supranational, politically independent executive body of the EU (independent of the governments of the EU member states). He is solely responsible for preparing the positions on the new European legislation and implements the decisions of the European Parliament and the Council of the EU. The European Commission was created in 1958 in the result of the adoption of the Rome Treaties, and since 1967, after the merger of the governing bodies of the ECSC, EEC and Euratom, became the only European Commission within the framework of the integration group. The European Commission is located in Brussels. Its mission is to promote the interests of the EU by proposing and implementing legislation, as well as implementing a common policy and executing the EU budget. In other words, the European Commission ensures the functioning of the common market, protects the interests of the EU and represents the union at the international level.

In general, the European Commission has four main functions:

[5] Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – 373 с.

1) submit proposals for new EU laws, which it presents for consideration to the European Parliament and the Council of the EU;
2) ensure the application by member countries of the EU legislation;

3) performs the duties of the body responsible for the practical implementation and management of the EU policy, that is, controls the implementation of decisions of the European Parliament and the Council of the EU, as well as manages the EU finances - the budget and activities of various EU funds and programs;

4) represent and defend the interests of the EU in the international arena, negotiate agreements between the EU and third countries and international organizations.

The European Commission consists of one representative per member state, incl. and the President of the European Commission *(Jean-Claude Juncker from November 1, 2014)* and the High Representative for Foreign Affairs and Security Policy, one of the Vice-Presidents of the European Commission.

The European Commission functionates as a collegiate body. The point here is that there is only the decision of the European Commission (adopted by an absolute majority), rather than the decision of individual commissars. Each commissioner is responsible for one or several activities. It should be noted that if the European Parliament expresses no confidence in the European Commission, then the last one should resign.

The structure of the European Commission includes the President, 7 Vice-Presidents and 20 Commissioners. The President of the European Commission convenes its meeting, approves the agenda, holds a vote and picks up the protocols and legal acts adopted by the European

Commission. The daily work of the Commission is carried out by its staff (lawyers, economists, etc.) organized in the department, called *the General Directorates*, each of which is responsible for a separate policy. In turn, the Director General is accountable to one *commissioner* (he is a citizen of another country than a commissioner). It should be emphasized that the commissars are international civil employees and represent the interests of the EU as a whole, not their own countries.

The work of the European Commission is coordinated by the *General Secretariat*, headed by the General Secretary. He may attend meetings of the Commission, but is not a member and has no voting rights.

The meetings of the European Commission are convened by the President and occur at least once a week (on Wednesday in Brussels). Decisions are made by a simple majority of votes.

Along with the European Commission, the European Council has a prominent place among the EU bodies. The last one was founded at the Paris Summit in December 1974. However, the existence of the *European Council* was legally recognized in the Single European Act (1986). It should be pointed out that the first official document, which formulated the powers of the European Council, is the Treaty on European Union (1992). In its turn, *the Lisbon Treaty gave it a legitimate institutional status (2009)*.

The mission of the European Council is to identify the main policy direction and strategic priorities of EU development. Nevertheless, it does not fulfill the legislative function.

The composition of the European Council is formed by the heads of states or governments of the member countries of the integration group, as well as by the President of the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy.

The European Council meets in Brussels (Belgium) 2 times every 6 months on the initiative of its President. As a rule, it decides by consensus. Additionally, organizational work is carried out with the participation of the secretariat.

The position of the President of the European Council in accordance with the Lisbon Treaty is permanent. Today *Donald Tusk* is the current president. The President of the European Council is elected by a qualified majority for a term of two and a half years with the right to re-election for one term. In case of serious misconduct of the President, the Council has the right to terminate its powers.

The key functions of the President of the European Council include:

1) management of the work of the European Council;

2) ensuring the preparation and coherence of the work of the European Council in cooperation with the Head of the European Commission;

3) making efforts to reach consensus in the European Council;

4) reporting to the European Parliament after each meeting of the European Council.

Also, the President of the European Council provides, accordaning to his authority, the EU representation at the international level on foreign security matters, without removing the powers of the EU

High Representative of the Union for Foreign Affairs and Security Policy. At the same time, he has no right to hold other positions at the national level.

BUSINESS GAME:
«Foundation of the European Council»

Task:

Insert the missing words into the text

The European Council was established in December 1974 at ***(1)*** ___________ *summit, and its first meeting was held on 10-11 March 1975 in* ***(2)*** ____________.

In the years 1961-1974, European conferences were held at the highest level. The existence of the European Council was legally recognized in the Single European Act, and its official status was confirmed in the Treaty on European Union. Until 1986, the European Council convened three times a year.

For the first time, the powers of the European Council were defined in ***(3)*** _____________ *Declaration of June 29-30, 1977. Later, the status of the European Council was finalized and expanded in the solemn declaration on the EU, adopted at the summit in* ***(4)*** __________ *and June 19, 1983. The first document, in which the powers of the European Council are formulated, is the Treaty on the EU. The official institutional status has been given to the European Council by the Treaty of* ***(5)*** __________ .

Hint:

(1)

(2)

(3)

(4)

(5)

Source: *Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – С. 96.*

3.3. Court of Justice, the European Court of Auditors and the European Central Bank

The Court of Justice of the European Union (CJEU) was founded in 1952 in accordance with the ECSC Treaty. The EU Court examines the affairs in Luxembourg. Its mission is to interpret EU law in order to make sure that it is applied the equally in all EU member states, as well as resolving legal disputes between national governments and EU institutions.

- At the same time, the EU Court makes the following decision:

- *interpretation of laws (previous decision)*. This means that the national courts of the member states of the group are obliged to ensure the proper application of EU law, but different courts can interpret laws differently. If a national court has doubts about the correct interpretation of EU law, then it can apply to the Court of Justice for clarification;

- *implementation of the law (violation of proceedings)*. This type of case is initiated against a national government when it is not adhering to EU law. If a violation of the law is found, then the last one should rectify the situation or otherwise there is a risk of opening a retrial and charging a fine;

- *cancellation of EU legal acts (lawsuits for cancellation)*. If certain EU acts are found to violate EU treaties or fundamental rights then the European Commission, the Council of the EU or the European Parliament can apply to the EU Court to cancel them (individuals may also apply);

- *ensuring the EU's performance of its functions*. This means that the EU Parliament, the EU Council and the European Commission must make certain decisions in certain circumstances. Otherwise, the EU government or other EU institutions or private individuals or companies may submit a complaint to the court;

- *application of sanctions against EU institutions*. Any person or company that has suffered from acts or omissions of EU institutions may take appropriate legal measures against them.

The Court of the EU consists of 2 courts:

1) European Court of Justice. It considers petition for preliminary rulings from national courts, certain lawsuits for cancellation and appeal. It consists of 1

judge from each EU member state and 11 general advocates;

2) *General Court*. The court mainly deals with competition, state aid, trade, agriculture and trademark laws. It includes 47 judges (in 2019 the composition of judges should be increased to 56, that is to say, 2 judges from each EU member state)[6]

Each judge and attorney general are appointed for a renewable 6-year term with the national governments. In each court, the judges elect the Head, who fulfills his powers within 3 years. The EU Court consists of one judge representing each member state. Thus, each member country equally represents its national legal system in the EU Court.

The procedure for handling cases in the EU Court is carried out in 2 stages:

1) written stage. All interested parties formulate the essence of the case, and the judge confirms the existence of the dispute and the legal grounds for its consideration;

2) public hearing. The lawyers of the parties make their case public, and general lawyers have the right to ask them questions. Then the general lawyers express their vision, after which the court goes to the counsel and makes its decision.

The court decision is made by majority vote, announced at the counsel and made public on the day of issuance. Then the decision is published.

European Court actively collaborates with European Court of Auditors (ECA), which was established in 1977 to verify EU funds for transparency and legality of their filling and spending. European Court of Auditors is completely independent in its activities from governments of member countries and other EU

[6] https://europa.eu/european-union/about-eu/institutions-bodies/court-justice_en

institutions located in Luxembourg. The ECA consists of one person from each EU member state. They are appointed by the EU Council after consultation with the European Parliament for a term of 6 years. Members of the ECA elect the President for 3 years with the right to re-election.

The main functions of the ECA are:

1) audit of EU revenues and expenditures;

2) verification of any person or organization servicing the EU funds;

3) writing conclusions and recommendations in the audit reports for the European Commission and national governments;

4) compiling reports on suspicions of fraud, corruption and other unlawful actions *to the European Anti-Fraud Office (OLAF)*;

5) the formation of an annual report for the European Parliament and the Council of the EU, which is examined by the parliament before approving the work of the European Commission over the EU budget;

6) providing an expert assessment to EU politicians of how best to manage EU finances and make citizens more accountable.

The ECA, operates together with *the European Central Bank (ECB)* in the financial sector. The ECB was founded on June 1, 1998, on the basis of the European Monetary Institute as a leading institution in preparation for the introduction of the Euro currency. The European Central Bank is located in Frankfurt am Main (Germany). It is worth mentioning that since January 1, 1999, this institution is responsible for managing the euro currency, maintaining prices at a stable level, implementing and conducting monetary policy in the euro-zone.

The European Central Bank consists of:

- President;
- Vice President;
- heads of national central banks of the EU member states.

The European Central Bank, together with the national central banks of the EU member countries, establish a European system of central banks. Its main objective is to *maintain price stability*. As a result, it should contribute to the development of a common EU economic policy, ensuring a high level of employment and sustainable non-inflationary growth. The activities of the European Central Bank are based on four principles: independence, transparency, accountability and corporate governance.

According to the mission of the European Central Bank, it is possible to distinguish the main functions of this financial institution:

1) the establishment of interest rates on which ECB provides loans to commercial banks in the euro-zone, that is, it controls inflation;

2) management of the euro-zone currency reserves and the purchase or sale of currencies in order to balance exchange rates;

3) ensuring that financial markets and institutions are well controlled by the national authorities and that payment systems are working properly;

4) ensuring the safety and reliability of the European banking system;

5) authorizing the production of euro banknotes by euro-zone countries;

6) monitor price trends and assess the risks of price stability.

The governance structure of the European Central Bank is three-tier. It is represented by: *the Governing Council, the Executive Board* and *the General Council.*

The Governing Council is the main decision-making body in the institution. It consists of 6 members of the *Executive Board* and governs of the national central banks of the euro zone countries. It should be noted that the responsibilities of the *Governing Council* include:

- assessment of economic and monetary trends;
- definition of currency policy in the euro-zone;
- fixing of interest rates on which commercial banks may borrow from the European Central Bank.

Meetings of the Governing Council usually occur 2 times a month.

In turn, the Executive Board is the executive body of the European Central Bank.

It consists of:

– President;
– Vice President;
– 4 members appointed for the 8-year term by the leaders of the euro-zone countries.

Candidates for the members of the Executive Board are proposed by the Governing Council of the European Central Bank.

The main functions of the Executive Board are:

- to realize monetary policy;
- to manage day-to-day operations;
- to prepare meetings of the Governing Council;
- to exercise the powers delegated to it by the Governing Council.

The General Council acts primarily as an advisor and coordinator. It consists of the President, Vice-President and heads of central banks of all EU member states. It should be emphasized that this level is a transitional one and should be abolished (according to the Statute) after the introduction of a single currency in all the EU member states.

The main functions of the General Council are [7]*:*

- consulting the European Central Bank;
- collection of statistical information;
- preparation of annual reports;
- creation of rules for standardizing the accounting and reporting of national central banks;
- development of employment conditions for employees;
- preparation for the irretrievable fixing of the exchange rates of the currencies of the EU member states.

The General Council also helps to prepare for the accession of new member countries to the euro zone.

The European Central Bank publishes quarterly donors on the activities of the European System of Central Banks, as well as annual financial corrects. Moreover, it united the European Parliament, the Council of the EU, the European Commission and the European Council with reports on its activities and monetary policy for the previous and current period.

CONTROL QUESTIONS

1. What are the main institutions of the EU that have the status of an authority and are reflected in the founding documents of the group.
2. What is the legislative function of the European Parliament?

[7] Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – 373 с.

3. How is the European Parliament's supervisory function implemented?
4. When was created the European Parliament and how was it formed?
5. What political groups function in the structure of the European Parliament?
6. Name 25 constant committees in which the European Parliament operates.
7. Describe the stages of the European Parliament's work.
8. Where is the EU Council placed and how often does it set meetings?
9. What are the main functions of the EU Council?
10. Describe the structure of the Council of the EU.
11. What is the European Commission and what is its mission?
12. What functions does the European Commission carry out and what is its membership?
13. What is the European Council and what is its purpose?
14. What are the key functional responsibilities for the President of the European Council?
15. What is the EU Court?
16. What stages has the procedure for the consideration of cases at the Court of Justice of the EU?

30. When is the European Court of Auditors established and what functions does it perform?

31. How does the European Central Bank function?

32. What are the main functions of the European Central Bank?

CHECKING TEST

1. What are the main functions of the European Parliament?:

a) legislative; b) supervisory; c) budgetary;
d) all answers are correct.

2. When was the European Parliament founded?:
a) 1952; b) 1979; c) 1980; d) 1991

3. How many deputies are in the European Parliament according to the Lisbon Treaty ?:
a) 751; b) 500; c) 320; d) 200

4. How many years are the deputies of the European Parliament elected on?:
a) 4; b) 7; c) 5; d) 10

5. Fill in the missing words:
The work of the European Parliament takes place in two stages. The first stage is the work on preparation of ________________ in the committees. The second stage is _____________, which is the subject of voting for draft laws.

6. The EU's main legislative body is:
a) the European Parliament; b) EU Court
c) Council of the EU; d) EU Court of Auditors

7. Who makes decisions in the EU Council?:
a) the president; b) speaker;
c) ministers; d) there is no correct answer.

8. What are the main functions of the EU Council?:
a) to adopt EU legal acts;
b) to coordinate the general economic policy of the EU member states;
c) to conclude international agreements between the EU and third countries or international organizations;
d) to approve the budget of the EU jointly with the European Parliament;
e) to develop a common foreign and security policy of the EU, based on the guidelines formulated by the European Council;
f) to coordinate cooperation between national courts and police forces in criminal cases;
g) all answers are correct.

9. Which EU body is responsible for preparing proposals for a new European law and implements the decisions of the European Parliament and the Council of the EU? ____.

10. EU institutions do not include:

a) the European Parliament;
b) the European Commission;
c) the European Council;
d) European Bank for Reconstruction and Development.

11. What functions does the EU Court of Auditors do?:

a) audit of EU revenues and expenditures;

b) recording the conclusions and recommendations in the audit reports for the European Commission and national governments;

c) the creation of an annual report for the European Parliament and the Council of the EU;

d) compiling reports of suspected fraud, corruption and other unlawful activities to the European Anti-Fraud Office;

e) verification of any person or organization serving the EU funds.

12. What functions does the European Commission do?:

a) submiting proposals for new EU laws that it presents for consideration by the European Parliament and the EU Council;

b) ensuring the adherence by member states of EU legislation;

c) performing the duties of the body responsible for the practical implementation of the EU policy and its management, that is, controling the implementation of decisions of the European Parliament and the Council of the EU, and also managing the EU finances - the budget and activities of various EU funds and programs;

d) representing and defending the interests of the EU in the international arena, conducting negotiations on concluding agreements between the EU and third countries and international organizations.

e) the correct answer is a), c), d).

13. How does the European Commission decide ?:

a) by an absolute majority of votes;

b) by a qualified majority of votes;

c) weighted, adjusted by the weighting coefficient of the country, by the majority of votes;

d) by an absolute majority, with the reservation of the special position of the individual members of the Commission.

14. Match accordingly:

1	Court of Justice	**A**	The court mainly deals with competition, state aid, trade, agriculture and trademark laws.
2	General Court	**B**	Consider petition for preliminary decisions from national courts, certain lawsuits for cancellation and appeal.

15. Paste missing words: The mission of _____________ is to identify the main political direction and strategic priorities of EU development.

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CHAPTER 4

THE BUDGET OF THE EUROPEAN UNION

Key concepts and terminology: budget, ECU, own resources, costs, income, euro, Delor Package, import duty, value added tax, gross national income

Having studied the material of the chapter you will get to KNOW:

- ✓ the essence, the purpose, principles and cycles of implementation of the EU budget;
- ✓ the main stages of managing the EU budgeting process;

the structure and characteristics of the EU budget's revenue and expenditure;

And also have the ability to:

- ➢ identify and characterize structural changes of the EU budget;
- ➢ calculate the operational budget balance of individual EU member states.

4.1. Principles and procedure for budgeting of the European Union

Budget of the European Union – The EU budget is unique. Unlike national budgets, which use most of them to provide public services and finance the social security system, the EU budget is mainly an investment budget.[1]

A key objective of the EU budget is to ensure greater economic growth and fuller employment. To achieve this, the EU finances research, innovation and technological development, working towards better employment conditions in Europe and enhancing the competitiveness of small and medium-sized enterprises.[2]

It is worth noting that until 1970, all integration measures were financed by contributions made by each member state of national budgets in proportion to its share in the total GDP of these states. In April 1970, the Council adopted a decision on the gradual transition of the integration association to its own financial base and the creation of an autonomous budget. In that year, the EU budget was ECU 3.6 billion (or ECU 19 per capita), and in 2007 the budget was close to EUR 100 billion (EUR 250 per person).

However, during the 70's of the twentieth century as a result of the global tariff reductions initiated by the General Trade and Tariff Agreement (GATT), foreign exchange inflows to the EU from payment of duties on imported agricultural and industrial goods have decreased. VAT (value-added tax) revenues have also decreased as consumer costs have decreased. As a result, following the signing of the Single European Act in

[1] EU Budget For the Future [Електронний ресурс]. – Режим доступу: https://ec.europa.eu/commission/sites/beta-political/files/where-does-the-money-go_en.pdf.

[2] Budget. The European Union Explained [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/budget_en.

February 1986, a political basis for a large-scale reform of EU finances was created.

In February 1987, the European Commission submitted a proposal for a reform plan – a *Delor Package 1*. It provided for an increase in financial revenues through the use of traditional own resources (duties on manufactured goods and agricultural products), as well as a slight improvement in the VAT mechanism. In addition to traditional resources, an additional "fourth resource" was proposed, a new source of funding that would provide the necessary revenue in the absence of sufficient resources. It reached 1.2% of EU GDP. The "fourth resource" was calculated on the basis of the GNI (gross national income) of the member states. Later, in 1992, the Delors Package 2 was adopted, which promoted the balancing of the "third" (deduction from VAT) and the "fourth" (deduction depending on GNI) resources to fill the EU budget. Notably that after the adoption of the Delor Packages, the share of EU Member States' contributions, which was formed in proportion to the size of their GNI in the EU's own resources, gradually increased, while the share of other sources decreased on the contrary.

Overall, the EU budget is based on 6 principles (revised and amended on 21 September 2000):

1) *unity*. This means that the revenue and expenditure parts must be specified in one document;

2) *versatility*. This is explained within two rules: the impossibility of allocating budget revenue to special items of expenditure and a general budget principle that reflects all revenue and expenditure without linking them;

3) *annuality*. It means that the budgetary term is one year, which facilitates the process of control over the activities of the EU executive branch;

4) *balance*. Profit estimation is required during the reporting year as financial funds cannot borrow to cover the budget deficit, whereas the balance is transferred as revenue to next year's budget and any contingency can be financed;

5) *cost specification*. This principle provides the availability of purposeful payments;

6) *single currency*. Since a new currency, the euro, was introduced in January 1999, assessment of costs and revenues is made in it.

It should be emphasized that the EU budgetary procedure was introduced by the Rome Treaties, the relevant articles of which were supplemented over time by agreements on budgetary rights of the EU bodies (1975 and 1979), as well as by an agreement between the European Parliament, the Council and the European Commission on the conciliation procedure of financial issues from 5 March 1975. Each EU institution is required to submit to the European Commission, by 1 July of the current year, cost estimate for the coming financial year, after which the European Commission must bring all cost estimates together in a single preliminary draft EU budget and present it to the EU Council and the European Parliament before September 1 next financial year.[3]

However, the increase in budget volume and the complexity of its structure have initiated the need to change the time intervals of the budgeting and review stages. Thus, since 1976, a multi-stage process of

[3] Горун О.В. Принципи бюджетного процесу / О.В. Горун // Наук. вісник Чернігів. ун-ту, 1998. - №4-5. - С. 298-306.

budgeting cycles has been introduced under the agreement of the EU bodies.

In general, budget cycles can be analyzed as a sequence of 4 stages [4]*:*

1) *governmental*, which provides budget planning in the national governments of the EU member states, that ends with the submission of the budget plan to the European Parliament;

2) *parliamentary* – consideration of the budget proposed by the EU member states, that ends with the formal approval of the budget;

3) *executive,* during which the decision on the adopted by the European Parliament budget comes into forces (minor changes may take place here);

4) *post-control* – implementation of the EU budget.

The main stages of the budget process are presented in the table 4.1.

The peculiarity of the budget process is that at the same time there are 2 or 3 stages of budget planning. During the year, the current budget is in the implementation phase; next year's budget is at the governmental or parliamentary level, and last year's budget is at the stage of post-control, that is review and analysis.

In EU member states, the governmental stage begins 11-12 months before the start of the financial year; the parliamentary phase lasts 3-4 months before the start of the budget year.

The budget implementation phase covers the entire financial year (except for the UK, where the financial year runs from 1 April to 31 March).

[4] Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – 373 с.

Table 4.1

The main stages of the budget process in EU [5]

Stages	Actions
governmental stage	
1	Formation of budgetary goals and directions
2	Preparation of budget proposals
3	Organizing budget orders
4	Harmonization
5	Final approval of the budget project
parliamentary stage	
1	Discussion, amendment, voting on a budget project
2	Budget reconciliation between upper and lower houses (of legislature)
3	Government approval
executive stage	
1	Budget Law Implementation
2	Amendments to the budget for the year
The stage of post-control and analysis of results	

CASE STUDY 4.1
«The European Parliament has the power to control EU expenditure»

Since 1971, the EU budget (along with country contributions) has started to receive its own resources in the form of agricultural fees on agricultural products imported into the EU from third countries, fees on ***A)*** *_____ in their overproduction compared to the limits set by EU bodies,* ***B)*** *_______ for import of industrial products from the outside. Collection of duties is charged to the member states' administration, which immediately transfers the received funds to the EU treasury (10% of the amount collected is used to cover the costs of collection). The* ***C)*** *_________ tax, part of which since 1979 has been credited to the EU budget on the basis of own resources, is not a direct*

[5] Budgeting and policy making. – Paris : OECD, 1996

income of the association. This is the tax income of each EU member state, introduced in accordance with national tax law. An EU member state is obliged to make monthly contributions to ***D)*** *_______ working day of the month in the amount of 1/12 of the planned annual contribution of* ***E)*** *____________ to the EU budget calculated for each country on the basis of the prescribed* ***F)*** *_____________ share of this tax, which is credited to the EU budget. The draft budget for the next financial year adjusts each country's contributions according to the amount of tax actually collected.*

Source: *Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – С. 113.*

Tasks to the case:

Insert the missing words into the text:

Added value, added value, by the European Commission, customs tariffs, first, sugar and glucose.

4.2. Management of the European Union budgeting process

The main stages of managing the EU budgeting process can include [6]*:*

1) *discussing the draft budget*. In accordance with the decision of the EU Council of 21 April 1970, the European Commission must annually submit to the Council a financial forecast of the EU's planned expenditure for the next 3 years.

2) *analysis of the budget estimates and the draft budget* conducts a budget committee appointed by the Permanent Representatives Committee of the Council.

[6] Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – 373 с.

This stage ends with a meeting of the EU Council of Ministers of Finance of the EU member states, who approve the preliminary draft budget by a qualified majority and send it to the European Parliament;

3) *amending the articles of required and optional costs*. After the European Parliament has received from the EU Council a draft budget with corrective letters, it has the right, by a simple majority, to invite the Council to amend the expenditure article.

4) *presentation of the budget by the Council of the EU (composed of finance ministers) to the European Parliament.* If the European Parliament has approved a preliminary draft budget or has not made any amendments within 45 days of the its submission to the European Parliament by the Council, the budget is considered to be finally adopted. However, this does not usually happen in real life;

5) *the draft budget, amended and proposed by the European Parliament, returns to the EU Council by the end of October, when the second meeting of the EU Council on Budgets takes place.* If within 15 days the EU Council has not made any amendment to the optional expenditure and approved the proposals of the European Parliament for the required expenditure items, the budget is considered to be finally adopted;

6) *the budget approved by the EU Council, also amended by the European Parliament after the first debate, is re-submitted to the European Parliament for final adoption*. The budget is considered to be finally approved if the European Parliament has not tabled any amendments by 19 December. At the end of the budget procedure, the President of the European Parliament announces that the budget has been finally adopted, but

the European Parliament has the right to reject it by a majority of 2/3 of the accounting staff.

<u>CASE STUDY 4.2</u>
«EU budget rejection by the European Parliament»

For the first time, this right was used by the European Parliament in 1979, when it requested the European Commission to submit a new draft budget for 1980. However, the European Parliament argued for a number of reasons: the unacceptable level of spending on the common agricultural policy, the Council's refusal to increase the maximum rate of optional spending growth. The budget for 1980 was finally adopted only on 9 July 1980 (the European Parliament rejected the draft budget only three times - in 1980, 1982 and 1985).

Since the mid-1980s, similar cases have occurred with almost all draft budgets. In 1984, the European Commission presented a draft budget for the nine months of 1985, arguing that the EU had the financial means to cover the costs only during that period. Thus, the European Commission sought to draw the attention of the EU authorities to the problem of budget deficits. The issue of possible options for coverage of budget deficits remained unresolved. The head of the budgetary committee of the European Parliament, J.O.Kiff, announced that the European Parliament was refusing to approve the ECU 26.1 billion budget project (draft budget) because it was only partial and therefore unenforceable and requested the submission of draft budget in full. The budget for 1987 was approved by the European Parliament only in September 1987 due to differences in the ways to overcome its deficit.

Source: *Менеджмент європейської економічної інтеграції: [підр.]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – С. 118.*

<u>Discussion Questions:</u>

1. Why did the costs of implementing the EU CAP (common agricultural policy) become a «cornerstone» on the way to the European Parliament's approval of the EU budget for 1980?

2. Why do you think the problem with the approval of the EU budget occurred in 1979-80?

It is worth noting that when the EU budget is finally adopted, then the European Commission has no right to exceed the amount of costs set for individual items. *However, there can be some exceptions to the rule, such as:*

- transfer (with the permission of the EU Council or the European Parliament) of certain amounts of funds from one section to another in case of disagreement on individual items or in case of unforeseen expenses financed from reserve resources;
- as a result of carrying over the previous year's unspent funds to the following year (some of the appropriations made in the previous year's commitments are carried over automatically to the following year);
- adopting an additional budget where the approved appropriations are not sufficient to cover the additional costs.

As a rule, the EU adopts 1 or 2 additional budgets throughout the year, which for the most part do not increase the total amount of budget expenditures.

The European Commission is charged for implementation of the EU budget and it is fully responsible for its implementation within the set limits.

An important element in the process of establishing the EU budget is the control of budgetary expenditure, which is technically entrusted to the European Court of Auditors. The ECA is obliged to audit all EU accounts, both in terms of revenue and expenditure. On the basis of the audits carried out, after the end of the financial year, the ECA must submit to the EU Council a report published in the official print edition of the EU together with the explanatory documents of the EU institutions. The report of the Court of Auditors of the EU must be approved by the Council of the EU and the European Parliament.

It is important to note that the contradictions that arise between the member states and the governing bodies of the EU (in particular, the Council of the European Union and the European Parliament) in the financial sphere significantly complicate the budgetary procedure in the EU. In order to reduce these contradictions, it was suggested at the budget adoption stage to add one more stage before the approval, known as the "Financial Perspective". It determines the maximum amount and composition of the EU's estimated costs in millions of euros and as a percentage of EU GDP. However, the financial perspective cannot be taken into account as a multiannual budget, because the annual budgetary procedure is still quite significant in determining the actual costs even today.

However, in May 2018, a new «financial perspective« for the period 2021-2027 was adopted in Brussels, entitled "A Modern Budget for a Union that Protects, Empowers and Defends"[41]. Thus, it is argued that the new EU financial document will be a budget of priorities, with the following items highlighted:

- digital economy;
- stability;
- security;
- migration;
- human capital;

- capabilities that should support small business and innovation.

4.3. Revenue and expenditure of the European Union budget

The current EU budget for 2014-2020 allows the integration association to invest around € 1 trillion (about € 150 billion annually). The EU budget allows implementing common policies and confronting challenges within and outside the grouping. This amount is only 1% of the gross national income of the EU. In general, the EU budget is composed of revenue and expenditure components.

The revenue of the EU budget – is its *own resources*. Annual expenses should be fully covered at the expense of annual revenues. It should be noted that the maximum amount of annual own resources during the year should be no more than 1,2% of the gross national product (GNI) of the EU.

On May 26, 2014, at the legislative level, the rules for the formation of new own resources, which entered into force on October 1, 2016, were adopted in accordance with these rules. *Three types of own resources were determined:*

1) *traditional own resources*. These include mainly import duties and sugar levies;
2) *own resources based on value added tax;*
3) *own resources based on gross national income*.

Each EU member state converts a standard percentage of its gross national income into the union budget. It should be noted that this article has become the largest source of its transfer.

In general, the structure of revenue of the EU budget is at *figure 4.1*.

The main donors of the European budget are Germany, France, Italy, the United Kingdom and Spain (*see figure 4.2*). In turn, the Baltic States, Cyprus and Malta make the smallest contribution. However, the latter, together with Luxembourg and Croatia, belong to those EU member states where the share of budget expenditures in relation to gross national income is the highest and prevails at 0.75%. Instead, the United Kingdom allocates less than 0.5% of GNI.

In 2014, the a high-level group on Own Resources was created to study how the EU budget financing system can be made more transparent, honest, simple and democratic.

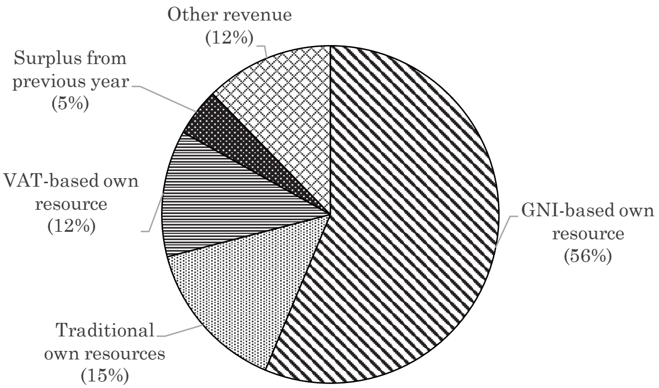

Figure. 4.1. Revenue structure of the EU budget in 2017, %[7]

[7] http://ec.europa.eu/budget/figures/interactive/index_en.cfm

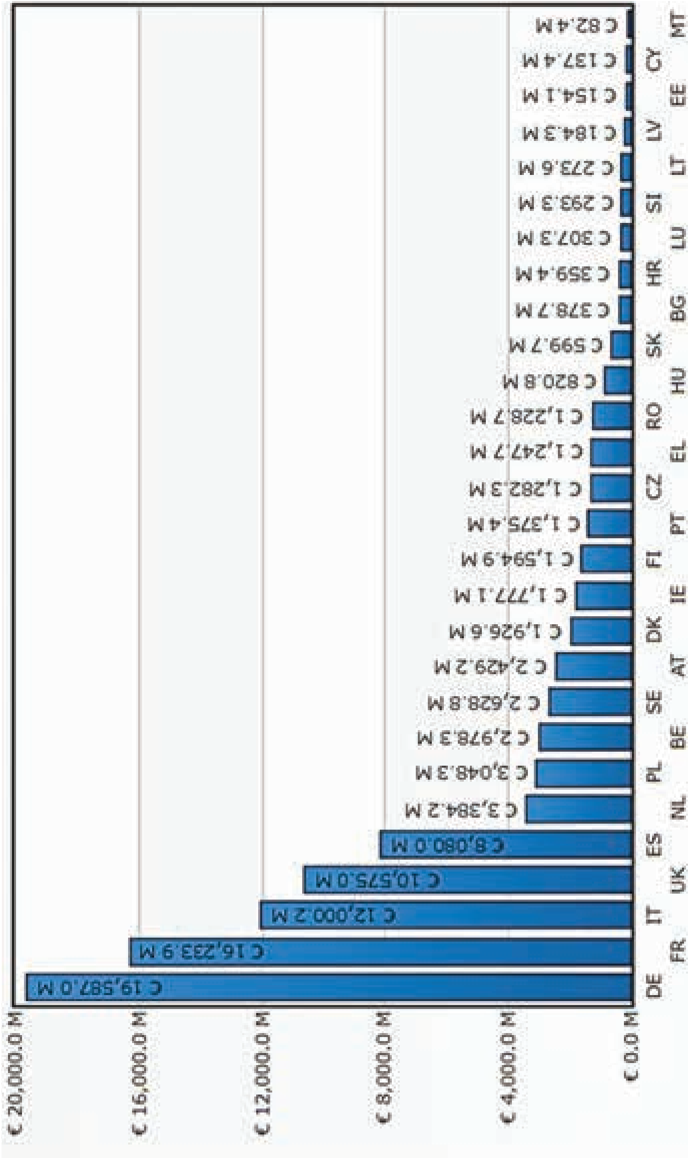

Figure 4.2. Distribution of national contributions to the EU budget by country-members in 2017, million euros

Source: *http://ec.europa.eu/budget/figures/interactive/ index_en.cfm*

The final report of the Group's recommendations was published on January 17, 2017. The chairman of the High-level Group on Own Resources is *Mario Monti*, the former Commissioner and Prime Minister of Italy, who presented the report to the leaders of the European Parliament, the Council of the EU and the European Commission. Already on the basis of the report and recommendations, the European Commission has to assess how effective the reform of its own resources system is.[8]

Instead, the expenditure of the EU budget at the present stage of development the integration association is based on 8 articles [9]:

1) *Smart and Inclusive Growth*;
2) *Sustainable growth: natural resources;*
3) *Security and citizenship*;
4) *Global Europe*;
5) *Administration*;
6) *Compensations*;
7) *Negative Reserve*;
8) *Special Instruments*.

It should be noted that *Article 1 - Smart and Inclusive Growth* is divided into two lower-order articles: *Article 1.1. – Competitiveness and growth* includes the following sub-items:

- 1.1.1. – *Large infrastructure projects*. They include: *European Fund for Strategic Investments (EFSI*), *Implementation and exploitation of European satellite navigation systems (EGNOS and GALILEO), International Thermonuclear Experimental Reactor*

[8] The EU`s own resources [Електронний ресурс]. – Режим доступу: http://ec.europa.eu/budget/mff/resources/index_en.cfm

[9] EU expenditure and revenue 2014-2020 [Електронний ресурс]. – Режим доступу: http://ec.europa.eu/budget/figures/interactive/index_en.cfm

(ITER), *European Earth Observation Programme (Copernicus*);

- 1.1.2. – *Nuclear decommissioning assistance programmes*;
- 1.1.3. – *Common Strategic Framework (CSF) Research and Innovation*; it includes the Framework Program for Research and Innovation - Horizon-2020 and the Euroatom Research Program;
- 1.1.4. – *Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME)*;
- 1.1.5. – *The Union Programme for Education, Training and Sport (Erasmus+);*
- 1.1.6. – *European Union Programme for Employment and Social Innovation (EaSI*);
- 1.1.7 – *Action Programmes for customs, for taxation and for anti-fraud in the European Union (Customs 2020, Fiscalis 2020 and Anti-Fraud*);
- 1.1.8. – *Connecting Europe Facility (CEF*). This article is considered in the context of transport, energy and information and communication technologies;
- 1.1.9. – *Energy projects to aid economic recovery (EERP*);

Article 1.2. – Economic, social and territorial cohesion). And includes the following sub-items:

- 1.2.1. – *Investment for growth and jobs*; And include expenditure on regional convergence, transitional regions, competitiveness (for the most developed regions), the development of the most ancient and sparsely populated regions, the foundation of cohesion;
- 1.2.2. – *European territorial cooperation*;
- 1.2.3. – *Technical assistance and innovative actions*;

- 1.2.4. – *Fund for European Aid to the Most Deprived*;
- 1.2.5. – *Youth Employment Initiative (specific top-up allocation*);
- 1.2.6. – *Contribution to the Connecting Europe Facility (CEF);*

Article 2. Sustainable growth: natural resources. It includes expenditures for the implementation of the common agricultural policy of the association, which for a long time continues to occupy a significant percentage in the expenditure part of the EU budget. In this article highlight:

- 2.0.1. – *European Agricultural Guarantee Fund (EAGF)*. Costs related to the market and direct budget payments are included;
- 2.0.2. – *European Agricultural Fund for Rural Development (EAFRD);*
- 2.0.3. – *European Maritime and Fisheries Fund (EMFF), Regional Fisheries Management Organisations (RFMOs) and Sustainable Fisheries Agreements (SFAs)*;
- 2.0.4. – *Programme for the Environment and Climate Action (Life)* and others;

Article 3. –Security and citizenship. It includes the following sub-items:

3.0.1. – *Asylum, Migration and Integration Fund*;

3.0.2. – *Internal Security Fund;*

3.0.3. – *IT Systems*;

3.0.4. – *Justice Programme*;

3.0.5 – *Rights, Equality and Citizenship programme*;

3.0.6. – *Union Civil Protection Mechanism*;

3.0.7. – *Europe for Citizens*;

3.0.8 – *Food and feed*;

3.0.9 – *Union action in the field of health (Health Programme)*;

3.0.10 – *Consumer Programme*;

3.0.11 – *Creative Europe Programme*;

3.0.12 – *Instrument for Emergency Support within the Union (IES).*

Article 4. – Global Europe. Here the article 4.0.1 takes a prominent place – *Instrument for Pre-accession Assistance (IPA).*

In general, the structure of the expenditure of the new EU budget (2014-2020) is presented in figure 4.3.

In the EU budget, the following accession countries are the leading recipients: France, Poland, Germany, Italy and Spain. Altogether, more than 40% of EU funds have been used in recent years for their funding.

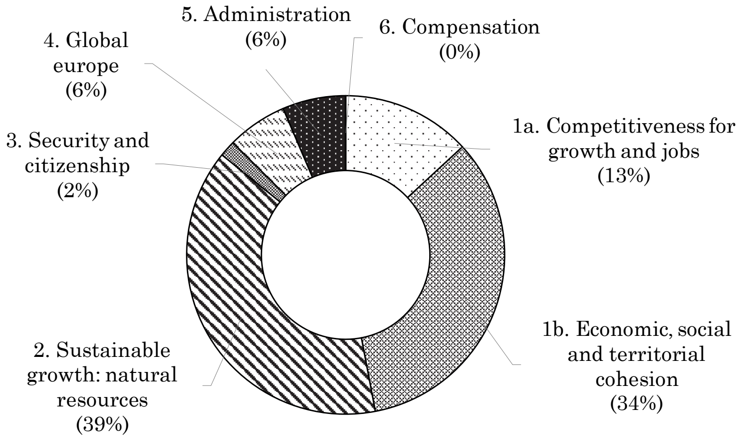

Figure 4.3. Expendure structure of the EU budget during 2014-2020, %[10]

[10] 12 Budget. The European Union Explained [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/budget_en

Instead, Cyprus and Malta are states that receive a relatively small portion of budgetary allocations (*see figure 4.4*). Among the EU member states under Article 1, "Smart and Inclusive Growth", Poland continues to receive the largest expenditures (7.7 billion euros in 2017), primarily in the "Economic, Social and Territorial Cohesion" direction.

In turn, according to Article 2 – "Sustainable Growth: natural Resources", France, Germany, Spain, Italy and Poland are leaders in terms of budget expenditures.

However, this is money mainly from the European Agricultural Guarantee Fund (in particular, in the form of direct subsidies to farmers). For example, in 2017, French agricultural producers received direct subsidies from the EU of 6.7 billion euros, while the German ones - 4.8 billion euros, the Spanish ones - 4.6 billion euros, the Italian ones - 3.5 billion euros and Polish 3.4 billion euros.

Among the EU states that receive funds most for security and the development of the institution of citizenship in recent years, differ France, the Netherlands, Belgium and Italy. According to the article "Global Europe", the main recipients of financial resources are the countries of Central and Eastern Europe - Hungary, Bulgaria, Poland, Romania. In turn, administrative expenses are accumulating for the most part in Belgium and Luxembourg, as the leading EU institutions are set up precisely in those countries.

In general, the operational balance of the EU budget is added to the countries of Central and Eastern Europe (in particular, Poland, Romania, Hungary, the Czech Republic) and Greece.

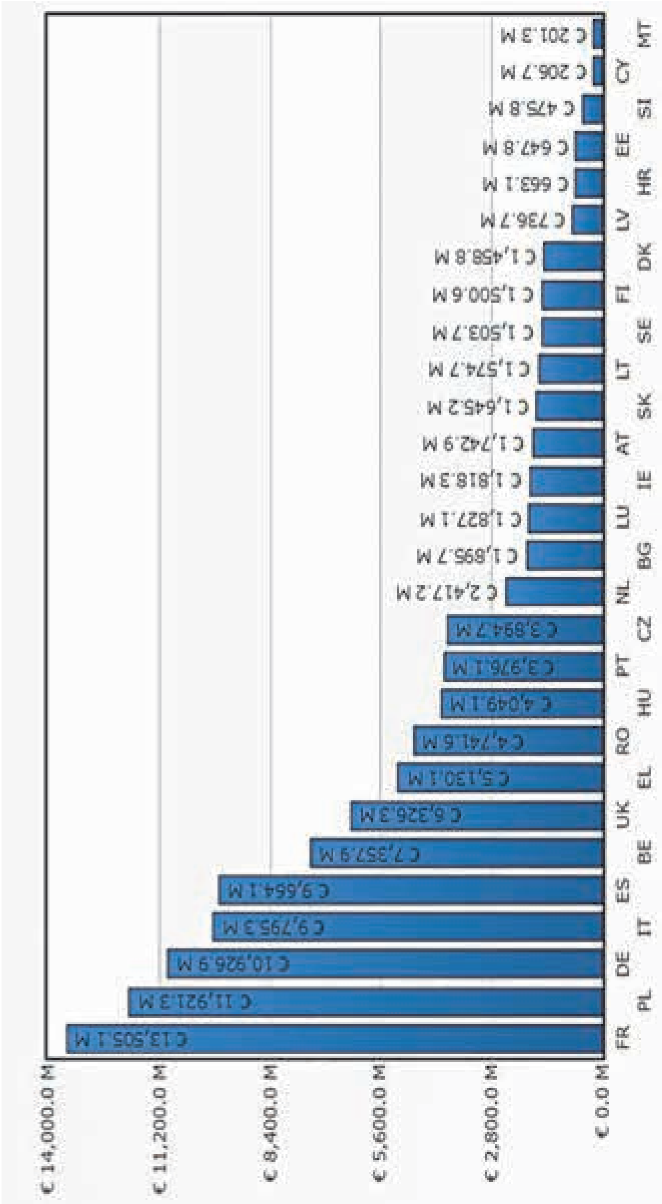

Figure 4.4. Distribution of expenditures from the EU budget by member states in 2017, million euros

http://ec.europa.eu/budget/figures/interactive/ index_ en.cfm

This means that countries receive more money from the EU than they deduct from national budgets (*see figure 4.5*).

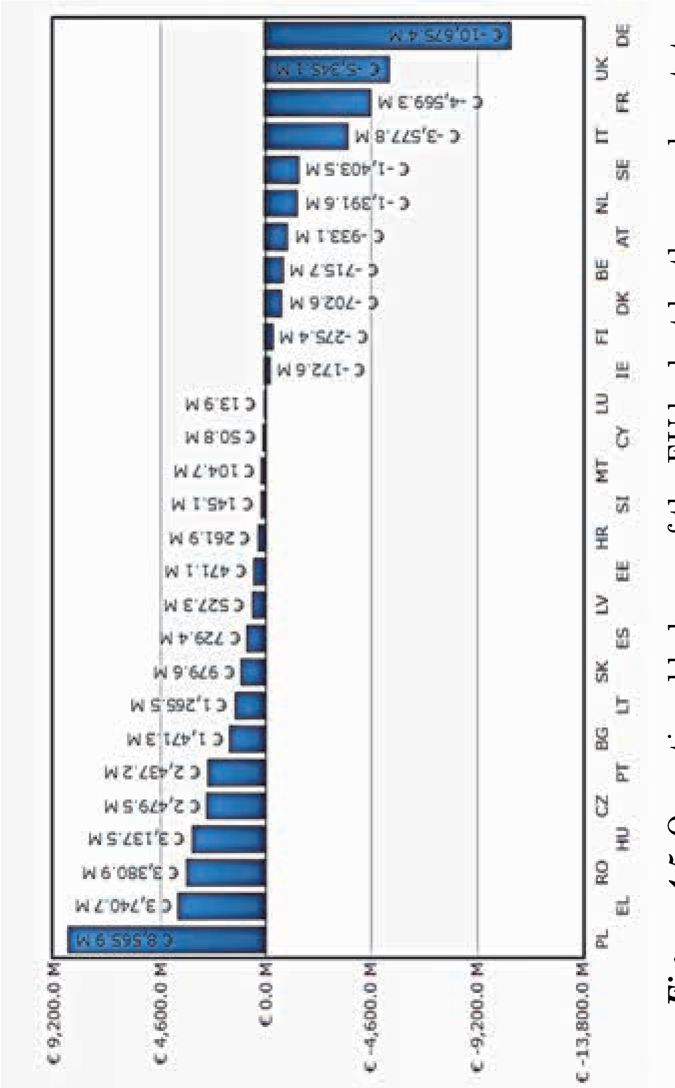

Figure 4.5. Operational balance of the EU budget by the member states in 2017, million euros

Source: http://ec.europa.eu/budget/figures/interactive/ *index_ en.cfm*

Unlike them, the most economically powerful states of the EU (in particular, Germany, France and the United Kingdom) will allocate more resources to the budget of the integration group than they are returning.

It should also be noted that the main priorities of the EU budget are being developed and planned for a period of more than 5 years (usually for 7 years).The European Commission is ultimately responsible for implementing the EU budget.[11]

CASE STUDY 4.3
«Total revenue of EU budget»

Task to the case:

Determine the total amount of EU budget revenues by the years and calculate the share of each of their structural elements. On the basis of the calculations, please describe the structural changes in the EU budget.

Table

Type of revenue	*2000 р.*		*2008 р.*		*2017 р.*	
	billion euro	*%*	*billion euro*	*%*	*billion euro*	*%*
Own resources based on GNI	*37,6*		*74,5*		*78,6*	
Own resources based on VAT	*35,2*		*19,0*		*16,9*	
Traditional own resources	*15,3*		*17,3*		*20,4*	
Surplus from previous periods	*3,2*		*1,5*		*6,4*	
Other revenues	*1,5*		*8,8*		*17,2*	
Total		*100*		*100*		*100*

Source: http://ec.europa.eu/budget/figures/interactive/ index_en.cfm

[11] Budget. The European Union Explained [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/budget_en

CASE STUDY 4.4
«Operational balance of the EU budget»

Task to the case:

Calculate the operational balance of the budget of individual EU member states in 2017. Explain the results.

Table

Indicators	*Belgium*	*Germany*	*France*	*Greece*	*Italy*
Total expenditure of the EU budget, million euro	*7357,9*	*10926,9*	*13505,1*	*5130,1*	*9795,3*
Total own resources, million euro	*5092,5*	*23682,5*	*17902,9*	*1408,5*	*13840*
Gross national income, million euros	*442168*	*3323457*	*2324120*	*178035*	*1726047*
Operational budget balance, million euros					
Operational budget balance (% of GNI)					

Source: http://ec.europa.eu/budget/figures/interactive/ index_en.cfm

CONTROL QUESTIONS

1. What is the EU budget?
2. Describe the principles on which the EU budget is based.
3. What is the EU budget by its nature?
4. What stages includes the budget process in the EU?
5. What institutions are involved in the approval of the EU budget?

6. What is the essence of the Delors 1 Package?
7. When was Delors Package 2 received a package of documents? What is its content?
8. When was the EU budget procedure introduced and what agreements it has been supplemented with?
9. What stages includes the budget procedure?
10. What is the role of the European Court of Auditors in the budget procedure?
11. What are the structural elements of a revenue part of the EU budget?
12. Describe the expenditure part of the budget of the European Union.
13. What are the 6 chapters divided by the expenditure side of the budget of the European Union?
14. What is the biggest budget taken article if the European Union?
15. In which countries is the operational balance of the EU budget positive?

CHECKING TEST

1. Insert the missing words:

The key objective of the EU budget is to provide _________ and more _________.

2. What package of documents was filed by the European Commission in February 1987?

a) Delora 1; b) Delora 2; c) the Reform plan

3. Is the statement correct?:

«After the adoption of the «Delors Packets», the share of outside EU member states, which is formed in proportion to their GNI size in their own resources, is gradually increasing, while the share of other sources is on the contrary reduced»

a) Yes; b) No.

4. Which of the principles of EU budgeting means that the revenue and expenditure parts must be specified in one document?:

a) principle of annuality; b) principle of balance;
c) principle of unity; d) principle of versatility.

5. To the principles of formation of the EU budget doesn't belong:

a) the principle of annuality;
b) the principle of a single currency;
c) the principle of cost specification;
d) control principle.

6. Which of the following does not belong to the EU budget revenue system ?:

a) deduction of VAT;
b) duty on manufactured goods;
c) 50% of the amount of income tax;
d) duty on agricultural products.

7. The main source of revenue to the EU budget is:

a) deduction of VAT;
b) duty on manufactured goods;
c) duty on agricultural products;
d) GNI-based own resources.

8. Compulsory expenditures of the EU budget include:

a) compensation and assistance to Member States under the common agricultural policy;
b) costs of EU Structural Funds;
c) energy costs;
d) the cost of innovative research.

9. Match the stages of the budget cycles and their characteristics:

1	Governmental	A	implementation of the EU budget
2	Executive	B	provides budget planning in the national governments of the EU member states, that ends with the submission of the budget plan to the European Parliament
3	Parliamentary	C	during which the decision on the adopted by the European Parliament budget comes into forces (minor changes may take place here)
4	Post-control	D	consideration of the budget proposed by the EU member states, that ends with the formal approval of the budget

10. List the main stages of managing the EU budgeting process:

1. ____;
2. ____;
3. ____;
4. ____;
5. ____;
6. ____;

11. Which institution is responsible for the implementation of the EU budget ?

a) the Council of the European Union;
b) The European Commission;
c) European Court of Auditors;
d) there is no right answer.

12. Insert the missing word: «______________________– is the main financial base of integration measures, an instrument of supranational regulation of the national economies of EU member states and the realization of structural policies within the EU.»

13. Is the statement correct?: «Following the signing of the Single European Act in February 1986, a political basis for a large-scale reform of EU finances was created.»

a) Yes; b) No.

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CHAPTER 5

THE EU COMMON AGRICULTURAL POLICY

Key concepts and terminology: Common Agricultural Policy, Mansholt Plan, McSherry reform, Fischer reform, import duty, export subsidies, minimum guaranteed price, production quotas, income support, green direct payment.

Having studied the material of the chapter you will get to KNOW:

- ✓ definition, goals, principles, stages of the evolution of the EU Common Agricultural Policy and their specific features;
- ✓ economic and financial instruments for the implementation of the EU CAP and their transformation;
- ✓ EU agricultural funds;
- ✓ irections for future modernization of the EU CAP.

And also have the ability to:

- ➢ determine the prospects for the development of EU agriculture based on the process of reforming the common agricultural policy of integration grouping;
- ➢ analyze the structure of financial support for the EU agricultural sector.

5.1. Definition, goals, principles, stages of the evolution of the EU Common Agricultural Policy

As a rule, farmer's incomes are significantly inferior of workers in other sectors of the economy (accounting for about 40% of non-agricultural worker's incomes). In addition, agriculture is more dependent on the weather and climate than other industries. However, there is a natural time gap between consumer demand and farmers' ability to produce products (for example, an increase in wheat or milk production will inevitably take some time). As a logical response to the aforementioned features of agriculture, developed countries are making considerable efforts to support their own food sector. In particular, a special attitude towards an important sector of the economy takes place in the EU, which is formally reflected in the common agricultural policy of the integrative grouping.

The EU's common agricultural policy (CAP) – it is a partnership between agriculture and society, and between Europe and its farmers[1]. On the other hand, the EU's CAP is a set of rules and regulations governing the production and trade of agricultural products.

Modern CAP has a number of key goals [2]:

1) support farmers and increase agricultural productivity so that consumers receive a stable supply of affordable food;
2) guarantee EU farmers a decent living environment;

[1] The common agricultural policy at a glance [Електронний ресурс]. – Режим доступу: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance_en#thecapafter2020

[2] Там саме

3) to help combat climate change and ensure sustainable management of natural resources;
4) support rural areas and landscapes across the EU;
5) to ensure the viability of agricultural economics through the creation of new jobs in agriculture, food processing enterprises and other related industries.

During the 1950s, when the common market of the EU was forming, the agricultural sector in the future member states of the group was marked by significant state intervention. The government of these states sought to support farmers' incomes by guaranteeing domestic prices for basic products above the world level. Such regulation is intended to eliminate the backwardness of agriculture and eliminate the negative effects of the *demand inelasticity* of food. The states of Western Europe were convinced that the international integration process in the field would be successful only if the special attitude of society to the agrarian sphere was maintained.

In 1950, a special committee was formed to investigate the prospects for the integration of European agriculture. It is worth noting that France wanted to open the markets of European countries the most.

In general, the basic principles of the CAP were approved in March 1957 in the Treaty of Rome signed by 6 countries: Belgium, Germany, France, Italy, the Netherlands and Luxembourg (protected by the European Commission):

Principle 1 – free trade at the same price between the contracting parties;

Principle 2 – to give preference to products produced in EU Member States over imports;

Principle 3 – joint financial responsibility for the implementation of the market and price policies of the

European Community (the use of various instruments to support domestic prices for agricultural products, which make them higher than world prices and stimulate production).

The principles and principles of the EU CAP were approved in July 1958 at a conference in *Stresa (Italy)*, and in 1960 the first six EU founding countries developed a mechanism for their implementation.

On January 14, 1962, the EU Council adopted a number of laws relating to the regulation of agri-food markets (including the system of levies) and defining the creation of a common agricultural market. In other words, *the EU's Common Agricultural Policy (CAP) was formally launched.*

In the future, the EU CAP has evolved as follows:

Phase I – 1951-1957 – preparatory period. At this time, mechanisms for state regulation of agricultural production were developed, namely, instruments for coordinating the pricing policy and controlling the reproduction process;

Phase II – 1958-1968 – the beginning of the CAP (1962). Following the ratification of the Treaty of Rome, member states of the Integration Group decided to create a single agri-food market that would eliminate all obstacles to the movement of products. The first steps to achieve the goals of the CAP were the introduction in 1962 of uniform prices for agricultural products, the establishment of market committees for grain, pork, poultry, eggs, fruits, vegetables and wine. In 1964, the Beef and Dairy Committee began its work, in 1966 on fat, in 1967 on sugar and in 1968 on fruit and vegetable products. Moreover, since 1964, the European Agricultural Guidance and Guarantee Fund (EAGGF) has been operational. This fund was used to support prices, direct and indirect subsidies to farmers, and restructuring of the industry. In the 1960s, 90% of the EU budget was transferred to the EAGGF. At the same time, uniform import duties for third countries are introduced during this period and export subsidies are paid;

Phase III – 1969-1973 – the implementation of the Mansholt Plan, which became the first step towards a way out of the crisis of overproduction of agricultural products. Within the Plan, the system of incentives for farmers to retire early, the problems of their transition to another job, and the merger of farms took a prominent place. Moreover, priority was given here to the financing of US and Canadian farms. The implementation of the Mansholt Plan resulted in a reduction in the share of workers in agriculture from 20 to 8% and an increase in the productivity of labor in the industry by 23%.

Phase IV – 1974-1984 – "Changes in the common agricultural policy to balance markets and stop the rapid increase in costs" (1983). As a result of the first phase of the implementation of the CAP, the key task facing the EU was to achieve full self-sufficiency in food. However, maintaining high domestic prices led to a food crisis that had to be exported to the external market. An adequate response to the actual situation was the publication in 1983 "Changes to the Common Agrarian Policy for Balancing Markets and the Suspension of Rapid Growth in Costs", which provided for the launch of production quotas. Thus, in 1982, the maximum production volumes of milk, sugar, grain, rapeseed and tomatoes were set as raw materials for food industry enterprises (after exceeding the production of a certain guaranteed volume of production, farmers could no longer count on its sale under a guaranteed price).

Phase V – 1985-1992 – McSherry Reform (1992). In the late 1980s, the European Commission decided to pay farmers subsidies that would encourage farmland to be removed from the pasture. Moreover, it was planned to limit the volume of guaranteed purchases and reduce the level of purchase prices. However, in view of the implementation of the aforementioned measures, it was not possible to significantly reduce agricultural production. Also, the budget expenditures for interventions and payment of export subsidies did not change significantly. In addition, the results of the Uruguay Round of GATT / WTO negotiations (1986-1994), during which the Agreement on Agriculture was adopted, required the EU to ensure a transition to a market orientation for agriculture and agriculture. to streamline the transparency of state support. For the decisive changes in the CAP, it was decided to undertake a reform that was based on an awareness of the need for a shift in focus from price support to the support of farmers in the form of direct compensation payments tied to production. In addition, McSherry's reform planned to raise environmental criteria for agriculture. Transformation resulted in a 30% decrease in prices for cereals during the 1993-96 period, 15% for beef and 5% for butter.

Phase VI – 1993-2004 – implementation of the Action Plan 2000, the implementation of the Fischler Reform (2003). Enlargement of the EU, complication of WTO requirements for guaranteeing food security, giving the population the opportunity to buy environmentally-friendly products triggered further changes in the CAP. For example, on March 26, 1999, an agreement under the name of Agenda-2000 was signed at the EU Council meeting in Berlin. Much attention in the agreement focused on the further reduction of price support and the implementation of decentralization policies for rural development. As a result, the percentage of spending on agricultural agrarian support in the EU budget decreased from 62% in 1998 to 47% in 2001. The value of guaranteed purchase prices for beef, dairy and grain was also reduced.

However, the aforementioned reforms failed to solve the problem of high domestic prices for food, overproduction of agricultural products and significant budgetary payments for the implementation of the CAP (the EU spends over € 40 billion annually on the implementation of the CAP, which is almost 38% of the cost part of the EU budget, although agriculture accounts for only about 2% of the GDP of a regional association). Hence the absolutely logical step was the 2003 Fischler Reform, which envisaged the further decentralization of the CAP; the introduction of subsidies separated from production and a shift in focus to rural development and the environment. Overall, this reform has focused on building a modern agrarian sector across the EU that would meet market requirements and consumer demands, ensure sustainable rural development and provide end-products that are safe for human health. According to the experts of the European Commission, this transformation of the EU CAP should have allowed the development of the agricultural sector of the economy on a liberal basis.

Phase VII – 2008-2012 – implementation of the Health Check Development Program. It envisaged the modernization, simplification and restructuring of the CAP transformation, the elimination of restrictions for farmers to help them better respond to market signals and learn to meet new challenges. The program planned to: abolish the requirements for farmers to keep 10% of arable land under arable land, increase milk quotas with their gradual abolition in 2015, use market interventions (buying the EU a surplus supply of agricultural products to internal market) to guarantee security in the face of low and volatile food prices and to reduce the amount of direct payments.

Phase VIII – 2013-2020 – «Common Agricultural Policy for 2020: meeting the food, natural resources and territorial challenges of the future». The main purpose of the CAP reform in this period is to move to a more dynamic, competitive and efficient agrarian sector of the economy. Moreover, the CAP should be beneficial not only for farmers but also for all EU citizens – consumers and taxpayers. The 3 main goals of the modern development of the SAP have been defined:

- sustainable food production (creation of safe and sufficient stocks of agricultural raw materials in the context of growing global demand, economic crisis and much higher volatility of the market, active participation in ensuring world food security);
- sustainable management of natural resources and climate change (farmers are often forced to give environmental benefits over economic benefits, while such costs are not compensated in a free market);
- maintaining territorial balance and diversity of rural areas.

5.2. Economic and financial mechanism for the implementation of the EU common agricultural policy

The CAP is implemented at the expense of sources of financial resources of the EU budget.

In order to be cost-effective, farmers need to be sustainable and support soil and biodiversity. *Based on the above, the CAP is implemented by:*

1) *income support*. Direct subsidies ensure income stability and reward farmers for preserving the environment and supplying public goods that are not normally properly paid for by the market (caring for the countryside);

2) *market support*. The EU can take action to overcome difficult market situations, such as falling prices as a result of temporary excess market satisfaction;

3) *support for rural development*. National and regional programs address the specific needs and challenges facing rural areas.

Within the framework of the economic and financial mechanism, the following EU agricultural policy instruments can be distinguished:

- instruments for regulating the internal markets of EU member states;
- foreign trade and foreign markets tools.

Tariff methods are at the forefront of EU external trade in food and foreign food markets. Usually, the official level of import duties at the border does not reflect the degree of real protection of the agrarian sector. However, for many types of food, import duties are high enough to reduce the volume of agricultural imports. The amount of duties is calculated as the difference between the price on the world market and the guaranteed minimum price for agricultural products imported into EU member states. For each type of food, the Ministers of Agriculture Council annually sets an intervention (minimum) price that is higher than the world average and is guaranteed for EU farmers. If the market price falls below a certain limit, the EU purchases all the products for sale at the intervention price. In this case, the farmer receives a surcharge for the produce produced (see Pic. 5.1.). Outside the intervention period, manufacturers can sell their products at market prices.[3]

In addition to price support, quotas were applied in the EU under the existing restrictions on sugar, milk, sunflower, grain and other types of products.

Since 1992, the EU has pursued a prudent and consistent internal reform policy, shifting its focus from supporting goods to supporting producers. In response to these reforms, direct compensation payments were introduced to compensate for the losses resulting from the cultivation of arable land. Conservation of part of the agricultural land, as a rule, led to a decrease in the production of basic agricultural products (grain, beef, etc.).

In case, where agricultural products supported by the domestic market were exported from EU Member States to the world market, the difference between the EU market price and the world price was compensated in the form of export subsidies. The rest were not the same for all EU member states. Instead, if EU domestic prices are lower than world prices, they apply export duties to

[3] *Кваша С.М., Діброва А.Д., Жемойда О.В.* Аграрна політика: [навч.посіб.] / С.М. Кваша, А.Д. Діброва, О.В. Жемойда. – К.: Вид-во «Ліра-К», 2018. – 388 с.

prevent global exports from growing. In addition, the EU's foreign trade in agri-food uses direct regulation of the supply of agricultural products.

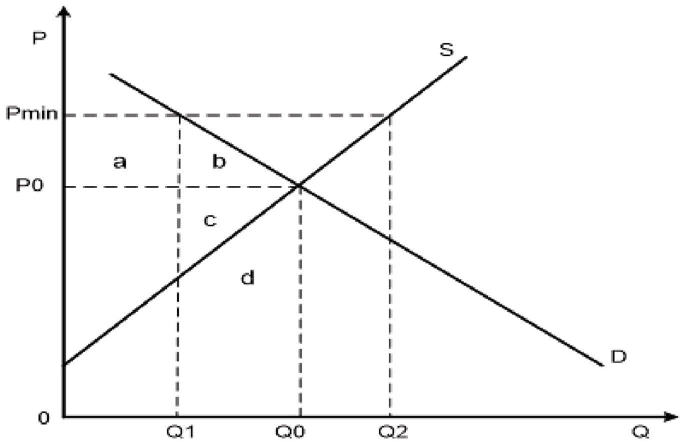

Figure. 5.1. The economic effect of setting a minimum (guaranteed) price[4]

In turn, direct subsidies are prominent among the instruments of regulating the internal markets of EU member states. According to the 2014-2020 financial perspective, a large proportion of direct subsidies for farmers, namely 30%, should be subsidized for landscaping. The direct green payment is implemented according to the area of land and should offset the costs of farmers' own resources for providing public services, ie those that may be extended to other citizens of society. It is assumed that agricultural producers whose land fund exceeds 10 ha will diversify the cultivated crops (minimum two crops for arable land from 10 to 30 ha and at least three crops for arable land over 30 ha). In addition, direct green payments should encourage

[4] Економіка світового сільського господарства: [підручник]/ За ред. В.П. Галушко, В.К.Берегового. – К.: ЗАТ «Нічлава», 2011. - С.187

permanent land use that has been identified as environmentally sensitive under the Natura 2000 program. Also, green subsidies should stimulate farms holding more than 15 ha, 5% of arable land under ecological focus areas (steam fields, hedges, buffer plantings, nitrogen-fixing plants - clover, alfalfa, lupine, soybeans, etc.). Moreover, up to 2% of direct payments should be allocated to support young farmers and up to 30% should be redistributable payments to support the development of small and medium-sized farms. The rest should be basic direct subsidies.[5]

In turn, the EU Rural Development Mechanism provides that more than 30% of the budget allocated to member states' rural development programs should be provided to farmers who voluntarily take action to improve the environment and combat climate change through agri-environment schemes. In particular, funds are provided for organic farming, land conservation under the "Natura 2000" program, support for areas with natural handicaps (mountains, lowlands), deforestation and environmental investments.

As a whole, structural shifts in the expenditure on the implementation of the CAP continue to be observed in the EU - the share of expenditures on support for goods is decreasing (first of all, price support), while the percentage of allocations to support farmers' income and rural development is gradually increasing (*see figure 5.2*).

By the end of 2006, CAP funding had come from the European Agricultural Guarantee Fund (EAGF) (created back in 1962). There were 2 sections in the fund:

1) warranty section;

[5] Overview of CAP Reform 2014-2020 [Електронний ресурс]. – Режим доступу: https://eige.europa.eu/resources/05_en.pdf

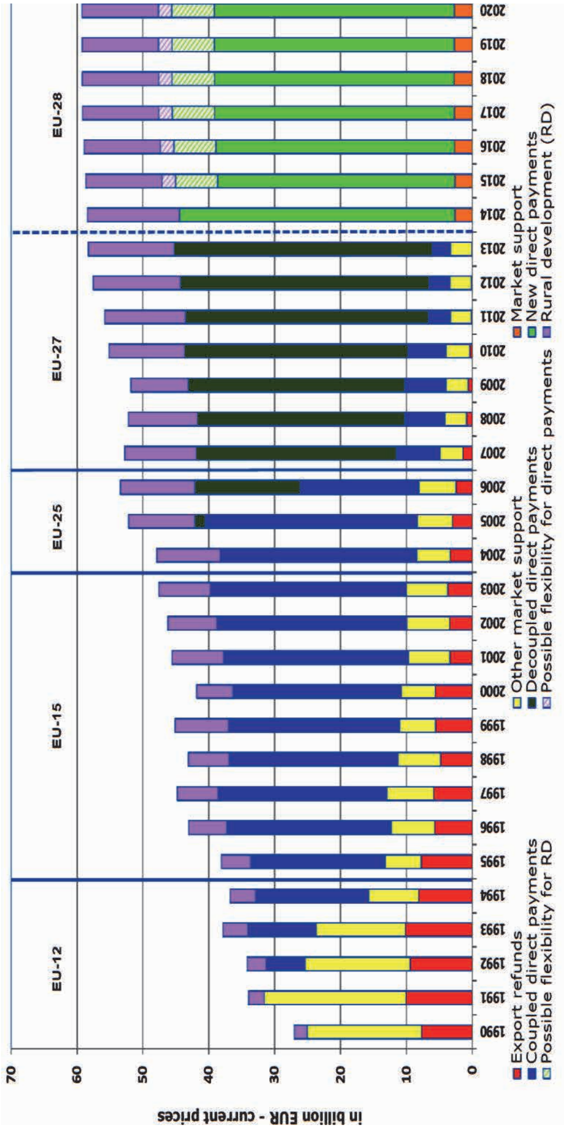

Figure 5.2. Changes in EU CAP expenditure by type of instrument in the period 1990-2020.

Source *Overview of CAP Reform 2014-2020 [Електронний ресурс]. – Режим доступу: https://eige.europa.eu/resources/05_en.pdf*

2) orientation section.

The guarantee section financed intervention measures within the framework of the CAP and rural development. It should be noted that the orientation Section belonged to one of the EU Structural Funds.

Since 2007, the EU's CAP has been funded by 2 newly created European Agricultural Funds:

1) *The European Agricultural Guarantee Fund (EAGF),* which aims to provide direct budgetary support to farmers and provide market support. Moreover, the European Agricultural Guarantee Fund allocates centralized funds for veterinary, sanitary and phytosanitary activities, as well as promotion of food to foreign markets, implementation of agricultural information systems, agrarian research, and market-related costs fishing.

2) The European Agricultural Fund for Rural Development (EAFRD), through which rural development programs are funded. It was created to finance a program implemented under the CAP reform and to support rural development. If funds were allocated to the EU countries for the budget period 2007-13 in the amount of 88.75 billion euros, then for supporting rural areas – 31.3 billion euros.

3) In general, the following priority axes were identified within the CAP:

- priority axis 1 (economical) - supporting the competitiveness of the agricultural and forestry sectors;
- priority axis 2 (ecological) - balanced management of agricultural and forest soils;
- priority axis 3 (social) - economic diversification of rural areas and improvement of living standards in rural areas;

- priority axis 4 («Leader» program) is used to support the initiative of rural residents, to share positive experiences and to enhance rural development.

In addition, the total amount of CAP spending is gradually increasing. Thus, in 2006, the EU financial plan for 2007-2013 was adopted, which set the upper limit on CAP funding – EUR 42.3 billion. However, according to the 2014-2020 financial perspective, a significant budget of € 362.8 billion (in 2011 prices) was allocated to achieve the CAP objectives, accounting for about 38% of the total budget of the common European budget. The bulk of the funds – € 277.85 billion, directly is paid to farmers and on market activities. On the other hand, almost a quarter of the country's spending is allocated to finance rural development - EUR 84.94 billion. Directly in 2018, € 58.82 billion was directed for the CAP in the EU budget.

These funds are allocated to:

- revenue support – € 41.74 billion;
- support for rural development – € 14.37 billion;
- market support – € 2.7 billion[6]

It should be emphasized that CAP funding is provided at national level by each EU member state. Information on recipients of financial assistance from the CAP is published by each country in accordance with EU transparency rules.

During the period 2014-20, the CAP should ensure the use of high technology, advanced Internet services and infrastructure for 18 million rural residents. Moreover, farmers in the EU have a dual task: to produce food while protecting nature and biodiversity. The EU is aware of environmentally sustainable

[6] Overview of CAP Reform 2014-2020 [Електронний ресурс]. – Режим доступу: https://eige.europa.eu/resources/05_en.pdf

agriculture, which uses prudently natural resources, is essential for the production of food and the quality of life of Europeans today, tomorrow and for future generations.

CASE STUDY 5.1
«Support for European organic food producers»

The European organic farming sector is characterized by steady growth. In 2015, the organic area accounted for an average share of 6.2% of the total agricultural area.

During 2000-2015, organic territory in the EU member states more than doubled. In the EU, retail sales in 2014 were estimated at € 23.9 billion, and since 2008, demand growth has been around 7-8% a year.

Regarding the added value chain distribution, it was found that, in particular, for unprocessed products, the share of organic farmers in pricing ranges is from 9% to 62% of retail prices compared to 6% to 40% in conventional supply chains. This means that more value added is generated in organic farming compared to conventional chains, but the price difference does not account for the increase in costs. There is evidence that demand for organic food is growing ahead of an increase in its supply, indicating that the market is inefficient.

The results show that organic producers get higher farm prices than usual, but the share of producers in value added remains relatively low. A Farm Accountancy Data Network (FADN) analysis shows that the net margin per unit of output is higher, but the net income per unit of labor is lower and subsidies partially offset this.

Support for organic farming is provided through the European Fund for Rural Development. In 2014-2020, a special budget was intended to support organic agriculture. This includes support to help farmers move to organic farming at an estimated level of over 2 million hectares.

Source: *Modernising and Simplifying the CAP. Economic challenges facing EU agriculture// European Commission. - 11 December 2017 [Електронний ресурс]. – Режим доступу:* https://ec.europa.eu/agriculture/sites/ agriculture/ files/ consultations/cap-modernising/soc_ *background_final_en.pdf*

Discussion Questions:

Think and say what share of CAP spending should be allocated to support the development of organic agriculture in the EU?

5.3. Areas for modernization of the common agricultural policy after 2020

On June 1, 2018, the European Commission presented legislative proposals on the future of the CAP after 2020, resulting from previous public discussions. These proposals were aimed at making the CAP more responsive to current and future climate change challenges while supporting EU farmers in building a sustainable and competitive agricultural sector. The European Commission proposes to reduce the CAP funding in the budget plan 2021-2027 - about 5% due to a reduction in the contributions of the 27 EU member states. The new CAP should be based on 9 key objectives and, in the future, ensure access to high-quality food and guarantee strong support for a unique European farming model.[7] *These goals will include:*

1) guaranteeing a fair income for farmers;
2) increasing competitiveness;
3) balancing justice in food chain;
4) combating climate change;

[7] Future of the common agricultural policy. European Commission [Електронний ресурс]. – Режим доступу: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en

5) preserving the environment;

6) preserving landscapes and biodiversity;

7) supporting the restoration of generations;

8) developing rural areas;

9) protection of the quality of food and life.

In order to ensure stability and predictability, revenue support will remain a significant part of the CAP. Part of it, the main payments will be based on the size of the farm, which is expressed in hectares. However, the future CAP will likely prioritize small and medium-sized businesses and encourage young people to be engaged in agriculture. On this basis, *the European Commission proposes to [8]:*

1) introduce a higher level of support per hectare for small and medium-sized farms;

2) reduce the proportion of direct subsidies amounting to € 60,000 per farm and limit the payment of subsidies to € 100,000 per farm, with further transparency of the distribution of subsidies;

3) focus at least 2% of direct budget grants per EU member state to support young farmers, which will be complemented by financial support for rural development;

4) support only genuine farmers to EU member states.

At the same time, the European Commission believes that farming plays a key role in tackling the effects of climate change, protecting the environment and preserving peoples' crops and biodiversity. That is why it requires:

- conservation of carbon-enriched soils by the protection of wetlands and peatlands;

[8] Там саме

- mandatory nutrient management to improve water quality, reduce ammonia and nitric oxide;
- introduce crop rotations instead of crop diversification.

The future of CAP should also stimulate increased investment in research and innovation so that farmers and rural communities benefit from it.

CASE STUDY 5.2
«Budgetary implications»

A proposal of ***a)*** *_____________ on the multiannual financial structure for 2021-2027 (COM (2018) 322 final) provides that much of the EU* ***b)*** *_________ should continue to be given to agriculture, which is a common strategic policy. Thus, at current prices, it is proposed to focus on the core business of the CAP - financing from* ***c)*** *__________ in the amount of EUR 286.2 billion and financing from* ***d)*** *____________ - EUR 78.7 billion. These agricultural funds are complemented by additional funding from Horizon Europe, as the proposed package for this program is € 10 billion to support research and* ***e)*** *__________ in food, agriculture, rural development and* ***f)*** *______. With regard to the distribution of direct budgetary payments between member states, it is proposed that all countries where direct subsidies are less than 90% of the EU average could see the continuation of the process started in 2014-2020 and would be able to close half of the existing gap to 90% . All member states will contribute to the financing of this external* ***g)*** *_________ levels of direct payments.*

In turn, for rural development, it is proposed to balance funding between EU budgets and member states. Increasing national co-financing rates will allow public support for European rural ***h)*** *________ mostly without changes. The allocation of support to the European Agricultural Fund for Rural Development (EAFRD) is based on objective criteria related to the policy purposes and taking into account the current distribution. As today, less developed regions must continue to enjoy higher co-*

financing rates, which will also apply to certain measures, such as LEADER and payments on management commitments. A degree of flexibility for transfers between allocations will be offered to member states. Up to 15% of the corresponding ***i)*** _____ *payments can be transferred to the European Agricultural Fund for Rural Development for distribution and vice versa. The higher percentage may be transferred from direct payments to the European Agricultural Fund for Rural Development allocation for interventions aimed at achieving environmental and* ***j)*** ___________ *objectives and founding grants for k)* _________ *farmers.*

Source: *Regulation of the european parliament and of the council on the financing, management and monitoring of the common agricultural policy and repealing Regulation (EU) No 1306/2013. Explanatory memorandum [Електронний ресурс]. -Режим доступу:* https://eur-lex.europa.eu/legal-content/EN/ TXT/?Uri= *COM%3A2018 %3A393%3AFIN*

Task:

Fill in the missing words into the text:

budget, The European Agricultural Guarantee Fund, The European Agricultural Fund for Rural Development, convergence, territories, direct, climate, European Commission, innovation, young, bioeconomy.

CONTROL QUESTIONS

1. What is the common agricultural policy of the European Union and what was the purpose of its initiatation?
2. What are the main stages in the evolution of the EU CAP.
3. What documents confirm the fundamental principles of the common agricultural policy of the EU?
4. What are the key objectives of the current EU CAP?
5. What is the essence of McSherry's reform, which was started in 1992?
6. Describe current trends in reforming the common agricultural policy.
7. What is the essence of Fischler's reform?

8. When was the Agenda-2000 agreement signed? What is its essence?
9. Analyze the system of direct payments of the EU SAP.
10. What is the purpose of the Health Check development program?
11. What are the main economic and financial instruments for the implementation of the common agricultural policy?
12. Explain the economic impact of government setting minimum product prices.
13. What is the EU rural development support mechanism?
14. What current measures does the European Commission propose to support farmers' incomes?
15. What are the objectives expected to be pursued by the new EU CAP after 2020?

CHECKING TEST

1. Fill in the missing words: "The EU's common agricultural policy is a partnership between ______________________ and ______________________________, and between Europe and its _________________".

2. What are the objectives of the current EU CAP ?:

a) to support to farmers and increase agricultural productivity;

b) to guarantee EU farmers decent living conditions;

c) helping to combat climate change and ensure sustainable development;

d) support for rural areas and landscapes across the EU;

e) all answers are correct.

3. When was the EU common agricultural policy formally launched ?:

a) May 10, 1957; b) January 14, 1962;

c) October 1, 1950; d) there is no right answer.

4. What Treaty approved the basic principles of the EU CAP?:

a) Maastricht; b) Amsterdam;
c) Roman; d) Copenhagen.

5. Which of the reforms of the common agricultural policy first focused on environmental protection and the multilateral development of rural areas ?:
a) McSherry's reform; b) The Mansholt Plan;
c) Agenda 2000 Program; d) Fischler reform.

6. The intervention price, as an instrument of the common agricultural policy of the EU, involves the purchase of products from farmers that are for sale at a guaranteed price, which is:
a) lower than the market;
b) higher than the market;
c) higher than the world market price;
d) lower than the world market price.

7. In which year was Fischler's reform carried out ?:
a) 1968; b) 1992; c) 2000; d) 2003

8. What financial sources does the EU's common agricultural policy get for its implementation ?:
a) the EU budget;
b) the IMF loan;
c) there is no right answer.

9. The EU's common agricultural policy is funded through:
a) national agricultural security and guarantee funds;
b) the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development;
c) the European Agricultural Guarantee Fund;
d) the European Social Fund.

10. Is the statement correct ?: "CAP funding is provided at national level by each EU member state."
a) yes; b) no.

11. Match in accordance the allocation of the EU budget for the CAP:

1	income support	А	€ 2,7 млрд
2	support for rural development	Б	€ 14,37 млрд
3	market support	В	€ 41,74 млрд

12. Put in the correct timeline the stages of evolution of the EU common agricultural policy:

a) initiation of the CAP;

b) the Mansholt Plan;

c) preparatory period;

d) "Changes in the common agricultural policy are to balance markets and halt the rapid increase in costs";

e) McSherry Reform;

f) «Common agricultural policy till 2020»;

g) Health Check development program;

h) Fischler reform.

13. What amount of funds has been allocated, according to the financial perspective 2014-2020, to achieve the goals of the CAP?

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CHAPTER 6

REGIONAL POLICY OF THE EUROPEAN UNION

Key concepts and terminology: regional policy, subsidiarity, complementarity, Cohesion Fund, convergence, Solidarity Fund, European Social Fund.

Having studied the material of the chapter you will get to KNOW:

- ✔ the essence, evolution and main consequences of the implementation of EU regional policy;
- ✔ the main funds through which EU regional policy is financed;
- ✔ key priority areas for financing activities from the European Regional Development Fund.

And also have the ability to:

- ➢ identify regional policy funds from which specific projects are funded;
- ➢ differentiate and clarify the economic and socio-humanitarian goals of regional policy programs.

6.1 The essence, objectives and evolution of EU regional policy

Regional Policy of the EU is a strategic investment policy that targets all regions and cities of the EU in order to boost their economic growth and improve people's quality of life. It is also an expression of solidarity, focusing support on the less developed regions.[1]

In general, the need for the formulation and implementation of European Community regional policy was driven by the deepening of regional imbalances as a result of the widening integration group - the accession of the following countries: Denmark, Ireland and the United Kingdom (1973), Greece (1981), Spain and Portugal (1986 p.) and Austria, Sweden and Finland (1995). The next EU enlargement in 2004 deepened the disproportion in the socio-economic development of the union. While the difference between the most developed and the most depressed regions of the EU was 4: 1 by the GDP per capita (2004), by early 2007 it had increased to 8: 1.[2]

It is worth noting that the implementation of the EU regional policy for 2014-2020 has a considerable amount of funds in the budget of the Integration Group, namely € 351.8 billion, which allows it to act as a leading investment instrument in the EU.

Regional policy funds are used for:

- financing of strategies in transport and telecommunication infrastructure;

- promoting the transition to a greener economy;

[1] Regional Policy // European Commission [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/regional-policy_en

[2] *Чужиков В.І.* Модернізація регіональної політики в ЄС / В. Чужиков // Економіка України. – 2008. - №1. – С.51.

- supporting small and medium-sized enterprises to become more innovative and competitive;
- creation of new jobs;
- modernization of the education system;
- building a more inclusive society.

EU regional policy is in solidarity between developed EU member states and the most backward regions of the Union. This helps the most backward regions to realize their economic potential against the backdrop of regional disparities. For example, the GDP of the *Severozapaden* region of Bulgaria and the *Nord-Est* region of Romania accounted for only 29% of the EU-27 average GDP, while in *Inner London* the gross regional product was 321% (as of 2011). This fact underlines the need for further comprehensive implementation of EU regional policy.

In general, the evolution of EU regional policy can be represented by the following steps:

- *1957* - the first mention in the Treaty of Rome;
- *1958* - creation of the European Social Fund (ESF);
- *1975* - Establishment of the European Regional Development Fund (ERDF). This year can actually be considered the beginning of a common EU regional policy, but over the 10 years of its operation, the gap in the growth rate of rich and poor regions has continued to widen. Therefore, the search for a more effective mechanism for implementing regional policy continued;
- *1986* - the legislative principles of regional policy were initiated by the Single European Act. This document identified the direction of future cohesion policy as the primary objective of the Community's common regional policy, that is, the desire to reduce the gap between regions. The main means of achieving this

goal was the systematic creation of approximately equal conditions for access to capital, labor, education and services for the population of different regions against the backdrop of fiscal equalization;

- *1988* - in order to adapt to the annexation of Greece (1981), Spain and Portugal (1986), the Structural Funds are integrated into a cohesion policy;
- *1993 p.* – The Maastricht Treaty initiated the Cohesion Fund, the Committee of the Regions and the principle of subsidiarity. It should be noted that with the help of the principle of subsidiarity, decisions should be made at the local level, where in particular there was a problem. According to EU experts, the implementation of the Common Regional Policy has led to an increase in the efficiency of the use of EU budget financing by 20-30%. Overall, it was recommended to spend up to 1/3 of the EU budget to implement cohesion policy in 1993 at the Edinburgh Summit. In general, the definition of cohesion policy means the interconnection of regional and social policies, when both are considered as one.
- *1994-99* - doubled the financial resources of regional funds;
- *1995* - a specific target for the support of the sparsely populated regions of Finland and Sweden was included;
- *2000-04* - regional policy instruments make funding and know-how available to countries that join the EU. During this period, the European Council adopted a proposal from the European Commission to reduce the number of targeted funding for regional policy from 8 to 3:
- 1) supporting the development of regions where GDP per capita is less than 75% of the EU average. 70%

of the Structural Funds' expenditures are expected to be allocated here;

- 2) assistance to regions with structural problems, as well as to regions undergoing economic transformation and backward agrarian and fisheries-dependent regions - 11.5% of expenditures;
- 3) development of human resources and fight against unemployment, as well as modernization of the education system - 12.3% of expenditures.
- - *2004* - 10 new countries joined the EU (population increased by 20%, while GDP of the union - by only 5%). The expansion has widened the gap between rich and poor regions. EU average GDP has now fallen by 12.5% and socio-economic disparities have doubled. It should be emphasized that the EU was mostly joined by small economically dominated economies that were heavily dominated by the heavy metals and metallurgy industries, and were largely represented by the agricultural sector that needed modernization. New EU member states could not quickly overcome the development gap only on their own, market maturity and economic structure. Therefore, they called for a permanent redistribution of financial resources in their favor. As a result, in February this year, the European Commission's Third Report on Economic and Social Cohesion "The New Partnership for Cohesion: Convergence, Competitiveness and Cooperation" was published. It envisaged reducing disparities for accelerated growth. Assistance to the poorest regions continued to remain at the center of financial assistance.

However, *the Commission has proposed that EU cohesion policy was based on 3 priorities* [3]:

1) *convergence*. It was planned to support the increase and creation of new jobs in the member states and less developed regions, where GDP per capita was less than 75% of the EU average;

2) *regional competitiveness and employment* provided assistance to the regions in promoting the competitiveness and attractiveness of the regions, as well as promoting social cohesion;

3) *territorial cohesion* - cooperation in the area of improving the territory and harmonious development throughout the EU.

- - *2007-13* - the regional policy budget is € 347 billion, of which 25% is spent on research and innovation, 30% on environmental infrastructure and climate change. In May this year, the European Commission submitted the "Fourth Cohesion Progress Report", due to which the convergence of both national and regional levels of socio-economic development in the EU was observed. Thus, for the period 1995-2005, three of the four leading recipients of funds from regional budgetary funds were able to significantly increase their welfare levels. For example, Greece - from 74 to 88% of the EU-27 average GDP per capita, Spain - from 91 to 102%, and Ireland - from 102 to 145%, respectively. The Baltic countries have even managed to double their GDP, while economic growth in Poland, Hungary and Slovakia has been twice as high as the EU average. However, due to low absolute values, given the dynamics of GDP growth, new members of the integration group need

[3] *Копійка В.В.* Європейський Союз на сучасному етапі: структурні зміни та стратегія розвитку / В.В. Копійка, Т.І. Шинкаренко, М.А. Миронова. – К.: Знання, 2010 . – С.32-33.

about 15 years to reach the level of 75% of the EU average of socio-economic development.[4]

- - *2014-2020* - the regional policy budget is € 351.8 billion, with a specific focus on 4 areas: research and innovation, digital agenda, support for small and medium-sized enterprises and low carbon economies. Around € 100 billion has been channeled into all these areas, including € 26.7 billion for the low carbon economy. In other words, there has been an evolution of regional policy instruments in this period, from subsidizing mainly "poor" regions to activities that shape a favorable investment climate (infrastructure, quality of workforce, environment, research potential, development of government institutions, etc.), which promotes their competitiveness. Using these funds has helped improve the quality of life for EU citizens, create jobs, promote research, stimulate development and innovation. For example, in the period 2007-2012 within the European Regional Policy [5]*:*

1) 594 thousand jobs were created, of which 262 thousand in small and medium-sized enterprises;

2) 198 thousand small and medium-sized enterprises were invested;

3) 77.8 thousand startups were supported;

4) 61,000 research projects were funded;

5) the construction of 1208 km of roads and 1495 km of railway was financed to help establish an efficient Trans-European transport network;

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[4] Growing Regions, Growing Europe: 4 thReport of the European Commission on Economic and Social cohesion – Luxembourg : Office for Official Publications of the European Communities, May 2007. – P.X.

[5] Regional Policy // European Commission [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/regional-policy_en

6) the quality of life for citizens in cities was improved through modernization of water delivery and sustainable transport was introduced.

CASE STUDY 6.1
«Principles of implementation of the EU common regional policy»

The EU's common regional policy is based on the theory of a "new regionalism", which influence has increased significantly since the mid-1980s. According to this theory, the essence of regional development is related to the use of the internal potentials of regions. This approach involves shifting the focus from direct state regulation to stimulating the formation of "autonomous mechanisms" in the regions using their own potential, promoting the development of private enterprise. The reason for the emergence of a new approach to regional development was the changes that took place in the United States and Western Europe in the 1980s, namely: restructuring the economy, updating political systems, and changing the ideological paradigm.

The transition to a qualitatively new stage of the common regional policy required determination of the basic principles of its implementation: subsidiarity, partnership, concentration, programming, and complementarity.

a) __________ *- provides the complementary nature of the subsidies. EU institutions can provide funds only as an additional source in the implementation of national programs and have no right to determine the objects of their intervention solely on their own initiative;*

b) __________ *- this is complementarity with the main types of economic policy, each of which is implemented differently within the EU, depending on the levels of subjects of integration;*

c) ___________ *- is a purposeful activity at the local level to achieve the goal;*

d) ____________ *- is to provide the EU Structural Funds with the resources of the less developed territories of the EU, under strict national control, with the inadmissibility of spraying* *funds. According to a decision of the EU Council, 80% of the financial payments from the European Regional Development Fund should be provided to regions with a clear gap in socio-economic development.*

e) *____________ is cooperation between different levels (EU, country, region) of territorial-administrative units in order to achieve a common goal.*

Source: *Менеджмент європейської економічної інтеграції : [підр]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – С.270-271.*

Task to the case:

Insert the missing words into the text: *partnership; concentration; programming; subsidiarity; complementarity.*

6.2. Mechanism for implementation of EU regional policy

The EU's Common Regional Policy is addressed by one of the existing Directorates-General of the European Commission, the Commission's Directorate-General for Regional and Urban Policy. In turn, financial assistance to regions in the EU member states is distributed primarily through the European Regional Development Fund.

The European Regional Development Fund (ERDF) and the European Social Fund (ESF) are known as *Structural Funds* intended to invest in economic and social restructuring within the EU and thus reduce the gap in development between regions of the EU. Together with *the Cohesion Fund and the European Agricultural Fund for Rural Development (EAFRD), the European*

Maritime and Fisheries Fund (EMFF), they create *the European structural and investment funds (ESIFs)*.

The European Regional Development Fund (ERDF) invests in sectors that are developing and linked to increasing competitiveness and job creation in all EU regions and cities. The Fund's actions aim to tackle the economic, environmental and social challenges of focusing on the sustainable development of cities, and it is expected that more than 50% of *the European Regional Development Fund's* 2014-2020 investment will be directed to urban development. Other characteristics (eg, in areas with natural handicaps - remote, mountainous or sparsely populated areas). It also funds cross-border, transnational and interregional cooperation (known as European territorial cooperation), which covers a wide range of issues, including shared transport infrastructure, innovation and communication networks, cross-border trade, joint management of natural resources and connection of settlements with cities.

The European Social Fund (ESF) is the oldest Structural Fund and is designed to help job seekers and give them access to appropriate training so that they can find employment. Every year, about 15 million people participate in thousands of projects that are co-financed by the European Social Fund.

Founded in 1994, *The Cohesion Fund* spends money on transport networks and environmental conservation in EU member states, where GDP is below 90% of the EU-28 average (above all, in Central and Eastern Europe, such as Greece, Cyprus, Malta and Portugal). The Fund actively funds green economic growth, reducing economic and social disparity by improving regional alignment. The Fund directly supports the Trans-European Transport Network, which is necessary for the proper functioning of the internal market and for the improvement of the movement of persons and goods within the EU and abroad. The Cohesion Fund also invests in climate change adaptation projects, supports energy efficiency and renewable energy projects in companies and public institutions. Part of its funding is provided for financing major transport and other networks under the Connecting Europe Facility and investing in rail, electricity and gas pipelines.

Another important EU fund in the field of implementing regional policy, under the control of the European Commission, is the *EU Solidarity Fund (EUSF)*, which was established in the summer of 2002 in response to heavy floods in central Europe. The annual budget of this fund is approximately EUR 500 million. The operation of the Fund enables the EU to rapidly and effectively assist any EU country in the event of a serious natural disaster with significant consequences for people, the economy and the environment.

CASE STUDY 6.2

«A record amount from the EU Solidarity Fund paid to rebuild the region Emilia-Romagna in Italy»

*The planned record amount of 670 million Euros from **a)** _________ the EU was directed to **b)** _________ to rebuild the region after devastating earthquakes that hit Emilia-Romagna with a shock force of up to 5.9 points on a scale **c)** ________ May 20, 2012 After a series of earthquakes, hundreds of earthquakes followed, reaching the neighboring regions of Veneto and Lombardy. They caused 27 deaths, approximately 350 people were injured, and more than 45,000 had to be evacuated. Serious damage has been done to buildings, infrastructure, businesses, industrial sites, **d)** _________ and important cultural heritage sites.*

The most of the money was used to cover ***e)*** _________ *for emergency relief and rescue operations. Almost € 292 million has been earmarked for the immediate renewal of* ***f)*** ___________ *and medical facilities, as well as reimbursement of electricity and water costs.*[6]

Source: *Regional Policy // European Commission [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/regional-policy_en*

Task to the case:

Insert the missing words into the text:

agriculture, Richter, EU Solidarity Fund, expenditure, Italy, educational.

EU regional policy is being implemented jointly with the European Commission. Unlike the annual national budgets, the regional development budget is set at 7 years, making it a reliable and valuable resource for private investment.

There are 3 basic principles in the investment process:

1) the budget and the rules for its use are jointly adopted by the European Parliament and the Council on the basis of proposals developed by the European Commission;

2) The European Commission works with EU member states as they develop partnership arrangements that outline their investment priorities and development needs. They also provide draft operational programs, breaking down specific objectives into tasks. This may cover entire countries and regions

[6] Regional Policy // European Commission [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/regional-policy_en

and may include cooperation programs involving more than one country. The European Commission is negotiating with the national authorities on the final content of these investment plans. All levels of government, including civil society, should be consulted;

3) the adopted programs are undertaken by all EU member states and their regions. This means selecting, observing and evaluating hundreds of thousands of projects. This work is organized through the management of authorities in each EU member state and region.

A special role in the process of EU regional policy implementation is given to regional development agencies. Their tasks include:[7]:

- providing information and consultations on enterprise management, attracting investments and transferring new technologies;
- provision of financial resources (loans, grants, subsidies, etc.) to small and medium-sized enterprises;
- creation of business infrastructure (technology parks, business incubators, rental of offices and production premises).

Equally important are the structures that ensure that in the EU member states the coordination of interests of different regional policy actors, both horizontally and vertically. For example, the Planning Committee for the Regional Economic Structure in Germany, the State-Regions Conference in Italy, the Territorial Development and Regional Planning Delegation in France.[8]

[7] *Walzer N.* Local Economic Development Incentives and International Trends / N. Walzer. – Boulder, CO : Westview Press, 1995. – P.221.

[8] Менеджмент європейської економічної інтеграції : [підр]/ С.М. Писаренко, Н.В. Горін, Л.А. Українець та ін.; за ред. С.М. Писаренко. – К.: Знання, 2012. – С.292.

Moreover, the question of creating a qualitatively new territorial structure of Europe - Europe of Regions - has been raised for a long time, is an organizational structure in which the (second-tier) regions will have priority over the existing nation-states in making many important decisions. As early as 1996, the Dortmund Declaration of the Economic Forum of the Regions of Europe stated that the effectiveness of the partnership depended on the expansion of inter-regional economic cooperation in Europe. It is worth noting that expanding the competence of individual regions within the strategic goal of European integration is the creation of a single federal entity, which is enshrined in the Maastricht Treaty on the basis of the most vital principle of European integration - *subsidiarity*. However, a federal "Europe of the Regions" cannot be created from above, but must grow "from below" as a result of a voluntary association of European regions. In other words, the content of the definition of Europe of the Regions is to create and maintain a dynamic balance between differentiation and integration.[9]

6.3. New priorities for EU regional policy

Investments of *The European Regional Development Fund (ERDF*) go hand in hand with other EU policies and aim at ensuring growth and employment in the EU.

To ensure that every euro is spent reasonably, the Fund's actions focus on 4 key priorities[10]:

[9] Там саме, С.292-293

[10] Regional Policy // European Commission [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/regional-policy_en

1) *innovation and research*. Europe needs to invest more in research and innovation, as it is the driving force behind economic growth and employment. The region is lagging behind its competitors, investing at times less than the US, Japan and South Korea, while China is gaining ground. One of the goals of the Europe 2020 strategy is to achieve a 3% share of the cost of research into the GDP of the integration group. The European Regional Development Fund invests in basic and applied research, encouraging all actors in the innovation chain (research institutes, universities, technology centers, entrepreneurs, large and small companies, financial institutions, etc.) to work together to create innovative products and the services that EU member states need to compete internationally;

2) *information and telecommunication technologies*. Effective use of information and telecommunications companies is a prerequisite for productivity, competitiveness, increased revenue and employment. That is why the Fund is investing in the development of information and telecommunications infrastructure to access high-speed communications in all EU regions, especially in remote, rural and least developed regions. This will facilitate changes in innovation in the use of information and telecommunications technologies by firms (such as electronic learning and electronic business), citizens (electronic libraries and databases), government agencies (electronic medicine and electronic government) to enhance productivity and quality of life;

3) *increasing the competitiveness of small and medium-sized enterprises*. Small and medium-sized enterprises are the backbone of the EU economy, accounting for around 20 million entities, accounting for about 99% of all businesses in the integration group.

They are a leading driver of economic growth and employment. The Fund invests in business development to help small and medium-sized businesses gain easy access to all kinds of new financial instruments - loans, microfinance and venture capital;

4) *the transition to a low carbon economy*. The European Regional Development Fund is investing almost € 27 billion on greening the carbon economy in the 2014-2020 period, which means increasing the use of renewable energy in both the public and private sectors, increasing energy efficiency when private or public construction or investing in smart grids. Fund's investments also help reduce transport emissions by investing in low-carbon technology research and implementing sustainable public transport systems.

The resources allocated to the implementation of these priorities depend on the category of the region:

- 80% of the European Regional Development Fund funds spent on the most developed regions should be related to at least 2 priority theta;
- similarly, 60% of the Fund's funds allocated to this group of countries and in the least-developed regions - 50%, respectively, are allocated for the financing of the 2 priorities in the transition countries.

Moreover, some of the Fund's resources should be directed towards low carbon projects, namely[11]:

- the most developed regions - 20% of their location;
- transition regions - 15%;
- least developed regions - 12%.

[11] Regional Policy // European Commission [Електронний ресурс]. – Режим досту-пу: https://europa.eu/european-union/topics/regional-policy_en

BUSINESS GAME
«Program «PEACE» : peace building and Northern Ireland's economic development»

The launch of the PEACE program took place in 1995 as the EU's desire to respond positively to a new opportunity for Northern Ireland to hold a peace process following the announcement of a ceasefire in the region. The EU has allocated € 1.3 billion in financial assistance. One of the most iconic projects was the Derry / London-derry PEACE bridge, launched by the European Commissioner for Regional Policy in June 2011. The cost of building the bridge was € 14.6 million, of which over EUR 11 million was funded by the EU. The Peace Bridge now connects both sides of the river, and its design represents a symbolic handshake across the River Foyle. It is a powerful new symbol of a city that has physically and metaphorically brought communities together on both shores for which the river has become a major religious split.

Sorce: *Regional Policy // European Commission [Електронний ресурс]. – Режим доступу: https://europa.eu/european-union/topics/regional-policy_en*

Task:

Group of the students should to be divided into three teams:

- ***Team №1*** *– defends the claim that the PEACE program is a purely social and humanitarian measure;*
- ***Team №2*** *– upholds the view that the PEACE program is a purely economic European event;*
- ***Team №3*** *– states that the PEACE program has integrated both socio-humanitarian and economic goals.*

CONTROL QUESTIONS

1. What is common regional policy of EC?
2. In what direction is the EU's cohesion policy evolving? Explain the answer.

3. What has become a prerequisite for shaping a common EU regional policy?
4. What is the main objective of the common regional policy of the European Union?
5. What are the principles of the EU Common Regional Policy?
6. Describe the stages of development of regional policy in the countries that are members of the European Union.
7. When was the European Regional Development Fund established? What are its main activities?
8. What are the specificities of financing the EU's common regional policy?
9. What are the areas of assistance to EU regions?
10. Describe the principles of the EU Structural Funds.
11. What does the reform of the EU's common regional policy entail?
12. How many funds are part of the European Structural and Investment Fund group?
13. Justify the new priorities of EU regional policy.
14. How is EU regional policy implemented? How long does the regional development budget meet?

CHECKING TESTS

1. What is it about?: «This is the intersection of regional and social policy, when viewed as one» ______________________________

2. Insert the missing words: «EU regional policy is a strategic a) ______________ policy that targets all EU regions and cities in order to strengthen their b) ______________ and improve the quality of people's c) ___________».

3. Which of the principles of regional policy implementation is the basic one ?:

a) concentrations;

b) subsidiarity;

c) partnership and complementarity;

d) programming.

4. What is the amount of money pledged in the budget of the Integration Group for 2014-2020 for the implementation of EU regional policy ?:

a) € 110.5 billion; b) € 351.8 billion;
c) € 250.2 billion; d) € 150.1 billion

5. What are the purposes of regional policy ?:

a) promote the transition to a greener economy;
b) support small and medium-sized enterprises;
c) create new jobs;
d) upgrade the education system;
e) to build a more inclusive society.

6. The first mention of the establishment of EU regional policy was in:

a) Treaties of Rome;
b) Maastricht Treaty;
c) Single European Ac;
d) there is no right answer.

7. In which EU member state does the constitutional principle of regional convergence of economic apply ?:

a) Sweden; b) Germany; c) Denmark;
d) Austria

8. Is the statement correct? «The European Commission works with EU member states as they develop partnership arrangements that outline their investment priorities and development needs»?

a) yes; b) no.

9. The principle of partnership in the EU's common regional policy is cooperation between:

a) small and medium business;
b) EU member states;
c) the EU, the state and the regions;
d) EU institutions.

10. What is the purpose of the appointment of the European Social Fund ?:

a) helping people;
b) financing of education;
c) investment in industry;
d) environmental protection

11. 11. What activities are funded by the Cohesion Fund ?:

a) transport network;
b) environmental protection;
c) financing the consequences of natural disasters;
d) the correct answer is a) and b).

12. What are the 4 key priorities of the European Regional Development Fund's investments ?:

1.____;
2.____;
3.____;
4.____

13. The basic principles of the Common Regional Policy are defined in:

a) the preamble to the Treaties of Rome;
b) resolutions of the Council of the European Community;
c) a Single European Act;
d) the Treaty of Lisbon.

14. Is the statement correct ?: «80% of the European Regional Development Fund's spending on the most developed regions should be in at least 2 priorities»

a) yes; б) no.

15. Insert the missing words: a) _______________ – support for increasing numbers and jobs b) _______________ jobs in the member states and least developed regions where GDP per capita was lower c) ______% of the EU average.

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CHAPTER 7

ENVIRONMENTAL POLICY OF THE EUROPEAN UNION

Key concepts and terminology: environmental policy, climate change, biodiversity, environment, sustainable development, waste, soil, green economic growth.

Having studied the material of the chapter you will get to KNOW:

- ✓ defenition, features, purpose and evolution of EU environmental policy;
- ✓ levels of the EU environmental regulation system;
- ✓ the EU's major environmental policy achievements;
- ✓ procedure and features of financing EU environmental policy measures.

And also have the ability to:

- ➢ foresee further transformation of the EU's environmental policy beyond 2020;
- ➢ substantiate the feasibility of improving the mechanism of regulation of environmental protection in the EU, based on the need to ensure green economic growth for integration.

7.1. Definition and evolution of EU environmental policy

The European Union has one of the highest environmental standards in the world. *The main objective of the EU's environmental policy* is to "green" the EU economy, to protect nature, to guarantee a healthy and quality life for EU citizens.

Unlike EU sectoral policies, environmental policy is *horizontal*, as it applies to almost all areas covered by EU jurisdiction. In addition, EU environmental policy is guided by the following principles[1]:

1) the principle of action of the warning;
2) the principle of eliminating not only the consequences but also the causes of environmental damage;
3) the principle "polluter pays".

Launched in 1973, *EU environmental policy is reflected in the following environmental programs* and action plans:[2].

- *1973 – I Environmental Action Program (July 1973).* Its goals have been to: prevent, reduce and limit environmental damage; preservation of ecological balance and rational use of natural resources. It should be noted that this Action Program already contained ideas for sustainable development.

- *1977-81 – II Environmental Action Program*. It paid particular attention to the problem of nature

[1] *Копійка В.В.* Європейський Союз на сучасному етапі: структурні зміни та стратегія розвитку / В.В. Копійка, Т.І. Шинкаренко, М.А. Миронова. – К. : Знання, 2010. – С.36

[2] *Бізек В.* Політика та право ЄС з питань, що стосуються довкілля [посібник]/ Проект Європейського Союзу «Додаткова підтримка Міністерства екології та природних ресурсів України у впровадженні секторальної бюджетної підтримки». – К., 2013 [Електронний ресурс]. – Режим доступу: www.greenmind.com.ua/images/meropriyatiya/EC-LEG-Textbook-UA.pdf

conservation, but in general it was a logical continuation of the former, distinguishing a wider range of tasks;

- *1982-86 – III Environmental Action Program.* It highlighted the potential threats and benefits of environmental policies to the market within the community, as well as the positive employment implications of its implementation. The environmental policy has shifted the focus to emissions. At the same time, it was recommended to introduce emission limit values for stationary and mobile sources. It also supported the focus on the first global sustainable development strategy set by the International Union for the Conservation of Nature in 1980.
- *1987-92 – IV Environmental Action Program.* It discussed the "sectoral approach" with a study of the environmental impact of strategic sectors of the national economy. An assessment of new, motivating instruments such as taxes, subsidies or emission licenses was first introduced;
- *1992-99 – V Environmental Action Program.* The main objective for sustainable development was considered (defined in the Brundtland Report). Structural changes were recommended to improve the public transport system, increase energy efficiency and prevent waste generation. In addition, an emphasis was placed on new market-based instruments, such as tax breaks, which increased the interest of producers and consumers in the decision-making process. The Program has also set medium- and long-term targets for the reduction of some pollutants.
- *2002-2012 – VI Environmental Action Program.*

Here the main priorities were identified:

a) *climate change.* The long-term goal was to prevent global air temperature rise by more than 2 degrees Celsius compared to the pre-industrial period and CO2 concentrations below 550 per mille;

b) *nature and biodiversity*. It concerned the conservation, restoration and development of existing natural systems, natural habitats for the concentration of wild flora and fauna in order to halt the process of desertification and biodiversity loss, both within the EU and worldwide;

c) *environment, health and quality of life*. Promoting a high standard of living for people in which the level of environmental pollution does not increase the long-term impact on the health of the population and the environment;

d) *natural resources and waste*. Here, more efficient use of resources, management and waste, should ensure the achievement of a sustainable model of production and consumption, limiting the use of resources and the generation of waste from the rate of economic growth and ensuring the consumption of renewable and non-renewable resources, was conveying the capacity of the natural environment.

According to Article 4 VI of the Program, strategies were developed for the following areas: atmospheric air, waste prevention and recycling, marine environment, soil, pesticides, natural resources, urban environment.

- *2012-20 – VII Environmental Action Program – «Living well, within the limits of our planet»*. This program aims to increase environmental sustainability in the EU and to transform regional integration into an inclusive and sustainable green economy. It is worth noting that it included topical thematic priorities:

- *priority objective 1:* protect, conserve and grow the EU's natural capital;

- *priority objective 2*: transforming the Community into a resource-saving, green and competitive low carbon economy;

- *priority objective 3*: protect EU citizens from environmental hazards and risks to health and well-being;

- *priority objective 4*: maximizing the benefits of EU environmental law;

- *priority objective 5*: improving the evidence base of environmental policy;

- *priority objective 6*: attracting investment in environmental protection and climate change;

- *priority objective 7*: improving environmental integration and policy harmonization;

- *priority objective 8*: increasing the sustainability of EU cities;

- *priority objective 9*: increase the effectiveness of the EU's response to global, regional, environmental and climate challenges.

It is worth noting that the EU's current environmental policy is being implemented within the concept of sustainable development. The latter is referred to in the Treaty about functioning of the EU as a comprehensive long-term objective of integration. In general, the EU's 2009 Sustainable Development Strategy is the basis for a long-term vision for sustainability, where economic growth, social cohesion and environmental protection go hand in hand and complement each other[3].

[3] *Бізек В.* Політика та право ЄС з питань, що стосуються довкілля [посібник]/ Проект Європейського Союзу «Додаткова підтримка Міністерства екології та природних ресурсів України у впровадженні секторальної бюджетної підтримки». – К., 2013 [Електронний ресурс]. – Режим доступу: www.greenmind.com.ua/images/meropriyatiya/EC-LEG-Textbook-UA.pdf

Thus, green growth is at the forefront of the EU's current environmental policy. It entails the development of a policy that ensures a sustainable environmental framework. Eco-innovations can be implemented and exported, making Europe more competitive and improving people's quality of life. As a global actor, the EU plays a key role in ensuring the sustainable development of the entire planet.

BUSINESS GAME
«Nature under protection»

The EU has strong environmental protection and legislation. The latter is confirmed by the launch of "Natura 2000" – a pan-European ecological network dedicated to the protection of species and their habitat. With more than 26,000 sites, this network is the largest in the world. It covers almost 18% of the area of EU countries - equivalent to the total territory of Germany, Poland and the Czech Republic. The "Natura 2000" lines were incorporated in 1979, when the EU introduced the first part of environmental legislation, in particular the Birds Directive. It was taken under the protection of all wild birds in the EU (about 500 species) and was required by member states to group the identification and protection of particularly important species. The next step was the location directive. It obliged member states to protect the habitat of endangered plant and animal species. This directive covers about 1,500 rare plant and animal species, as well as about 230 valuable habitats, such as meadows, salt marshes, mountainous lands, which serve as a foundation for ecosystems. "Natura 2000" recognizes that humans are a part of nature and work together better than individually. Its purpose is not to exclude human economic activity, but to impose certain restrictions on it to preserve valuable species of organisms and their habitats. "Natura 2000"funding is integrated into key EU policy sectors. Agriculture, in particular the development of rural *areas, together with the environment and forests is the most important component here. Cohesion policy plays a leading role in financing these activities, especially in the new EU member states. "Natura 2000" fosters healthy ecosystems that provide valuable services such as fresh water, carbon retention and flood and erosion protection. Together, the cost of these services is estimated by experts at 200-300 billion euros a year, which is significantly higher than the annual 6 billion euros spent on managing "Natura 2000".*

Source: *The EU explained: Environment/ European Commission Directorate-General for Communication. Citizens information, Brussels, BELGIUM [Електронний ресурс]. – Режим доступу:* https://publications.europa.eu/en/ *publication-detail/-/publication/ 3456359b-4cb4-4a6e-9586-6b9846931463*

Task:

The student group is divided into two teams, each of them upholds the following positions:

Group of students №1 – The «Natura 2000» network needs to be further developed»;

Group of students №2 – «It is necessary to radically change the «Natura 2000» network.

Explain your answers.

7.2. Mechanism of regulation in the sphere of environment

EU environmental regulation includes rules, policies and institutes that shape the process of human interaction with the environment. The active cooperation of the public, private sectors and civil society is a prerequisite for the effective implementation of EU environmental policy, which should contribute to the sustainable development of Europe.

It should be noted that in the EU, an environmental regulatory mechanism is developed and implemented by such institutions as: European Parliament, Council, European Commission, European Investment Bank, European Environment Agency (EEA) .

The Committee on the Environment, Public Health and Food Safety (ENVI) is directly responsible for the environmental issues directly within the European Parliament. At the same time, the committees on industry, research and energy, transport and tourism, regional development, agriculture and rural development are indirectly concerned with environmental issues.

In turn, the following *Directorates-General* are responsible for the environment in the European Commission [4]:

- *Directorate-General for the Environment («ENV») (*established in 1973), whose mission is to protect, conserve and improve the environment for present and future generations. In order to achieve this objective, the Directorate proposes policies and regulations that should help to achieve a high level of environmental protection in the EU, as well as to preserve the quality of living conditions of the population in a union. It is worth noting that the responsibilities of the Directorate-General for the Directorate-General include addressing problems related to air, chemical substances, industrial sites, land use, marine and coastal areas, nature and biodiversity, noise, resource efficiency, sustainable development, waste and water. In addition to

[4] *Бізек В.* Політика та право ЄС з питань, що стосуються довкілля [посібник]/ Проект Європейського Союзу «Додаткова підтримка Міністерства екології та природних ресурсів України у впровадженні секторальної бюджетної підтримки». – К., 2013.

developing its own environmental policy, the Directorate-General for Environmental Affairs is responsible for integrating environmental policy into sectoral policies: agrarian sector, integration policy, development, economic recovery plan, employment, energy sector, enterprises, fisheries, internal market, research, trade and external relations, transport infrastructure, economic and financial issues;

- *The Directorate-General for Climate (CLIMA)* (established in 2010) conducts international negotiations on climate change, assists the EU in combating their effects and achieving the EU 2020 targets, and develops and implements a emissions trading system. The EU;
- *The Directorate-General for Energy («ENER»)* manages the work on EU environmental policy, notably renewable energy and energy efficiency. By developing and implementing innovative strategies, it aims to promote sustainable energy production, transportation and consumption in line with the EU 2020 targets;
- *The Directorate-General for Mobility and Transport («MOVE»)* promotes the development of rational, efficient, reliable, safe and environmentally friendly transport and the creation of preconditions for a highly competitive industry;
- *The Directorate-General for Agriculture and Rural Development («AGRI»)* is responsible for developing and implementing the EU's common agricultural policy.

Thus, *the European Commission* provides considerable assistance to EU member states in the context of the effective implementation of environmental policy. Taxes and subsidies can be used as incentives or rewards to persuade companies and consumers to choose greener production methods and products. Many of them have already been implemented. For example, fees for deforestation and waste management. The European Commission is seeking the gradual elimination of subsidies for industrial enterprises, transport, farmers and the energy sector, which encourage the use of polluting or energy-intensive processes and products.

It should be noted that EU environmental policy must be based on sound evidence that provides an understanding of the causes and consequences of environmental change so that adequate strategies can be developed.

A significant amount of environmental data comes from national sources, supplemented by a pan-European database and then analyzed by *the European Environment Agency*. Its mission is to provide reliable, independent environmental information. The agency was established in 1993 and is based in Copenhagen (Denmark). It maintains environmental databases and publishes many technical reports on specific environmental issues.

Another subsidiary body for the implementation of the EU's environmental policy is *the European Economic and Social Committee*, which was established in 1957. It is an advisory body that delivers conclusions to such EU institutions as the Council, the European Commission and the European Parliament.

In general, the EU's environmental management system is as follows (*see table 7.1*).

Table 7.1

Levels of regulation system of environmental protection in the EU[5]

INTERNATIONAL LEVEL	
Political level	EU policy
Legislative level	EU law (directives, regulations, decisions)
	Multilateral and bilateral conventions, protocols and agreements
Institutional level	The European Commission
	European Environment Agency
Instrumental level	EU Emissions Trading Scheme
	EU funds
	EMAS (Eco-Management and Audit Scheme), EU Ecolabel
	EIONET (European information and observation network)
Functional level (implementation)	IMPEL (EU Network for the implementation and enforcement of environmental law)
NATIONAL LEVEL (EU member states)	
Political level National policies, strategies, programs, plans	
Legislative level National legal acts Implementation documents, methodologies, guidelines	
Institutional level Competent authorities (ministries, regional and local authorities) Ancillary institutions (inspections, agencies, institutes)	
Instrumental level	

[5] *Бізек В.* Політика та право ЄС з питань, що стосуються довкілля [посібник]/ Проект Європейського Союзу «Додаткова підтримка Міністерства екології та природних ресурсів України у впровадженні секторальної бюджетної підтримки». – К., 2013 [Електронний ресурс]. – Режим доступу: www.greenmind.com.ua/images/meropriyatiya/EC-LEG-Textbook-UA.pdf

Continuation of table 7.1

Command and control instruments (prohibitions, requirements, standards, limit values, permits, approvals, licenses)
Economic and market instruments (taxes, fees, penalties, sales permits)
Financial instruments (benefits, subsidies)
Information instruments (monitoring, evaluation, reporting, education, public awareness, research)
Participatory instruments (stakeholder involvement in decision-making, EIA - environmental impact assessment, SEA - strategic environmental assessment)
Voluntary instruments (ISO 14000, EMAS, eco-labeling, voluntary agreements, codes of conduct)
Functional level (implementation)
Permissions
Enforcement (inspection, corrective measures, sanctions)

CASE STUDY 7.1
«Financing of EU environmental policy»

EU environmental policy is funded through ***a)*** *____________ funds in proportion of 50% through the* ***b)*** *________ Fund and 12-15% through the European* ***c)*** *__________ Development Fund. During a special session of the European Council convened on 18 August 2002 on the catastrophic flood of summer 2002, it was decided to set up a special fund to combat environmental disasters, initially amounting to EUR 500 million. On 28 March 2008, a joint political agreement was reached between the EU Council and* ***d)*** *___________ on "LIFE" +, a new Framework Program for Financing Environmental Projects, which should replace a number of existing channels of funding in this area. The program was made for the period 2007-13: its total budget was estimated at 1.9 billion euros. 78% of the budget was assigned to* ***e)*** *_____ from specific projects. In addition to* ***f)*** *_____, integrative projects such as environmental impact assessments, NGO* *financing, information activities, etc. were envisaged. The innovation of the program was a "proportionate approach" to the allocation of funds to projects based on several criteria, mainly on the number of* ***g)*** _______ *and characteristics of the environment and* ***h)*** ________ *of the country concerned. In addition to national projects, transnational projects were also envisaged, for which no less than 15% of the total budget of the program was planned to be provided.*[6]

Source: *Копійка В.В. Європейський Союз на сучасному етапі: структурні зміни та стратегія розвитку / В.В. Копійка, Т.І. Шинкаренко, М.А. Миронова. – К. : Знання, 2010. – С.37-38.*

Task to the case:

Fill in the missing words into the text: *biodiversity, European Parliament, Structural, population, Regional, grants, Cohesion, grants.*

7.3. Key EU achievements in environmental policy

Since the 1970s, more than 200 environmental regulations have been adopted in the EU. If all EU waste legislation is properly implemented today, it is expected to create 400,000 jobs and reduce annual net losses to EUR 72 billion.

The EU has launched various programs to promote the development of a credible environmental database and the widespread dissemination of information. For example, *the Copernicus program* allows you to observe the planet from a satellite and collect data, as well as combine it with data obtained from the surface of the earth, seas and air. The main purpose of this Program is to create a wide range of digital data to help shape environmental policies and support their implementation.

The European Commission also promotes citizens' awareness of the environment in a variety of ways. It is worth mentioning that *Green Week* is held annually in Brussels, where thousands of participants discuss one of the key environmental issues (such as biodiversity or water) for 4 days. Another popular impetus for increasing EU citizens' awareness of the environment is the competition, called "The EU’s Green Capital Award", where cities in Europe demonstrate their contribution to the environment. In order to win the title, a city must demonstrate high environmental standards and be a supporter of sustainable development goals and set an example for other cities. The winners of these competitions were cities such as: Stockholm (2010), Hamburg (2011), Vitoria-Gasteiz (2012), Nantes (2013), Copenhagen (2014), Bristol (2015) and Ljubljana (2016).

The industry that develops and implements environmental technologies is already a significant part of the EU economy. However, with the exception of renewables, eco-innovations are entering the market rather slowly. The problem here is that market price failures do not accurately determine the magnitude of environmental benefits and costs, as well as the incentives and subsidies that support wasteful practices and rigid economic structures. The EU's Eco-innovation Action Plan points to the particular drivers of eco-innovation and the barriers to it. The plan provides funding for research, innovation and eco-innovation companies. In order to encourage greater use of green technologies, the EU is using public procurement tools for environmental products, including costs beyond its life cycle, and eco-labeling.

In order to solve environmental problems, the European Commission has made resource efficiency one of the key initiatives of Europe's 2020 strategy. This means producing more value at less costs, using sustainable resources and managing them more efficiently throughout their lifecycle. This, in turn, requires innovation, changes in production and consumption patterns, and the use of the right incentives and price signals. It should be emphasized that at the end of 2011, EU governments adopted a roadmap to a resource-efficient Europe. The need for change in economic, political and individual behavior was emphasized here. It contains a variety of policy areas so that, in 40 years, Europe's economy can achieve high standards of living with a significant reduction in environmental impact.

In 2011, the EU adopted an updated *Biodiversity* Conservation Strategy in response to the Nagoya Global Action Plan. It sets out the objective of halting the loss of biodiversity in ecosystem services degradation in the EU by 2020.

Other EU achievements in environmental policy can be seen in the context of such groups [7]:

1) *chemicals*. In order to guarantee the safety of chemicals and protect the environment and to ensure the competitiveness of one of the most important industries in Europe, the EU has developed the most advanced legislation in the world. It was named REACH

[7] The EU explained: Environment/ European Commission Directorate-General for Communication. Citizens information, Brussels, BELGIUM [Електронний ресурс]. – Режим доступу: https://publications.europa.eu/en/publication-detail/-/publication/3456359b-4cb4-4a6e-9586-6b9846931463

(Registration, Evaluation, Authorization and Restriction of Chemicals). Moreover, all chemicals manufactured or imported into the EU must be registered in Helsinki with the European Chemicals Agency. Otherwise, they are not allowed to be sold inside the union;

2) *waste*. The EU economy uses 16 tonnes of materials per person each year, of which 6 tonnes is waste, half of which goes to landfills. If waste cannot be avoided, then the European Commission requests it to be reused, recycled or restored. Landfill taxes and "a pay-as-you-throw" scheme can help achieve this. It is worth noting that some EU member states have already reached recycling rates of more than 80% and are almost ready to dispose of landfills.

3) *air*. For the past 20 years, the EU has been successfully working to reduce pollutants. For example, emissions into the atmosphere have decreased by almost 90%. Despite the progress made, the level of atmospheric pollution in several EU member states remains high, causing premature deaths every year. Therefore, the EU continues to look for ways to ensure air quality that will not allow serious adverse effects on human health and the environment. For example, in 2013, the European Commission introduced a "Clean Air package" for further improvement of air quality, update of existing legislation and reduction of harmful emissions from industrial sites, transport and agriculture to reduce their impact on human health and the environment .

4) *water*. In recent decades, the EU has implemented a comprehensive water quality policy in Europe. At the basis of EU legislation on water conservation is the Framework Directive, which determined that by 2015 all rivers, lakes, coastal waters and groundwater should be purified. EU member states are

required to regularly check the status of their own reservoirs and to provide plans on how they intend to clean them. Another part of EU law is the Marine Strategy Framework Directive, which harmonizes the approach to managing human activity that has an impact on the marine environment. According to it, EU member states are required to care for the health of natural marine systems by 2020.

5) *Noise* is harmful to human health and wildlife. The EU regulates noise levels from a variety of sources, including vehicles, trains and equipment operating outdoors. Under the EU Directive, adopted in 2002, EU member states are required to draw noise maps for their major cities, major roads, railways and civilian airports. Then they need to develop directions to solve these issues.

6) *Forests*. Forest area is declining worldwide. The EU appeals for halving the felling process by 2020 and halting it completely by 2030. EU legislation minimizes the risk of illegal timber harvesting in the integration group.

7) *Soils*. It should be noted that there is no specific legislation to regulate the state of soil in the EU. However, many of the problems are related to water, waste, chemicals, industrial pollution, nature protection and pesticides. At the same time, the EU has a strategy that aims to eliminate all levels of soil-related threats, including agriculture and industry. In 2012, the European Commission developed recommendations for a more sustainable use of soil.

CASE STUDY 7.2
«The EU's role in confronting global climate change»

The EU intends to maintain international leadership on climate change and energy. The European Commission actively participated in the preparation and holding in December 2009 of the ***a)*** ________ *conference on the conclusion of a comprehensive "post-Kyoto"* ***b)*** ______ *on climate change, which should include the organization of financial and investment flows, research, development and transfer mechanisms of secure* ***c)*** ___________ *technology. An important element of an integrated energy and climate policy is the EU Trade System of* ***d)*** ________ *for gas emissions. In March 2007,* ***e)*** ____________ *made a political commitment to reduce carbon emissions by 20% by 2020. In the framework of this commitment, the Commission proposed extending the carbon offsetting and trading system to the 6 other* ***f)*** ________ *gases mentioned in the* ***g)*** ________ *protocol. The Commission also proposes to allocate quotas not at national but at European level.*

Source: *Копійка В.В. Європейський Союз на сучасному етапі: структурні зміни та стратегія розвитку / В.В. Копійка, Т.І. Шинкаренко, М.А. Миронова. – К.: Знання, 2010 . – С.38-39*

Task to the case:

Paste the missing words into the text:

European Council, low carbon, Copenhagen, quotas, Kyoto, strategy, greenhouse.

CONTROL QUESTIONS

1. What is the main objective of EU environmental policy?
2. What are the principles of the EU in its environmental policy?
3. When was the EU's environmental policy launched? In which programs does it appear?

4. What EU institutions are developing and implementing environmental protection?
5. Which committee in the EU Parliament deals with environmental issues?
6. What are the Directorates-General of the European Commission dealing with environmental issues?
7. When was the Directorate-General for Climate (“CLIMA”) created? What tasks does it perform?
8. When was the European Economic and Social Committee established? What does it do?
9. Describe the levels of environmental management systems in the EU.
10. What main EU achievements at environmental policy do you know?
11. Describe the Roadmap for a resource-efficient Europe.

CHECKING TEST

1. When was the EU common environmental policy launched?

a) 1960 p.; b) 1973 p.; c) 1990 p.; d) 2000 p.

2. What is it about ?: "A set of EU actions and activities aimed at meeting the environmental needs of the member countries, supporting environmental protection and the rational use, conservation and restoration of natural resources" ____.

3. Match accordingly: VII Environmental Action Program - "Living well, within the limits of our planet."

1	priority objective 1	A	protection, conservation and development of EU natural capital
2	priority objective 2	B	protecting EU citizens from the environmental pressures and risks to health and well-being

Continuation the table

3	priority objective 3	C	increasing the sustainability of EU cities
4	priority objective 4	D	improving environmental integration and policy coherence
5	priority objective 5	E	providing investment in environmental and climate policy
6	priority objective 6	F	enhancing the effectiveness of the EU's response to regional, global environmental and climate challenges
7	priority objective 7	G	improving the evidence base of environmental policy
8	priority objective 8	H	maximizing the benefits of EU environmental law
9	priority objective 9	I	transforming the EU into a resource-saving, green and competitive low-carbon economy

4. Within which development EU's environmental policy is implemented?:

a) inclusive;

b) sustainable;

c) smart;

d) there is no right answer

5. By what principles EU environmental policy are guided?

a) the principle of warning;

b) the principle of eliminating not only the consequences but also the causes of environmental damage;

c) the «polluter pays» principle;

d) all answers are correct.

6. What EU institutions are developing and implementing the regulatory framework for the environment?:

a) the European Parliament,
b) the EU Council,
c) the European Commission,
d) the European Investment Bank,
e) the European Environment Agency.

7. Insert the missing words: In the European Commission _________________ deal with environmental issues.

8. When was the Directorate-General for the Environment (ENV) created?

a) 1990 b) 1973
c) 1997 d) 2002

9. List the Directorates-General of the European Commission responsible for the environmental issues:

1.____;
2.____;
3.____;
4.____;
5.____;

10. Is this correct? «In order to solve environmental problems, the European Commission has made resource efficiency one of the key initiatives of the Europe strategy 2020**».**

a) yes; b) no.

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CHAPTER 8

ECONOMIC INTEGRATION OF UKRAINE TO THE EUROPEAN UNION

Key concepts and terminology: Partnership and Cooperation Agreement, strategy, program, Association Agreement, Deep and Comprehensive Free Trade Area, visa-free regime, European Integration, economic benefits.

Having studied the material of the chapter you will get to KNOW:

- ✔ the evolution of the process of integration of the Ukrainian economy into the EU;
- ✔ actual and expected economic consequences for our country as a result of launching a deep and comprehensive free trade area with the EU;
- ✔ development of the process of obtaining Ukraine's visa-free regime with the EU.

And also have the ability to:

- ➢ analyze and describe the economic consequences of conducting the first stages of trade integration between Ukraine and the EU;
- ➢ evaluate and argue the consequences for the domestic economy of emigrating labor resources to EU Member States.

8.1. Evolution of the process of Ukraine's integration into the European Union

Today, the main priority for Ukraine's regional integration is continued to be accession to the European Union (EU), which is still the most developed association in the world.

Bilateral relations between our country and the European Union began in December 1991, when the Minister for Foreign Affairs of the Netherlands (a representative of the EU presiding country at the time) formally recognized Ukraine's independence in a letter.

It is worth noting that Ukraine's desire to build relations with the EU on the basis not only of cooperation but also of integration was first announced in the Decree of the Verkhovna Rada of Ukraine of July 2, 1993 "On the main directions of Ukraine's foreign policy". This document referred to the fact that "Ukraine's foreign policy is a promising goal for Ukraine's membership in the European Communities, provided that it does not harm its national interests. In order to maintain stable relations with the European Communities, Ukraine will sign a Partnership and Cooperation Agreement, the implementation of which will be the first stage of promotion to the associate, and subsequently to its full membership in the organization".[1].

The first basic legal document at the international level that began to regulate the process of Ukraine's integration into the EU was the Partnership and

[1] Постанова ВРУ N 3360-XII від 02.07.1993 р. «Про основні напрями зовнішньої політики України» [Електронний ресурс]. – Режим доступу: https://zakon.rada.gov.ua/laws/show/3360-12

Cooperation Agreement (PCA) between our country and the Community, signed on June 16, 1994 in the Duchy of Luxembourg. The agreement defined the general principles of mutual cooperation in the fields of foreign trade in goods and services, capital movements, mutual payments, cooperation in industry and agro-industrial complex, scientific and technical sphere. This official document stated that EU countries are ready to support market reforms in Ukraine's economy. As a consequence, a general system of preferences for developing countries has been extended to our country. The Partnership and Cooperation Agreement establishes rules for the introduction of the most-favored-nation (MFN) and national-regime arrangements for EU businesses operating in Ukraine and vice versa. In addition, our country has received quotas for export to the EU of those goods that were most protected from imports to integration, namely textiles, steel products and more.

On June 11, 1998, the President of Ukraine approved by his Decree the *Strategy of Ukraine's integration into the EU*. It outlined the main tasks of integration of our country into the group, among which the priority was given to the acquisition of full membership in the EU. In the Strategy, the process of Ukraine's accession to the EU was proclaimed as a strategic goal.

On September 14, 2000, the Decree of the President of Ukraine approved the *European Integration Program of Ukraine*. It has streamlined the country's reform process with a common political objective - the achievement of the Copenhagen criteria. Since that time the political standards and requirements for EU membership (the so-called Copenhagen criteria) have begun to be an integral part of Ukrainian legislation.

On February 21, 2005, the EU-Ukraine Action Plan was approved, which proposed a specific mechanism for harmonizing national legislation with European legal acts. Later, in March 2007, in accordance with the EU-Ukraine Action Plan, the negotiation process between our country and the European Union began to conclude a new, more progressive agreement that would replace the existing Partnership and Cooperation Agreement.

In September 2008, a Ukraine-EU summit was held in France (Paris), where the parties agreed that a new enhanced agreement that would declare the acceleration of our country's EU integration process would be called the Association Agreement.

During 2007-2012, there were a total of 21 rounds of negotiations on the Association Agreement and 18 rounds of the negotiation process, which was devoted to the section on the Agreement on the Creation of a Deep and Comprehensive Free Trade Area between Ukraine and the regional association.

On December 19, 2011, the Ukraine-EU summit actually concluded the negotiation process for the Association Agreement between Ukraine and the EU. It should be emphasized that the last one has become a larger-scale agreement than the ones previously concluded between the EU and the countries of Central and Eastern Europe.

On 30 March 2012, the Heads of the Delegations negotiated the Association Agreement, while on 19 July 2012 the section of the Agreement on the initiation of the Free Trade Area was initialed.

From the end of 2012 to the middle of 2013, the text of the project EU-Ukraine Association Agreement was officially translated into Ukrainian and into the languages of the Integration member states.

On May 15, 2013, the European Commission Board gave the resommendations the Council of the EU on the advisability of signing the Association Agreement and allowed its provisional implementation until the ratification process by the member states of the regional association.

On August 9, 2013, a project Association Agreement was published on the portal of the Government of Ukraine. However, its name was clarified and presented in the following format: "Association Agreement between Ukraine, of the one part, and the European Union, the European Atomic Energy Community and their member states, of the other part".

The next signing of the Association Agreement between Ukraine and the EU took place in two stages:

1) *the political part*. On March 21, 2014, within the Extraordinary EU-Ukraine Summit on behalf of our country, the political part of the Association Agreement and the Final Act of the Summit were signed by the then Prime Minister of Ukraine A. Yatsenyuk. In particular, the following were signed: Preamble, Article 1, Sections: I "General Principles", II "Political Dialogue and Reforms, Political Association, Cooperation and Convergence in Foreign and Security Policy" and VII "Institutional, General and Final Provisions" of the Agreement. Also during the Summit, our country issued a statement that its obligations arising from Article 8 of the Association Agreement regarding the ratification of the Rome Statute of the International Criminal Court in 1998 will be fulfilled after amending the Constitution of Ukraine;

2) *the economic part*. On June 27, 2014, during the EU Council meeting, President of Ukraine P. Poroshenko and EU heads of state and government of 28 EU member

states signed the economic part of the Agreement, namely the following sections: III "Justice, freedom and security ", IV "Trade and Trade Related Issues", V "Economic and Industry Cooperation" and VI "Financial Cooperation and Anti-Fraud Provisions".

On September 16, 2014, the Verkhovna Rada of Ukraine and the European Parliament simultaneously ratified the EU-Ukraine Association Agreement. As a result, our state has transferred ratifications to the depositary and has finally completed the process.

By volume and essence, the EU-Ukraine Association Agreement is the most important international legal instrument throughout our country's modern history, as well as the most important international treaty with a third country ever concluded by the European Union. It should be noted that the Agreement provides a fundamentally new format of relations between Ukraine and the Community on the basis of "political association and economic integration". In addition, it is a strategic vector for the implementation of systemic socio-economic reforms in our country. In turn, the deepened and inclusive free trade area between Ukraine and the EU, envisaged by this Agreement, guaranteed the freedom of movement of goods and services, capital and partly labor between Ukraine and the EU. The Association Agreement has also started a new stage of economic integration of Ukraine into the common market of EU member states. On 1 November 2014, in accordance with Article 486 of the Association Agreement between Ukraine and the EU, its temporary implementation was initiated until it came into force. The Agreement should have come into full force after its ratification by all EU member states, the first day of the second month following the date of deposit of the last instrument of ratification (or last instrument of approval) with the General Secretariat of the Council.

On September 1, 2017, after the ratification process was completed, the EU-Ukraine Association Agreement came into force in full.

CASE STUDY 8.1
«What is attracting Ukraine in the EU?»

The European Union is attracting Ukraine by access to capacious product markets, free movement of people in the Schengen area, and a high standard of living for its citizens. What price should countries that recently entered the EU pay for benefits?

According to economic experts, most of the countries that join the EU have specific goals. The main benefits of the association are three. First, the entry into its large markets with its products when import duties are completely absent. Secondly, receiving financial assistance and credits for the implementation of social programs and implementation of infrastructure projects against the background of increasing the country's investment attractiveness. And thirdly, guaranteeing political support, especially from the larger EU countries, which intend to control the activities of new members of the Community.

"There are many benefits for the citizens of those countries that join the EU. In particular, before joining the EU, the state must harmonize its legislation with the relevant standards of developed countries. This, first of all, reduces local arbitrariness and the degree of corruption and, as a result, encourages investment and stimulates local business, more effectively protects people's rights, including the right to work, insurance and social guarantees, "Alexei Golubovich, Managing Director of Arbat Capital, Russia's consulting group of companies, tells the Correspondent magazine. In EU member states, the low level of corruption greatly simplifies the lives of their entrepreneurs and allows more time to be spent on business development and growth.

"If we talk about the difficulties that can usually arise for a private entrepreneur after the country's accession to the EU, they

are primarily related to competition," - says Managing Director of Growth UP Business Accelerator Mykola Savin. For the most part, the business of the new EU states does not withstand competitive pressure. Not only individual enterprises go bankrupt, but entire sectors of the national economy disappear. At the same time, there are rising unemployment, increasing budget deficits and external debt. As a result, the social policy in the new EU member state is undergoing losses: pensions and minimum wages are reduced, and business tax pressure is increasing.

In addition, the benefits of EU integration require a high price - the emigration of talented workers. It is clear that the "fresh" state enters the Community as a donor, quickly losing skilled workers. "The state is starting to compete with other EU member states in order to retain talent. This is not an easy task as other states are well aware that nowadays it is not oil but talent that is important. And they are working hard to attract talented workers to their territory, " - said the president of the Kiev School of Economics Pavel Sheremeta.

The Correspondent magazine analyzed the price paid by Poland, Latvia and Greece for joining the EU. The experience of these countries can be fully adopted by Ukraine.

Poland: shock therapy

Poland joined the European Union in 2004. At the time, it was a country with $ 99 billion in external debt, low inflation (1.7%) but high unemployment (20%). The average wage in industry was 537 euros, while foreign direct investment amounted to 3.7 billion euros. In Poland at the time, there were many businesses that needed subsidies from the budget - first of all, mines and farms.

Since joining the EU, Polish residents hoped to receive a significant amount of financial assistance - both in the form of loans and in the form of investments. Businesses were attracted by the prospect of entering a larger market for their own products, and the average citizen by eliminating barriers to moving labor and, as a result, the prospect of going to work in any of the Western European countries.

In fact, joining the European Union has not been as optimistic as originally expected. In the first year after Poland's accession to the integration group, inefficient (subsidized) *enterprises began to close quickly in the country. "I was released in the first year of Poland's accession to the EU at the end of 2004," says former miner Frantisek Smigli. He was among the 300,000 people who became unemployed as a result of the bankruptcy of 90% of Poland's coal mines. Most of the coal mines were inefficient and could not continue to operate without state support, so the government decided to eliminate them immediately. Single mines were privatized. At that time, 75% of miners were out of work.*

In turn, farmers who feared Poland's accession to the EU eventually won: they gained access to a large European market for their own agricultural produce, but the most important thing was that the European Union began to provide farmers with subsidies. In particular, over € 1.5 billion has been provided for the modernization of Polish farms.

Overall, Poland is one of the most successful examples of the country's adaptation to the EU's competitive environment. In addition, Poland's experience rejects the view that the country's accession to the EU immediately provokes a slowdown in trade relations with its neighbors in the east. In 2004 Russia's share in the structure of total exports of Poland was 1.7%, in 2012 the value of this indicator increased to 5.4%.

Since Poland's accession to the EU, Poland has managed to receive € 20 billion more from the EU budget than its membership fees. First and foremost, the construction and repair of motorways and railway networks is carried out at these costs. Moreover, in 2012 the number of investment projects in Poland increased by 22%, which is the highest figure among European countries. Within nine years of EU membership, the country's unemployment rate has been halved to nearly 11% in 2013. It has become easier for Polish residents to solve their housing problems as well: housing loans have become cheaper and more affordable. Today, national banks have a 35-year mortgage at 5-8% per annum. In turn, the cost per square meter of housing, for example, in the new building of Warsaw, is 700-800 euros. The average wage at industrial enterprises, according to the statistics department of the Republic of Poland, is now almost 820 euros.

However, Poland's integration into the EU has brought some disadvantages as well.

First of all, there is a permanent shortage of personnel in Polish enterprises, as about 2 million highly skilled workers have gone abroad. On the other hand, the country has not managed to avoid the closure of a number of national enterprises, which in practice proved to be uncompetitive. The best example is the bankruptcy of two well-known Polish shipyards in the cities of Gdynia and Szczecin. In addition, the permanent increase in Poland's external debt (at the end of 2012 it exceeded $ 364 billion) endangers of reducing social benefits, minimum wages and pensions, and increasing tax pressure for businesses.

Latvia: restrained assistance.

Latvia has applied for EU accession in 1995. In 2004, together with the other nine countries, Latvia became a full member state of the European Union. To a small Baltic country with a population of almost 2 million, it seemed like a profitable step to join a friendly European family. Joining the EU, the Latvians hoped to receive financial assistance for economic development, sought to move freely through the territory of Europe and dreamed that Latvia would be able to turn into a tourist Mecca. What have the practical implications been for Latvia? Among its gains - EU membership has enabled it to significantly expand trade relations with European countries, increase its sales of its own goods. "If business interacts with other European countries, then staying in the EU area makes the rules of operation simpler and more transparent. Individual manufacturers begin to mark on their products not" Made in Latvia, but "Made in the EU", which gives the product considerable value in the eyes ", - said in an interview with the Correspondent partner of the communication agency" AV Olsen & Partners / Scholz & Friends Riga "Olga Kozak.

On the other hand, some EU restrictions have had extremely bad consequences for Latvian producers. "With the introduction of rigid sugar production quotas in Latvia, all sugar mills have closed. And if in the past this issue could be lobbied at the state level, then when it comes to EU directives, things are complicated because they are adopted at the highest political level," Cossack is saying. The disadvantage was that accession to the European Union did not help Latvia withstand the challenges of the global economic crisis. Financial support for the integration group was *insufficient, and in 2008 Latvia reached the forefront of the EU member states in terms of the number of people living on the poverty line - 26% of its inhabitants. In 2009, Latvian GDP decreased by 17.8% and showed the worst GDP dynamics in the world. The unemployment rate reached 17%. Mass protests have begun in the country, which have moved from peaceful rallies to the category of riots. Latvia is currently operating in austerity mode, and Latvian wages stay below pre-crisis levels: if in 2008 the average monthly salary in the country was 680 euros, then in 2013 its level did not exceed 500 euros.*

Greece: the miracle did not work.

Greece's experience may rightly act as a counter-advertisement for EU membership. The country's path to the EU began a long time ago, namely in 1981. From joining the European family, the Greeks hoped to improve their standard of living, accelerate economic development and reduce crime. At that time it was a strong and rich state.

In 2001, Greece was assigned to the group of developed countries of the world. At that time, it was a leading investor in the economies of almost all the neighboring Balkan countries. For example, in 2006, the National Bank of Greece acquired 46% of shares in Turkish Finance Bank and 99.44% of shares in Bank of Serbia - Vojvodanska.

However, the economic boom did not last long - already in 2009, Greece was in a difficult financial situation: the country's budget deficit was 12.7% of GDP, while allowed amount is 3% in the euro area. And what the Greek government did not do - and they did scale privatization and issued global bonds twice - Greece's financial condition was still deteriorating. In the spring of 2010, the country was on the verge of default. The default was only escaped through the financial assistance of 16 EU member states and the IMF, which together transferred Greece 110 billion euros to counter the effects of the economic crisis. However, these funds were provided to the country, only if it would reduce social spending and wages, raise the retirement age, and increase taxes. The Greeks responded to the new social policy immediately by a wave of mass protests and riots. All their economic troubles are attributed to the Greek citizens by the reforms that they were strongly advised to carry out by the EU. "The cotton production *has been virtually eliminated. Farmers have uprooted half of all plantations according to the size of the EU quota. And not just cotton. Production quotas have been imposed on many foodstuffs: milk, meat, olive oil, peaches and oranges. Greek farmers were fined for overproduction", recalls Greek economist-analyst Yannis Zervasis. After a while, sugar mills and knitting mills disappeared from the Greek map, shipyards went bankrupt, seaports were sold, vineyards were massively uprooted, and fruit and olive tree plantations were cut down. At the same time, state-owned enterprises that are attractive from an investment point of view are gradually being put up for sale. They were gladly bought by wealthy European companies. For example, the factory for the production of the famous Greek brandy Metaxa is now owned by the British Grand Metropolitan.*

What is Greece like now? In 2013, the country was included in all textbooks on macroeconomics as the world's first developed country to lose its status as a developed country. In addition, Greece's external government debt has been growing steadily: it has almost doubled in the last ten years, reaching EUR 321 billion in the first half of 2013. The unemployment rate in Greece has reached a record 27%.

Source: *ЄС або NO? Чим привабливий Євросоюз? // Кореспондент. – 21.02.2014. - №7. – С. 34-37.*

<u>Task to case:</u>

1. What are the main goals of the countries aspiring to join the EU?

2. Which CEE (Central-Eastern Europe) countries have the most economic benefits from joining the EU and which have the most economic losses? Explain the answer.

3. Do you think that the EU (its economic policy) is blamed for Greece's deep economic crisis? Why?

4. What do you think should be the further mechanism of integration of the Ukrainian economy into the EU?

8.2. Economic effects from introduction of the Deep and Comprehensive Free Trade Area between Ukraine and the EU

A key component of the EU-Ukraine Association Agreement is the provision of a Deep and Comprehensive Free Trade Area (DCFTA). It is worth recalling that it is one of the most ambitious bilateral agreements ever concluded by the European Union. The DCFTA is projected to give Ukraine, in the long run, the impetus for developing its foreign trade and economic growth as a result of trade liberalization (elimination of tariffs and quotas) between the parties, harmonization of legislation, legal and regulatory framework. In general, the EU-Ukraine Association Agreement is expected to have political, economic and social consequences, as well as a number of benefits for domestic producers of goods and consumers (*see figure 8.1*).

The provisions on the Deep and Comprehensive Free Trade Area have been presented in 15 chapters, 25 annexes and 2 protocols. In particular, according to Chapter 1 "Market Access", after the official launch of the DCFTA (from 01.01.2016) between Ukraine and the EU, a significant number of import and export duties have been eliminated. Overall, Ukraine and the EU abolished import duties at about 97% and 96.3% of tariff items accordingly. For industrial goods, trade liberalization meant the immediate abolition of current import duties on the vast majority of goods (82.6% - Ukraine and 91.8% - EU). For the other goods, a transitional period was established for them. In turn, the use of special protection tools was provided for passenger cars and used clothing.

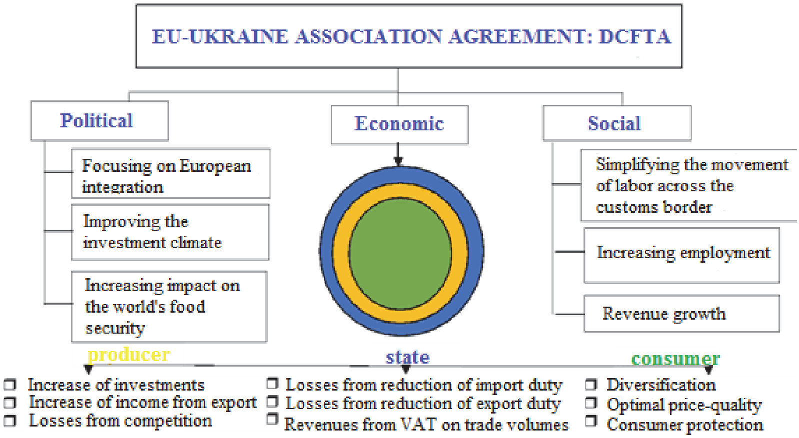

Figure 8.1. Political, economic and social consequences for our country from the signing of the EU-Ukraine Association Agreement (DCFTA)[2]

Since the provisional application of the Agreement and its ratification, Ukraine has abolished duties on 35.2% of tariff lines in respect of agricultural products, while the EU - on 83.1%. It is worth noting that for other types of products, namely 52% of tariff lines, Ukraine initiated transitional periods of 1 to 7 years, 9.8% - partial liberalization and 3.0% - duty-free tariff quotas. Ultimately, this means that for the most sensitive sectors of the Ukrainian economy, a deep and inclusive free trade area gives more time to adapt to a more competitive market environment, giving domestic consumers access to a wider range of food products at lower prices. In turn, the European Union set transitional periods at 2.0% of tariff lines (3 and 7 years), and access to duty-free tariff quotas was introduced for the most sensitive goods (14.9%). The last one were

[2] The figure is made by author

provided to our country by the group of cereals, pork, beef and poultry, as well as by some other agricultural products. On the other hand, Ukraine and EU member states agreed that since the entry into force of the Free Trade Agreement, they will not apply new export duties in bilateral trade, whereas current export duties in Ukraine today should be phased out within the following 10 years. However, under certain product groups, for example, sunflower seeds, leather raw materials, certain types of scrap of ferrous and non-ferrous metals, a special protection mechanism was introduced, which provided for the payment of an additional fee. The overall life of this protection mechanism is 15 years.[3] With regard to non-tariff barriers to foreign trade in goods, the Agreement incorporates certain basic WTO rules, including those relating to the national regime, prohibitions on restrictions on imports and exports, as well as on the order of state trade, etc. In other words, it is advisable to use non-tariff methods, technical barriers - quotas, import licenses for partial replacement of imports of goods produced by domestic producers in the DCFTA. The latter are widely used by the EU in accessing foreign goods to its market.[4]

The elimination or reduction of customs duties on the importation of goods within the Deep and Comprehensive Free Trade Area should stimulate exports. As a result of trade liberalization, Ukrainian exporters were expected to save EUR 487 million annually. Instead, as a result of the abolition of domestic

[3] ЄС-Україна: поглиблена та всеохоплююча зона вільної торгівлі [Електронний ресурс]. – Режим доступу: https://eeas.europa.eu/delegations/ukraine/documents/virtual_library/dcfta_guidebook_web.pdf. – Назва з екрана.

[4] *Кваша С.М.* Імпорт агропродовольчої продукції та можливості його заміщення національним виробництвом / С.М. Кваша, В.І. Власов, Н.В. Кривенко, Б.В. Духницький // Економіка АПК. – 2014. - №5. – С. 19.

import duties, European exporters have to save 391 million euros a year. In particular, the agri-food sector of the Ukrainian economy was projected to have the greatest economic effect in the short term as a result of a reduction in EU import duties: EUR 330 million for agricultural products and EUR 53 million for processed agricultural raw materials (*see Figure 8.2.*).

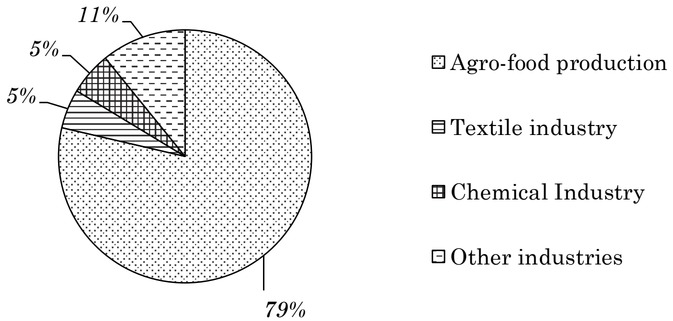

Figure. 8.2. Structure of projected economic benefits for Ukrainian exporters from the Deep and Comprehensive Free Trade Area (duty abolition), %[5]

Positive dynamic (long-term) effects are also expected for the agricultural sector. Foreign direct investment (FDI) revenues are projected to increase, including in the form of setting up new joint ventures in agriculture. The introduction of new technologies for the production and processing of agricultural products should guarantee the protection of the domestic consumer from poor quality imports. Moreover, the development of transport and logistics infrastructure of

[5] Побудовано авторами на основі Угоди про поглиблену і всеохоплюючу зону вільної торгівлі.

Ukraine is envisaged.[6]. As a consequence, this should help to improve the standard of living of people in rural areas.

In turn, after the official introduction of the FTA with the EU member states, Ukraine reduced import duties on machinery and household appliances by a total amount of up to EUR 75.2 million. For the vehicles, our state was obliged to abolish import duties in the amount of EUR 117.3 million.

Also, within the framework of the transformation of the foreign trade regime, trade in textiles was liberalized. In this segment, the economic benefits of Ukrainian and European exporters will amount to almost EUR 24.4 million and EUR 8.7 million respectively. However, in order to protect the domestic textile industry from external competition due to the possible increase in imports of second-hand clothing (second-hand goods), special liberalization conditions were introduced. In particular, the so-called input prices should be applied simultaneously with the gradual (for 5 years) reduction of the import duty rate (they should be set in Euros per kilogram of net weight).

The EU cancellation of duties on imports of chemical products enables Ukrainian manufacturers and exporters to save EUR 26.8 million annually, while the economic benefit to European suppliers of chemical products from our country will be EUR 64, 3 million.[7]

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[6] *Кваша С.М.* Сучасні тенденції зовнішньоекономічної діяльності в аграрному секторі України / С.М. Кваша, В.І. Власов, Б.В. Духницький // Актуальні проблеми розвитку сучасної економіки: збірник матеріалів міжнародної науково-практичної інтернет-конференції, 13-14 березня 2014 р. – Дніпропетровськ: ФОП «Дробязко С.І.», 2014 – С. 10-13.

[7] ЄС-Україна: поглиблена та всеохоплююча зона вільної торгівлі [Електронний ресурс]. – Режим доступу: https://eeas.europa.eu/delegations/ukraine/documents/virtual library/dcfta_guidebook_web.pdf. – Назва з екрана.

In order to gain greater economic benefits from trade integration with the EU, it is important to develop international cooperation. Thus, according to the well-known Ukrainian scientist-economis V. M. Heyets «… to realize the potential in the development of trade with the EU is possible within the limits of expansion of cooperation between Ukrainian and European associations of producers, and not between companies that are often competitors. Entry into EU markets is possible for companies with foreign (Euro-penny) capital…».[8]

8.3. Visa-free regime between Ukraine and the EU and activities of the Government Office for European Integration

One of Ukraine's important steps towards economic integration with the European Union is to safeguard the freedom of movement of persons within the grouping, which has been realized in the context of *visa-free dialogue*.

In September 2008, the EU-Ukraine Visa Liberalization Dialogue was officially launched at the EU-Ukraine Paris Summit.

In November 2010, at the EU-Ukraine Summit, our country presented the EU Visa Liberalization Action Plan for Ukraine. This Plan was developed in line with the philosophy and logic of the "roadmaps" previously provided by the Community to the Balkan countries,

[8] *Геєць В.М.* Динаміка процесів європеїзації у сфері економіки України: рік перший / В.М. Геєць // Матеріали круглого столу «Стратегічна панорама», 2016. - №1. – С. 85.

where visa regime with EU member states were later abolished.

It is worth noting that Ukraine became the first country after the Balkan region to which the EU provided a more detailed document. This was a confirmation that the European Union is ready to further deepen its relations with Ukraine on the international migration of people.

The implementation of the Action Plan has become an important tool for implementing reforms not only in migration and visa, but also in other related fields.

For example, the Action Plan contained a number of clear EU criteria, which were grouped into 4 blocks:

1) security of documents, including issues of biometrics;
2) counteracting illegal migration, including readmission;
3) guaranteeing public order and security;
4) ensuring the fundamental rights and freedoms of man.

The Action Plan is implemented in 2 phases: within the framework of the first (legislative) legislation and regulatory acts in specific areas are harmonized in accordance with EU standards; during the second - implementation of the modernized legislation is put into practice and its functioning is ensured in accordance with EU standards, national practice in the areas covered by the Action Plan.

On June 23, 2014, the EU Foreign Affairs Council approved a decision to complete the process of Ukraine's implementation of the first and transition to the second phase of the EU Visa Liberalization Action Plan for Ukraine.

In total, during the visa-free dialogue between the EU and Ukraine, the European Commission has produced 6 follow-up notes on Ukraine's progress in meeting the criteria of the Action Plan. Their implementation allowed the European Commission on 20 April 2016 to submit to the European Parliament and the Council a legislative proposal to amend Council Regulation (EU) No 539/2001 of 15.03.2001 on the introduction of an EU visa-free regime for citizens of Ukraine.

On November 17, 2016, at a meeting of the Committee of Permanent Representatives to the EU (COREPER), a decision was adopted to open negotiations between the European Commission, the Council of the EU and the European Parliament on the abolition of the visa regime for Ukrainian citizens.

On April 6, 2017, the European Parliament approved a legislative proposal to introduce an EU visa-free regime for Ukraine. Later, on 11 May 2017, the EU Council approved a decision on visa-free travel with Ukraine.

Finally, on June 11, 2017, the decision to introduce a visa-free regime for Ukraine by the European Union came into force.

It is worth mentioning that in order to ensure the proper fulfillment of the tasks in the field of European integration and fulfill the conditions of the Association Agreement, the Government Office for European Integration was established by the Government of our country, which is part of the Secretariat of the Cabinet of Ministers of Ukraine.

According to the Government of Ukraine approved on August 13, 2014 the Regulations on the Government Office, the following tasks are assigned to it:

- to coordinate the activities of the executive authorities with regard to the development and implementation of measures aimed at implementing the Association Agreement between Ukraine and the EU, other international treaties of our country in the context of European integration issues and treaties between Ukraine and the EU;

- to plan, monitor and evaluate the effectiveness and efficiency of fulfilling the tasks in the field of Ukraine's integration into the EU, including the implementation of the Agreement;

- to coordinate the activity of the executive authorities on the development of draft legislative and other legal acts aimed at implementing the Agreement, other international treaties of Ukraine on European integration and treaties between Ukraine and the EU;

- to improve the systems and mechanisms for coordinating the work of executive bodies in the field of European integration.

The Government Office should serve as the secretaries of the Council and the Association Committee between Ukraine and the EU on the part of Ukraine. In addition, the Office is accountable to the Prime Minister of Ukraine, the Vice Prime Minister of Ukraine (competent for European integration), and the Minister of the Cabinet of Ministers of Ukraine.

The structure of the Government Office includes 3 departments: strategic planning, analytical support, coordination and monitoring.

Staffing of the Government Office is 31 persons. Its managerial staff, in addition to the Deputy Minister of the Cabinet of Ministers - the Director of the Government Office, also provides for the position of the First Deputy Director of the Government Office and 3

Deputy Directors. The latter serve as the heads of on-going departments: strategic planning, analytical support, coordination and monitoring.[9]

BUSINESS GAME
«Poland Is Not Yet Lost?»

Task:

The student group is divided into three teams, each of them, after reading the text below, defends the following positions:

Team 1 *– Emigration of Ukrainians to the Republic of Poland will enable to activate the process of European integration of our country and will stimulate economic growth.*

Team 2 *– Emmigrating our population to Poland will further complicate the economic situation in Ukraine.*

Team 3 *– Emigration of Ukrainians to Poland will not lead to structural changes in Ukraine's economy.*

Our compatriots who have found employment in neighboring Poland are now an important resource of the Polish economy. Their numbers continue to grow: the number of students from Ukraine has increased sevenfold in the last three years, and that of migrant workers - 2.5 times.

Emigrating to Poland forever is the decision made by Lviv resident Olena Urban. On the one hand, her husband (a Belarusian with Polish roots) had long intended to move to a historical homeland. On the other hand, the family has been pushed to such an important step by the war in the east and by pro-Russian sentiment in Belarus, where the couple has lived for the past three years. "It was important for us to re-enter the world of like-minded people, in a state that professes the values of the civilized world, "says Ms. Urban. every average citizen" Young people have already moved to live in the capital of Poland for a year. A week ago, Ms. Urban was allowed to stay in the country for the next three years. Her husband has a Pole card which gives

[9] Офіційний сайт Міністерства закордонних справ України [Електронний ресурс]. – Режим доступу: https://mfa.gov.ua/ua

his owner all the rights of a Polish citizen, except for the electoral one. As a whole, the couple enjoy a new place of residence. The quality of life in Poland is higher than in Ukraine or Belarus: better road conditions, better provision of public and medical services. However, the key here is transparent business rules. For the couple, the latter is an important prerequisite because they are private entrepreneurs.

Neighboring countries are attracting more and more compatriots, with different sections of society: seasonal workers, students, high-skilled personnel, refugees from Crimea and Donbass.

Compared to the pre-crisis period (2013), in 2015 the number of Ukrainians who were granted temporary or permanent residence in Poland has quadrupled. In particular, the number of pre-permits issued by the Poles in the previous year to temporary residence was 35.2 thousand, and permanent ones - 6.4 thousand. As of 2015, the total number of Ukrainians, including permanent residents, seasonal workers and students in the territory of the Republic of Poland, has reached 1 million. This was stated by Beata Szydlo, Polish Prime Minister.

The Polish Government welcomes guests from Ukraine. New loyalty programs are being launched to encourage expatriates, professionals and students in the country. The aim of official Warsaw is simple: to eliminate the labor shortage in the Polish labor market and education that arose after Poland's accession to the EU and, as a consequence, the mass emigration of Poles to Western European countries.

Currently, work in Poland is the most popular among domestic workers, which is spoken in the group Transnational Consulting Services, which helps Ukrainians to find work abroad. In addition, Polish employers are also the most active in Ukraine among other foreigners. They are looking for workers - from plaster to floor-pickers, and specialists - doctors and programmers.

Over the past three years, the number of Ukrainians working in the Republic of Poland has increased 2.5 times. Now, according to the data of the Polish Ministry of Family, Labor and Social Policy for 2015 and year, there are already 762.7 thousand people. And in total, with all categories - almost 1 million people.

"Until 2013, the number of Ukrainian workers did not exceed the figure of 130,000 people, and the Poles were crying that there was no one to collect apples," recalls Olena Malynovskaya, chief researcher at the social security department of the National Institute for Strategic Studies. "Crisis and war create a situation where people need to look for work at least somewhere."

It is very easy to get a low-skilled job in Poland - employers form and submit applications to local authorities themselves. For seasonal work (five to six months), our compatriots do not need a special permit at all, it is only necessary to obtain a visa. Men tend to work as handymen on construction sites, while women work in agriculture or as cleaners and caregivers. The average wage in this area is almost $ 500 per month. The Poles refuse or perform such work for much more money in Germany or the United Kingdom. For Ukrainians, first of all, from depressed regions, these earnings are attractive.

On this basis, in Poland, a new kind of business has emerged - services and agencies are being opened to help Ukrainian workers get in touch with Polish employers. This is stated by Daniel Dzevit, founder of PracaDlaUkrainy.pl (Working for Ukraine). However, there are enough scams here: they can get money for services from trusted Ukrainians and not help with the job search. Or take half of their income from employment.

Along with seasonal work, longer-term and serious employment is becoming popular among our compatriots. There is a demand for engineers, office workers, medicines, programmers and more. However, for such work, Ukrainians must obtain a special permit. But those in search of a better life do not stop bureaucratic obstacles. In 2015, compared to 2014, the number of requests for relevant documents from Ukrainians doubled, reaching a value of 54.7 thousand. "Ukrainians need Poland. I only hear the best feedback from employers in Poland. These are smart and hardworking people," Dzevit explains.

One of the Ukrainian women who succeeded in breaking these stereo types was Marina Ponomarenko, an international client specialist at Gdansk Polytechnic University. Marina moved to Poland in 2010, before which she graduated from NTUU KPI and spent a year at a large international company. "I realized that I would never be able to buy housing in Kiev and live as *independently as I would have liked," Ponomarenka recalls. That is why our compatriot emigrated to Poland, where she received another higher education and eventually earned a prestigious position in one of the most convenient and respectable cities in Poland - Gdansk. Now Marina is helping to get Polish education for Ukrainian students. "More and more Ukrainians are coming to Poland," Ponomarenko said. "Neither the economic crisis nor the cost of studying in European currency is hindering our citizens in order to secure a better future."*

Students are another significant reserve for the emigration of Ukrainians to Poland. In 2014, local higher education institutions became the most popular among young people from Ukraine receiving education abroad. According to the CEDOS think tank, over the past eight years, the number of Ukrainian students who have gone to the Republic of Poland has increased sevenfold - from 2.8 thousand in 2008 to 20.7 thousand in 2015.

First of all, Ukrainians are attracted by the geographic, cultural and cultural proximity of the neighboring country. Low prices for education are also acceptable if we draw parallels with other EU countries. Moreover, the education system in Poland in many ways attracts students from the east. For example, in 2016, tuition fees for foreigners at Polish public universities were reduced, following the example of private educational institutions. On average, the price for providing educational services has been reduced by one and a half or two times: depending on the institution of education, a prestigious profession such as journalism, philology or international relations is able to receive an average of $ 1.2-2.2 thousand per year.

Interest in our compatriots can be explained by the demographic situation in Poland, explains Olena Babakova, a journalist with the Ukrainian Polish Radio Service. In the late 1990s and early 2000s, getting a college degree in Poland became a fashionable trend. At that time, state higher education institutions were creating new faculties, and many private universities were emerging. Further, the number of students began to shrink rapidly: first of all, there was a marked demographic decline of the 1990s. As a result, new students have been physically lacking in recent years. It is thanks to young people from Ukraine that the Poles eliminate this deficit. "The *authorities have already resigned themselves to the fact that only the owners of the Pole card do not patch the demographic hole. Therefore, the Poles try to stimulate the emigration of those citizens who are culturally and geographically close. And here the Ukrainians are the best candidates, "Babakov notes.*

Citizens who have completed higher education in Poland do not need a work permit. In addition, during the study period, they fully master the Polish language and integrate into Polish society - this is the best addition to Poland's economically active population, says Malinowska. Most students from Ukraine do not return home after graduation. "It should be remembered that a Polish diploma is also a free entry into the labor market of the whole Europe. Obviously, this is even more attractive to young Ukrainians, "the expert said.

However, if at the level of the state to our compatriots as a productive workforce and an engine of economy, the average Poles to the Ukrainians are not only friendly. Thus, according to the Center for the Study of Public Opinion of Poland, Ukrainians are a people to whom the local Poles differ. According to a survey conducted in 2015, 36% of Poles are sympathetic to Ukrainians, nearly as many as 32% with an-type, and the rest are neutral.

There is no real aggression against immigrants from Ukraine to Poland, Babakow assures, but there is some arrogance. As my familiar Pole says, "Finally, we have the opportunity to feel German," she jokes, referring to the negative experience of Poles who go to work in developed Germany en masse.

Negative attitudes towards our compatriots and various stereotypes such as myths about bandera and easily accessible Ukrainian women have in recent years been actively adopted by local radical politicians. The latter play a European fear of the influx of migrants.

For example, recently, Janusz Corwin-Mikke, a bright leader of the Congressional New Right political party and candidate for President of Poland, called Ukraine an enemy of his country, explaining that he was "voting for gang-rats here."

"Due to the radical rhetoric of politicians there is a growing dislike for foreigners as a whole. It is primarily aimed at immigrants from Arab countries. But Ukrainians are hitting the mark" , says Babakova. Moreover, civil society in Poland is

increasingly discussing issues of the past - confrontation in Volhynia and other images that "Ukrainians" have.

However, all of these conversations are unlikely to halt the flow of immigrants from the east, since Poland itself is interested in them.

Along with the problem of low birth rates (one of the lowest in Europe), Poland is experiencing a massive outflow of its own workforce towards the central and western parts of the EU, especially to Germany and the United Kingdom. In search of higher wages and social standards, Polish laborers and intellectuals leave the field.

According to the masses of 38 million Poland, the proportion of those who went abroad is significant. In the UK, Poles rank first among immigrants: 853,000 Poles live and work in the Kingdom in 2015. According to official data from local authorities, in Nimeschchyna, about 354,000 people work in Poland, up 51% from 2011.

Someone has to occupy a free niche in the labor market. That is why the emigration of Ukrainians to neighboring Poland will only grow, Tymoshenko believes. "We need each other", he says. The latter will act as a workforce, give birth to children and work for our pensions".

Source: *Галина Корба, Кристина Бердинских. Щоби Польска не згінела? // Новое Время. – 13.05.2016. - №17. – С. 44-47.*

CONTROL QUESTIONS

1. What legal document started to regulate Ukraine's EU integration process?
2. When did the President's Decree of Ukraine adopt the European Integration Program of Ukraine?
3. In which document in 2005 did propose a specific mechanism for the adaptation of national legislation to the European one?
4. What are the main steps in the process of signing the EU-Ukraine Association Agreement?

5. When did the Association Agreement between Ukraine and the EU enter into force in full?
6. What is the full name of the EU-Ukraine Free Trade Area?
7. Why a EU is accession a priority area for Ukraine's international economic integration? Justify your opinion.
8. When did the Verkhovna Rada of Ukraine and the European Parliament simultaneously ratify the Association Agreement between Ukraine and the EU?
9. How can you describe the process of integration of the Ukrainian economy into the EU for all the years of independence of our country?
10. What are the long-term economic consequences for the domestic economy that can lead to the functioning of a deep and comprehensive free trade area between Ukraine and the EU?
11. When did the EU decision to introduce a visa-free regime for Ukraine come into force?
12. What sections does the economic part of the EU-Ukraine Association Agreement include?

CHECKING TEST

1. The first basic legal document at the international level that began to regulate the process of Ukraine's integration into the EU was the Agreement ________________________.

2. What document has made the internal reform process in Ukraine a common political task - the achievement of the Copenhagen criteria?

a) EU-Ukraine Action Plan;
b) strategy of Ukraine's integration into the EU;
c) program of European integration of Ukraine;
d) association Agreement between Ukraine and the EU.

3. When was the political part of the Association Agreement between Ukraine and the EU signed?

a) August 9, 2013 b) June 27, 2014
c) March 30, 2012 d) March 21, 2014

4. Select the value of the projected economic benefits for Ukrainian exporters of DCFTA with the name of the sectors of the domestic economy in which they operate:

1)	EUR 330 millions	A)	Chemical industry
2)	EUR 24,4 millions	B)	Textile industry
3)	EUR 26,8 millions	C)	Agri-food production

5. When the Verkhovna Rada of Ukraine and the European Parliament ratified the EU-Ukraine Association Agreement synchronously?
a) April 16, 2013 b) May 5, 2015
c) September 16, 2014. d) January 1, 2016.

6. Complete the statement: «An important element of the EU-Ukraine Association Agreement is the provision on the establishment ____________________»

7. During which summit, in September 2008, was launched a dialogue on EU visa liberalization for Ukrainian citizens?
a) Roman; b) Copenhagen;
c) Lisbon; d) Paris.

8. In what year did the decision to introduce a European Union visa-free regime for Ukraine come into force?
a) 2010 b) 2012
c) 2015 d) 2017

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GLOSSARY

An ad valorem tax – is a tax whose amount is based on the value of exprort or import goods.

Positive trade balance – is the difference between the monetary value of a nation's exports and imports, when a country imports a greater value than it exports.

International investment balance – is a statistical report that is derived from the balance of payments, reflecting external financial assets and government liabilities.

Budget of the European Union – is the main financial base of integration measures, an instrument of supranational regulation of the economies of the EU member states and the implementation of structural policy within the framework of regional integration.

External debt – is the aggregate amount of a country's debt collection, where all residents' obligations to non-residents about payment the debt and / or interest at any time in the future.

Currency – is a means of payment used to make international payments, that is, a currency of a particular country.

Monetary monopoly – is a unilateral right of a country to conduct transactions with foreign currency, precious metals and other valuables.

Currency clause – is a condition specified in trade and other international treaties, which provides for insurance of exporters and creditors against the risk of losses from exchange rate fluctuations.

Currency dumping – is a process of depreciation of the national currency in order to increase exports of goods and services abroad at prices below world prices.

Clearing – is interstate treaties on the obligatory calculation of mutual external requirements and obligations.

Currency corridor – is fixed limit of fluctuation in the exchange rate that the country is obliged to maintain.

Exchange rate – is the currency of a particular country, which is expressed in the currency of another country. It is an objective macroeconomic indicator that reflects the real state of the national economy and foreign economic relations.

Currency risk – is the risk of financial losses arising from changes in the national currency's exchange rate to foreign currency.

The Monetary Union – is an association of countries that have formally agreed to use a single monetary unit in their economies, that is, implement a common monetary policy.

Monetary interventions – are transactions for the purchase or sale of foreign currency that are authorized by the central bank of the country to regulate the exchange rate of the national currency.

Currency restrictions – are measures taken by a government of a particular country to regulate transactions with currencies of other countries.

Foreign exchange reserves – is money or other assets held by a central bank or other monetary authority so that it can pay its liabilities.

Currency markets – are officially designated centers where foreign currencies are bought and sold on the basis of balancing supply and demand.

The rule of law – is the basic legal principle and the doctrine according to which no one can evade the law, the state can punish no one except for violations of the law, and also no one can be convicted of violating the law except in cases provided by law.

Free trade – is a form of foreign trade in which the state practically does not interfere, and its development occurs on the basis of spontaneous market forces.

Globalization – is a natural and objective process for the formation of an interdependent and coherent all-planetary civilization.

The globalization of the world economy – is a natural and objective process of formation of deep interdependence of national economies, which leads to the formation of a single economic system within the entire planet.

Democracy – is a political regime in which its people are the only source of power in the country.

National budget – it is a system of financial relations between the state, on the one hand, and enterprises, companies, organizations and the population, on the other, to form and use a centralized fund of monetary resources to satisfy the needs of society.

Grant (latin. dotatio – «gift, donation») – is a non-repayable financial aid that is provided to a lower-level budget from a higher-ranking budget without a targeted content in the case that the expenditures exceed the revenues.

Environmental policy of the European Union – is a set of EU actions and activities aimed at ensuring the environmental needs of the population of the participating countries, supporting environmental security and the rational use, conservation and restoration of natural resources.

Economic efficiency – is a comparison of the result of economic activities (implementation of economic programs and measures) to the cost of resources that led to the result.

The European Currency Unit (₠ or ECU) – was a basket of the currencies of the European Community member states, used as the unit of account of the European Community before being replaced by the euro on 1 January 1999, at parity.

Effect «trade diversion» – is an economic term related to international economics in which trade is diverted from a more efficient exporter towards a less efficient one by the formation of a free trade agreement or a customs union.

Effect «trade creation» – is the economic result that occurs when domestic consumers refuse to buy a product from a less efficient domestic supplier, giving preference to purchasing a more efficient external source of its supply (import), which is made possible by the elimination of import duties within the customs union.

Euro – is the main currency of the EU member states, which was formally introduced in 1999 and has been in circulation since 2002.

Eurocurrency – is currency that is deposited in foreign bank accounts and can be converted freely.

Eurodollar – is time deposit denominated in U.S. dollars at banks outside the United States.

The European Commission – is a supranational politically independent (not accountable to the governments of the member states) executive body of the European Union.

The European Council – is regular meeting of the Heads of State and Government of the European Union.

European Bank for Reconstruction and Development (EBRD) – is an international financial institution that provides financial assistance to Central and Eastern European countries to carry out market reforms and to finance the development of the private sector.

The European Research Area is a system of programs and policy instruments that incorporates the institutional environment of research and development of European Union member states and associated members to ensure international scientific and technical cooperation, as well as the free movement of scientific knowledge and mobility of researchers.

European Parliament – is a representative body of the EU (supranational by its essence), which performs legislative, supervisory and budgetary functions in an integration group.

European Union – is a union of European states with institutional and political structure that has no analogues in the history of international relations.

The European Central Bank is the main euro area bank in which the Euro currency is in circulation. It is a key element of the European System of Central Banks.

The Euromarket is part of the global lending market where banks conduct deposit operations in euro currencies.

Climate change is a persistent deviation of long-term weather statistics (from decades to millions of years).

The Free Trade Area is an agreement between states to eliminate all tariff and quantitative barriers for trade. However, each state in this area maintains its own tariff and other types of protectionism instruments against third countries;

The preferential trade zone is an area in which trade is carried out on preferential terms. It may be formed by two or more countries seeking to reduce the level of mutual tariffs while maintaining the existing level of tariffs in trade with third countries.

Quota – is an administrative restriction on the production or sale of fixed-term products. In the area of foreign economic activity, the quota is a non-tariff restriction on the number of exports or imports of products for a fixed time.

Complementarity – in the framework of the common regional policy, it is a complement to the subsidy mechanism. Implementing national programs, EU institutions usually allocate funds only as an additional resource.

Convergence (*лат. convergo – «approach»)* – is a process of rapprochement, ascent; in economic context, it is the rapprochement of economies of different regions.

Human capital – is a person's accumulated, through investment, a certain reserve of health, knowledge, skills and abilities that is used or can be used in the field of social production to increase productivity and rise incomes as a result.

The Customs Union – is a union of countries that abolishes both tariff and non-tariff restrictions on mutual trade and introduces a single external tariff on trade with third countries.

Customs tariff – is an instrument of foreign trade policy and regulation of the internal market of the state in the process of its economic interaction with the world market.

International economic security – is a state of economic interaction between countries that makes it impossible to consciously and purposefully target the economic losses of any country in the world.

International economic integration – is a process of convergence, interpenetration, fusion of national economies and formation of a coherent regional economic complex. This is a high level of internationalization of production, based on the development of deep sustainable interconnections and division of labor between national economies, leading to the gradual expansion of reproductive structures.

International labor migration – is a systematic or spontaneous process of moving economically active populations between countries.

The International Monetary Fund (IMF) – is an independent intergovernmental monetary institution whose primary purpose is to ensure the stability of the global monetary system.

Non-tariff restrictions – are a set of quantitative, financial and hidden instruments of foreign trade regulation.

Partnership – is a specific form of cooperation between different administrative levels (eg EU, country, region) in order to achieve common goals.

Cohesion policy – is the intersection of regional and social policy, when both are seen as one.

Complete economic integration – is an association of economies of two or more countries, where a single economic policy is pursued by member countries of the grouping and the creation of supranational governing bodies with significant powers.

Regional Policy of the EU – is a strategic investment policy that targets all regions and cities of the EU in order to boost their economic growth and improve people's quality of life.

World economy – is a set of national economies connected to each other by the system of international division of labor, economic and political relations. Universal economic relations between national economies are carried out by international economic relations.

The EU's common agricultural policy (CAP) – is a partnership between agriculture and society, and between Europe and its farmers; it is a system of rules that regulates the field of production and trade in agricultural products.

Common market – is a stage of economic integration of countries that involves the free movement of goods, works and services, as well as the factors of production (inputs) - capital, labor and technology.

Sustainable development – is a leading doctrine that proves the need to strike a balance between meeting the needs of people living on the planet today and the ability of future generations to do the same.

Subsidiarity – is a complementarity between the main types of economic policy, each of which is implemented differently within the EU, depending on the levels of subjects of integration. Specific tasks are solved at the level (regional, national, interstate, supranational) that will prove most effective.

Court of Justice of the European Union – is the official institution of the European Union, covering the entire EU judiciary.

Tariff quota – is a fixed volume of goods in which its importation or exportation is taxed at a preferential rate of duty or no duty at all. When the tariff quota is completely exhausted, then you can continue to import the product without restriction, but with a higher rate of duty.

Territorial cohesion – is a co-operation in the area of territorial improvement, harmonious development throughout the EU.

Digital economy – is a modern kind of economy that underpins the principle of widespread use of digital computer technologies.

CASE STUDY AND BUSINESS GAMES LIST

Appendix

EUROPE 2020 STRATEGY
EXECUTIVE SUMMARY

Europe faces a moment of transformation. The crisis has wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. In the meantime, the world is moving fast and long-term challenges – globalisation, pressure on resources, ageing – intensify. The EU must now take charge of its future.

Europe can succeed if it acts collectively, as a Union. We need a strategy to help us come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. Europe 2020 sets out a vision of Europe's social market economy for the 21st century.

Europe 2020 puts forward three mutually reinforcing priorities:

– Smart growth: developing an economy based on knowledge and innovation.

– Sustainable growth: promoting a more resource efficient, greener and more competitive economy.

– Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

The EU needs to define where it wants to be by 2020. To this end, the Commission proposes the following EU headline targets:

– 75 % of the population aged 20-64 should be employed.

– 3% of the EU's GDP should be invested in R&D.

– The "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right).

– The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.

– 20 million less people should be at risk of poverty.

These targets are interrelated and critical to our overall success. To ensure that each Member State tailors the Europe 2020 strategy to its particular situation, the Commission proposes that EU goals are translated into national targets and trajectories.

The targets are representative of the three priorities of smart, sustainable and inclusive growth but they are not exhaustive: a wide range of actions at national, EU and international levels will be necessary to underpin them. The Commission is putting forward seven flagship initiatives to catalyse progress under each priority theme:

– "Innovation Union" to improve framework conditions and access to finance for research and innovation so as to ensure that innovative ideas can be turned into products and services that create growth and jobs.

– "Youth on the move" to enhance the performance of education systems and to facilitate the entry of young people to the labour market.

– "A digital agenda for Europe" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.

– "Resource efficient Europe" to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise our transport sector and promote energy efficiency.

– "An industrial policy for the globalisation era" to improve the business environment, notably for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.

– "An agenda for new skills and jobs" to modernise labour markets and empower people by developing their of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility.

– "European platform against poverty" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

These seven flagship initiatives will commit both the EU and the Member States. EU-level instruments, notably the single market, financial levers and external policy tools, will be fully mobilised to tackle bottlenecks and deliver the Europe 2020 goals. As an immediate priority, the Commission charts what needs to be done to define a credible exit strategy, to pursue the reform of the financial system, to ensure budgetary consolidation for long-term growth, and to strengthen coordination within the Economic and Monetary Union.

Stronger economic governance will be required to deliver results. Europe 2020 will rely on two pillars: the thematic approach outlined above, combining priorities and headline targets; and country reporting, helping Member States to develop their strategies to return to sustainable growth and public finances. Integrated guidelines will be adopted at EU level to cover the scope of EU priorities and targets. Country-specific recommendations will be addressed to Member States. Policy warnings could be issued in case of inadequate response. The reporting of Europe 2020 and the Stability and Growth Pact evaluation will be done simultaneously, while keeping the instruments separate and maintaining the integrity of the Pact.

The European Council will have full ownership and be the focal point of the new strategy. The Commission will monitor progress towards the targets, facilitate policy exchange and make the necessary proposals to steer action and advance the EU flagship initiatives. The European Parliament will be a driving force to mobilise citizens and act as co-legislator on key initiatives. This partnership approach should extend to EU committees, to national parliaments and national, local and regional authorities, to social partners and to stakeholders and civil society so that everyone is involved in delivering on the vision.

The Commission proposes that the European Council endorses - in March - the overall approach of the strategy and the EU headline targets, and approves - in June - the detailed parameters of the strategy, including the integrated guidelines and national targets. The Commission also looks forward to the views and support of the European Parliament for making Europe 2020 a success.

1. A MOMENT OF TRANSFORMATION

The crisis has wiped out recent progress

The recent economic crisis has no precedent in our generation. The steady gains in economic growth and job creation witnessed over the last decade have been wiped out – our GDP fell by 4% in 2009, our industrial production dropped back to the levels of the 1990s and 23 million people - or 10% of our active population - are now unemployed. The crisis has been a huge shock for millions of citizens and it has exposed some fundamental weaknesses of our economy.

The crisis has also made the task of securing future economic growth much more difficult. The still fragile situation of our financial system is holding back recovery as firms and households have difficulties to borrow, spend and invest. Our public finances have been severely affected, with deficits at 7% of GDP on average and debt levels at over 80% of GDP – two years of crisis erasing twenty years of fiscal consolidation. Our growth potential has been halved during the crisis. Many investment plans, talents and ideas risk going to waste because of uncertainties, sluggish demand and lack of funding.

Europe's structural weaknesses have been exposed

Moving out of the crisis is the immediate challenge, but the biggest challenge is to escape the reflex to try to return to the pre-crisis situation. Even before the crisis, there were many areas where Europe was not progressing fast enough relative to the rest of the world:

– Europe's average growth rate has been structurally lower than that of our main economic partners, largely due to a productivity gap that has widened over the last decade. Much of this is due to differences in business structures combined with lower levels of investment in R&D and innovation, insufficient use of information and communications technologies, reluctance in some parts of our societies to embrace innovation, barriers to market access and a less dynamic business environment.

– In spite of progress, Europe's employment rates – at 69% on average for those aged 20-64 – are still significantly lower than in other parts of the world. Only 63% of women are in work compared to 76% of men. Only 46% of older workers (55-64) are employed compared to over 62% in the US and Japan. Moreover, on average Europeans work 10% fewer hours than their US or Japanese counterparts.

– Demographic ageing is accelerating. As the baby-boom generation retires, the EU's active population will start to shrink as from 2013/2014. The number of people aged over 60 is now increasing twice as fast as it did before 2007 – by about two million every year compared to one million previously. The combination of a smaller working population and a higher share of retired people will place additional strains on our welfare systems.

Global challenges intensify

While Europe needs to address its own structural weaknesses, the world is moving fast and will be very different by the end of the coming decade:

– Our economies are increasingly interlinked. Europe will continue to benefit from being one of the most open economies in the world but competition from developed and emerging economies is intensifying. Countries such as China or India are investing heavily in research and technology in order to move their industries up the value chain and "leapfrog" into the global economy. This puts pressure on some sectors of our economy to remain competitive, but every threat is also an opportunity. As these countries develop, new markets will open up for many European companies.

– Global finance still needs fixing. The availability of easy credit, short-termism and excessive risk-taking in financial markets around the world fuelled speculative behaviour, giving rise to bubble-driven growth and important imbalances. Europe is engaged in finding global solutions to bring about an efficient and sustainable financial system.

– Climate and resource challenges require drastic action. Strong dependence on fossil fuels such as oil and inefficient use of raw materials expose our consumers and businesses to harmful and costly price shocks, threatening our economic security and contributing to climate change. The expansion of the world population from 6 to 9 billion will intensify global competition for natural resources, and put pressure on the environment. The EU must continue its outreach to other parts of the world in pursuit of a worldwide solution to the problems of climate change at the same time as we implement our agreed climate and energy strategy across the territory of the Union.

Europe must act to avoid decline

There are several lessons we can learn from this crisis:

– The 27 EU economies are highly interdependent: the crisis underscored the close links and spill-overs between our national economies, particularly in the euro area. Reforms, or the lack of them, in one country affect the performance of all others, as recent events have shown; moreover, the crisis and severe constraints in public spending have made it more difficult for some Member States to provide sufficient funding for the basic infrastructure they need in areas such as transport and energy not only to develop their own economies but also to help them participate fully in the internal market.

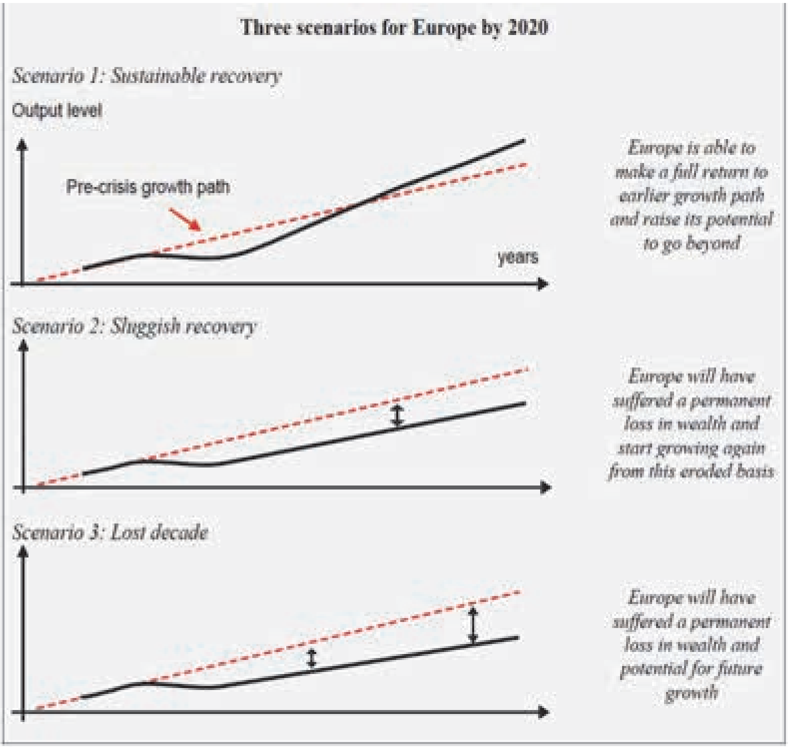
– Coordination within the EU works: the response to the crisis showed that if we act together, we are significantly more effective. We proved this by taking common action to stabilise the banking system and through the adoption of a European Economic Recovery Plan. In a global world, no single country can effectively address the challenges by acting alone;

– The EU adds value on the global scene. The EU will influence global policy decisions only if it acts jointly. Stronger external representation will need to go hand in hand with stronger internal co-ordination.

The crisis has not just been a one-off hit, allowing us to resume "business as usual". The challenges that our Union faces are greater than before the recession, whilst our room for manoeuvre is limited. Moreover, the rest of the world is not standing still. The enhanced role of the G20 has demonstrated the growing economic and political power of emerging countries.

Europe is left with clear yet challenging choices. Either we face up collectively to the immediate challenge of the recovery and to long-term challenges – globalisation, pressure on resources, ageing, – so as to make up for the recent losses, regain competitiveness, boost productivity and put the EU on an upward path of prosperity ("sustainable recovery").

Or we continue at a slow and largely uncoordinated pace of reforms, and we risk ending up with a permanent loss in wealth, a sluggish growth rate ("sluggish recovery") possibly leading to high levels of unemployment and social distress, and a relative decline on the world scene ("lost decade").



Europe can succeed. Europe has many strengths: we can count on the talent and creativity of our people, a strong industrial base, a vibrant services sector, a thriving, high quality agricultural sector, strong maritime tradition, our single market and common currency, our position as the world's biggest trading bloc and leading destination for foreign direct investment. But we can also count on our strong values, democratic institutions, our consideration for economic, social and territorial cohesion and solidarity, our respect for the environment, our cultural diversity, respect for gender equality – just to name a few. Many of our Member States are amongst the most innovative and developed economies in the world. But the best chance for Europe to succeed is if it acts collectively – as a Union.

When confronted with major events in the past, the EU and its Member States have risen to the challenge. In the 1990s, Europe launched the largest single market in the world backed by a common currency. Only a few years ago, the division of Europe ended as new Member States entered the Union and other states embarked on the road towards membership or a closer relation with the Union. Over the last two years common action taken at the height of the crisis through the European Recovery Plan helped prevent economic meltdown, whilst our welfare systems helped protect people from even greater hardship.

Europe is able to act in times of crisis and to adapt its economies and societies. And today Europeans face again a moment of transformation to cope with the impact of the crisis, Europe's structural weaknesses and intensifying global challenges.

In so doing, our exit from the crisis must be the point of entry into a new economy. For our own and future generations to continue to enjoy a high-quality of healthy life, underpinned by Europe's unique social models, we need to take action now. What is needed is a strategy to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. This is the Europe 2020 strategy. This is an agenda for all Member States, taking into account different needs, different starting points and national specificities so as to promote growth for all.

2. SMART, SUSTAINABLE AND INCLUSIVE GROWTH

Where do we want Europe to be in 2020?

Three priorities should be the heart of Europe 20201:

– Smart growth – developing an economy based on knowledge and innovation.

– Sustainable growth – promoting a more resource efficient, greener and more competitive economy.

– Inclusive growth – fostering a high-employment economy delivering economic, social and territorial cohesion.

These three priorities are mutually reinforcing; they offer a vision of Europe's social market economy for the 21st century.

To guide our efforts and steer progress, there is a large consensus that the EU should commonly agree on a limited number of headline targets for 2020. These targets should be representative of the theme of smart, sustainable and inclusive growth. They must be measurable, capable of reflecting the diversity of Member States situations and based on sufficiently reliable data for purposes of comparison. The following targets have been selected on this basis – meeting them will be critical to our success by 2020:

– The employment rate of the population aged 20-64 should increase from the current 69% to at least 75%, including through the greater involvement of women, older workers and the better integration of migrants in the work force;

– The EU currently has a target of investing 3% of GDP in R&D. The target has succeeded in focusing attention on the need for both the public and private sectors to invest in R&D but it focuses on input rather than impact. There is a clear need to improve the conditions for private R&D in the EU and many of the measures proposed in this strategy will do this. It is also clear that by looking at R&D and innovation together we would get a broader range of expenditure which would be more relevant for business operations and for productivity drivers. The Commission

1 These themes have been widely welcomed in the public consultation carried out by the Commission proposes to keep the 3% target while developing an indicator which would reflect R&D and innovation intensity;

– Reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30%, if the conditions2 are right; increase the share of renewable energy sources in our final energy consumption to 20%; and a 20% increase in energy efficiency;

– A target on educational attainment which tackles the problem of early school leavers by reducing the drop out rate to 10% from the current 15%, whilst increasing the share of the population aged 30-34 having completed tertiary education from 31% to at least 40% in 2020;

– The number of Europeans living below the national poverty lines should be reduced by 25%, lifting over 20 million people out of poverty3.

These targets are interrelated. For instance, better educational levels help employability and progress in increasing the employment rate helps to reduce poverty. A greater capacity for research and development as well as innovation across all sectors of the economy, combined with increased resource efficiency will improve competitiveness and foster job creation. Investing in cleaner, low carbon technologies will help our environment, contribute to fighting climate change and create new business and employment opportunities. Meeting these targets should mobilise our collective attention. It will take strong leadership, commitment and an effective delivery mechanism to change attitudes and practices in the EU to deliver the results which are summarised in these targets.

These targets are representative, not exhaustive. They represent an overall view of where the Commission would like to see the EU on key parameters by 2020. They do not represent a "one size fits all" approach. Each Member State is different and the EU of 27 is more diverse than it was a decade ago. Despite disparities in levels of development and standards of living the Commission considers that the proposed targets are relevant to all Member States, old and newer alike. Investing in research and development as well as innovation, in education and in resource efficient technologies will benefit traditional sectors, rural areas as well as high skill, service economies. It will reinforce economic, social and territorial cohesion. To ensure that each Member States tailors the Europe 2020 strategy to its particular situation, the Commission proposes that these EU targets are translated into national targets and trajectories to reflect the current situation of each Member State and the level of ambition it is able to reach as part of a wider EU effort to meet these targets. In addition to the efforts of Member States the Commission will propose an ambitious range of actions at EU level designed to lift the EU onto a new, more sustainable growth path. This mix of EU and national efforts should be mutually reinforcing.

Smart growth – an economy based on knowledge and innovation

Smart growth means strengthening knowledge and innovation as drivers of our future growth. This requires improving the quality of our education, strengthening our research performance, promoting innovation and knowledge transfer throughout the Union, making full use of

2 The European Council of 10-11 December 2009 concluded that as part of a global and comprehensive agreement for the period beyond 2012, the EU reiterates its conditional offer to move to a 30% reduction by 2020 compared to 1990 levels, provided that

other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities.

3 The national poverty line is defined as 60% of the median disposable income in each Member State information and communication technologies and ensuring that innovative ideas can be turned into new products and services that create growth, quality jobs and help address European and global societal challenges. But, to succeed, this must be combined with entrepreneurship, finance, and a focus on user needs and market opportunities.

Europe must act:

– Innovation: R&D spending in Europe is below 2%, compared to 2.6% in the US and 3.4% in Japan, mainly as a result of lower levels of private investment. It is not only the absolute amounts spent on R&D that count – Europe needs to focus on the impact and composition of research spending and to improve the conditions for private sector R&D in the EU. Our smaller share of high-tech firms explains half of our gap with the US.

– Education, training and lifelong learning: A quarter of all pupils have poor reading competences, one in seven young people leave education and training too early. Around 50% reach medium qualifications level but this often fails to match labour market needs. Less than one person in three aged 25-34 has a university degree compared to 40% in the US and over 50% in Japan. According to the Shanghai index, only two European universities are in the world's top 20.

– Digital society: The global demand for information and communication technologies is a market worth € 2 000 billion, but only one quarter of this comes from European firms. Europe is also falling behind on high-speed internet, which affects its ability to innovate, including in rural areas, as well as on the on-line dissemination of knowledge and on-line distribution of goods and services.

Action under this priority will unleash Europe's innovative capabilities, improving educational outcomes and the quality and outputs of education institutions, and exploiting the economic and societal benefits of a digital society. These policies should be delivered at regional, national and EU level.

Flagship Initiative: "Innovation Union"

The aim of this is to re-focus R&D and innovation policy on the challenges facing our society, such as climate change, energy and resource efficiency, health and demographic change. Every link should be strengthened in the innovation chain, from 'blue sky' research to commercialisation.

At EU level, the Commission will work:

– To complete the European Research Area, to develop a strategic research agenda focused on challenges such as energy security, transport, climate change and resource efficiency, health and ageing, environmentally-friendly production methods and land management, and to enhance joint programming with Member States and regions;

– To improve framework conditions for business to innovate (i.e. create the single EU Patent and a specialised Patent Court, modernise the framework of copyright and trademarks, improve access of SMEs to Intellectual Property Protection, speed up setting of interoperable standards; improve access to capital and make full use of demand side policies, e.g. through public procurement and smart regulation);

– To launch 'European Innovation Partnerships' between the EU and national levels to speed up the development and deployment of the technologies needed to meet the challenges identified. The first will include: 'building the bio-economy by 2020', 'the key enabling technologies to shape Europe's industrial future' and 'technologies to allow older people to live independently and be active in society';

– To strengthen and further develop the role of EU instruments to support innovation (e.g. structural funds, rural development funds, R&D framework programme, CIP, SET plan), including through closer work with the EIB and streamline administrative procedures to facilitate access to funding, particularly for SMEs and to bring in innovative incentive mechanisms linked to the carbon market, namely for fast-movers;

– To promote knowledge partnerships and strengthen links between education, business, research and innovation, including through the EIT, and to promote entrepreneurship by supporting Young Innovative Companies.

At national level, Member States will need:

– To reform national (and regional) R&D and innovation systems to foster excellence and smart specialisation, reinforce cooperation between universities, research and business, implement joint programming and enhance cross-border co-operation in areas with EU value added and adjust national funding procedures accordingly, to ensure the diffusion of technology across the EU territory;

– To ensure a sufficient supply of science, maths and engineering graduates and to focus school curricula on creativity, innovation, and entrepreneurship;

– To prioritise knowledge expenditure, including by using tax incentives and other financial instruments to promote greater private R&D investments.

Flagship initiative: "Youth on the move"

The aim is to enhance the performance and international attractiveness of Europe's higher education institutions and raise the overall quality of all levels of education and training in the EU, combining both excellence and equity, by promoting student mobility and trainees' mobility, and improve the employment situation of young people.

At EU level, the Commission will work:

– To integrate and enhance the EU's mobility, university and researchers' programmes (such as Erasmus, Erasmus Mundus, Tempus and Marie Curie) and link them up with national programmes and resources;

– To step up the modernisation agenda of higher education (curricula, governance and financing) including by benchmarking university performance and educational outcomes in a global context;

– To explore ways of promoting entrepreneurship through mobility programmes for young professionals;

– To promote the recognition of non-formal and informal learning;

– To launch a Youth employment framework outlining policies aimed at reducing youth unemployment rates: this should promote, with Member States and social partners, young people's entry into the labour market through apprenticeships, stages or other work experience, including a scheme ("Your first EURES job") aimed at increasing job opportunities for young people by favouring mobility across the EU.

At national level, Member States will need:

– To ensure efficient investment in education and training systems at all levels (pre-school to tertiary);

– To improve educational outcomes, addressing each segment (pre-school, primary, secondary, vocational and tertiary) within an integrated approach, encompassing key competences and aiming at reducing early school leaving;

– To enhance the openness and relevance of education systems by building national qualification frameworks and better gearing learning outcomes towards labour market needs.

– To improve young people's entry into the labour market through integrated action covering i.a guidance, counselling and apprenticeships.

Flagship Initiative: "A Digital Agenda for Europe"

The aim is to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra fast internet and interoperable applications, with broadband access for all by 2013, access for all to much higher internet speeds (30 Mbps or above) by 2020, and 50% or more of European households subscribing to internet connections above 100 Mbps.

At EU level, the Commission will work:

– To provide a stable legal framework that stimulate investments in an open and competitive high speed internet infrastructure and in related services;

– To develop an efficient spectrum policy;

– To facilitate the use of the EU's structural funds in pursuit of this agenda;

– To create a true single market for online content and services (i.e. borderless and safe EU web services and digital content markets, with high levels of trust and confidence, a balanced regulatory framework with clear rights regimes, the fostering of multi-territorial licences, adequate protection and remuneration for rights holders and active support for the digitisation of Europe's rich cultural heritage, and to shape the global governance of the internet;

– To reform the research and innovation funds and increase support in the field of ICTs so as to reinforce Europe's technology strength in key strategic fields and create the conditions for high growth SMEs to lead emerging markets and to stimulate ICT innovation across all business sectors;

– To promote internet access and take-up by all European citizens, especially through actions in support of digital literacy and accessibility.

At national level, Member States will need:

– To draw up operational high speed internet strategies, and target public funding, including structural funds, on areas not fully served by private investments;

– To establish a legal framework for co-ordinating public works to reduce costs of network rollout;

– To promote deployment and usage of modern accessible online services (e.g. e-government, online health, smart home, digital skills, security).

Sustainable growth – promoting a more resource efficient, greener and more competitive economy

Sustainable growth means building a resource efficient, sustainable and competitive economy, exploiting Europe's leadership in the race to develop new processes and technologies, including green technologies, accelerating the roll out of smart grids using ICTs, exploiting EU-scale networks, and reinforcing the competitive advantages of our businesses, particularly in manufacturing and within our SMEs, as well through assisting consumers to value resource efficiency. Such an approach will help the EU to prosper in a low-carbon, resource constrained world while preventing environmental degradation, biodiversity loss and unsustainable use of resources. It will also underpin economic, social and territorial cohesion.

Europe must act:

– Competitiveness: The EU has prospered through trade, exporting round the world and importing inputs as well as finished goods. Faced with intense pressure on export markets and for a growing range of inputs we must improve our competitiveness vis-à-vis our main trading partners through higher productivity. We will need to address relative competitiveness inside the Euro area and in the wider EU. The EU was largely a first mover in green solutions, but its advantage is being challenged by key competitors, notably China and North America. The EU should maintain its lead in the market for green technologies as a means of ensuring resource efficiency through out the economy, while removing bottlenecks in key network infrastructures, thereby boosting our industrial competitiveness.

– Combating climate change: Achieving our climate goals means reducing emissions significantly more quickly in the next decade than in the last decade and exploiting fully the potential of new technologies such as carbon capture and sequestration possibilities. Improving resource efficiency would significantly help limit emissions, save money and boost economic growth. All sectors of the economy, not just emission-intensive, are concerned. We must also strengthen our economies' resilience to climate risks, and our capacity for disaster prevention and response.

– Clean and efficient energy: Meeting our energy goals could result in € 60 billion less in oil and gas imports by 2020. This is not only financial savings; this is essential for our energy security. Further progress with the integration of the European energy market can add an extra 0.6% to 0.8% GDP. Meeting the EU's objective of 20% of renewable sources of energy alone has the potential to create more than 600 000 jobs in the EU. Adding the 20% target on energy efficiency, it is well over 1 million new jobs that are at stake.

Action under this priority will require implementing our emission-reduction commitments in a way which maximises the benefits and minimises the costs, including through the spread of innovative technological solutions. Moreover, we should aim to decouple growth from energy use and become a more resource efficient economy, which will not only give Europe a competitive advantage, but also reduce its dependency of foreign sources for raw materials and commodities.

Flagship Initiative: "Resource efficient Europe"

The aim is to support the shift towards a resource efficient and low-carbon economy that is efficient in the way it uses all resources. The aim is to decouple our economic growth from resource and energy use, reduce CO2 emissions, enhance competitiveness and promote greater energy security.

At EU level, the Commission will work:

– To mobilise EU financial instruments (e.g. rural development, structural funds, R&D framework programme, TENs, EIB) as part of a consistent funding strategy, that pulls together EU and national public and private funding;

– To enhance a framework for the use of market-based instruments (e.g. emissions trading, revision of energy taxation, state-aid framework, encouraging wider use of green public procurement);

– To present proposals to modernise and decarbonise the transport sector thereby contributing to increased competitiveness. This can be done through a mix of measures e.g. infrastructure measures such as early deployment of grid infrastructures of electrical mobility, intelligent traffic management, better logistics, pursuing the reduction of CO2 emissions for road vehicles , for the aviation and maritime sectors including the launch of a major European "green" car initiative which will help to promote new technologies including electric and hybrid cars through a mix of research, setting of common standards and developing the necessary infrastructure support;

– To accelerate the implementation of strategic projects with high European added value to address critical bottlenecks, in particular cross border sections and inter modal nodes (cities, ports, logistic platforms);

– To complete the internal energy market and implement the strategic energy technologies (SET) plan, promoting renewable sources of energy in the single market would also be a priority;

– To present an initiative to upgrade Europe's networks, including Trans European Energy Networks, towards a European supergrid, "smart grids" and interconnections in particular of renewable energy sources to the grid (with support of structural funds and the EIB). This includes to promote infrastructure projects of major strategic importance to the EU in the Baltic, Balkan, Mediterranean and Eurasian regions;

– To adopt and implement a revised Energy Efficiency Action Plan and promote a substantial programme in resource efficiency (supporting SMEs as well as households) by making use of structural and other funds to leverage new financing through existing highly successful models of innovative investment schemes; this should promote changes in consumption and production patterns;

– To establish a vision of structural and technological changes required to move to a low carbon, resource efficient and climate resilient economy by 2050 which will allow the EU to achieve its emissions reduction and biodiversity targets; this includes disaster prevention and response, harnessing the contribution of cohesion, agricultural, rural development, and maritime policies to address climate change, in particular through adaptation measures based on more efficient use of resources, which will also contribute to improving global food security.

At national level, Member States will need:

– To phase out environmentally harmful subsidies, limiting exceptions to people with social needs;

– To deploy market-based instruments such as fiscal incentives and procurement to adapt production and consumption methods;

– To develop smart, upgraded and fully interconnected transport and energy infrastructures and make full use of ICT;

– To ensure a coordinated implementation of infrastructure projects, within the EU Core network, that critically contribute to the effectiveness of the overall EU transport system;

– To focus on the urban dimension of transport where much of the congestion and emissions are generated;

– To use regulation, building performance standards and market-based instruments such as taxation, subsidies and procurement to reduce energy and resource use and use structural funds to invest in energy efficiency in public buildings and in more efficient recycling;

– To incentivise energy saving instruments that could raise efficiency in energy-intensive sectors, such as based on the use of ICTs.

Flagship Initiative: "An industrial policy for the globalisation era"

Industry and especially SMEs have been hit hard by the economic crisis and all sectors are facing the challenges of globalisation and adjusting their production processes and products to a low-carbon economy. The impact of these challenges will differ from sector to sector, some sectors might have to "reinvent" themselves but for others these challenges will present new business opportunities. The Commission will work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations) and will draw up a framework for a modern industrial policy, to support entrepreneurship, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe's primary, manufacturing and service industries and help them seize the opportunities of globalisation and of the green economy. The framework will address all elements of the increasingly international value chain from access to raw materials to after-sales service.

At EU level, the Commission will work:

– To establish an industrial policy creating the best environment to maintain and develop a strong, competitive and diversified industrial base in Europe as well as supporting the transition of manufacturing sectors to greater energy and resource efficiency;

– To develop a horizontal approach to industrial policy combining different policy instruments (e.g. "smart" regulation, modernised public procurement, competition rules and standard setting);

– To improve the business environment, especially for SMEs, including through reducing the transaction costs of doing business in Europe, the promotion of clusters and improving affordable access to finance;

– To promote the restructuring of sectors in difficulty towards future oriented activities, including through quick redeployment of skills to emerging high growth sectors and markets and support from the EU's state aids regime and/or the Globalisation Adjustment Fund;

– To promote technologies and production methods that reduce natural resource use, and increase investment in the EU's existing natural assets;

– To promote the internationalisation of SMEs;

– To ensure that transport and logistics networks enable industry throughout the Union to have effective access to the Single Market and the international market beyond;

– To develop an effective space policy to provide the tools to address some of the key global challenges and in particular to deliver Galileo and GMES;

– To enhance the competitiveness of the European tourism sector;

– To review regulations to support the transition of service and manufacturing sectors to greater resource efficiency, including more effective recycling; to improve the way in which European standard setting works to leverage European and international standards for the long-term competitiveness of European industry. This will include promoting the commercialisation and take-up of key enabling technologies;

– To renew the EU strategy to promote Corporate Social Responsibility as a key element in ensuring long term employee and consumer trust.

At national level, Member States will need:

– To improve the business environment especially for innovative SMEs, including through public sector procurement to support innovation incentives;

– To improve the conditions for enforcing intellectual property;

– To reduce administrative burden on companies, and improve the quality of business legislation;

– To work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations) to identify bottlenecks and develop a shared analysis on how to maintain a strong industrial and knowledge base and put the EU in a position to lead global sustainable development.

Inclusive growth – a high-employment economy delivering economic, social and territorial cohesion Inclusive growth means empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society. It is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening territorial cohesion. It is about ensuring access and opportunities for all throughout the lifecycle. Europe needs to make full use of its labour potential to face the challenges of an ageing population and rising global competition. Policies to promote gender equality will be needed to increase labour force participation thus adding to growth and social cohesion.

Europe must act:

– Employment: Due to demographic change, our workforce is about to shrink. Only two-thirds of our working age population is currently employed, compared to over 70% in the US and Japan.

The employment rate of women and older workers are particularly low. Young people have been severely hit by the crisis, with an unemployment rate over 21%. There is a strong risk that people away or poorly attached to the world of work lose ground from the labour market.

– Skills: About 80 million people have low or basic skills, but lifelong learning benefits mostly the more educated. By 2020, 16 million more jobs will require high qualifications, while the demand for low skills will drop by 12 million jobs. Achieving longer working lives will also require the possibility to acquire and develop new skills throughout the lifetime.

– Fighting poverty: 80 million people were at risk of poverty prior to the crisis. 19 million of them are children. 8 per cent of people in work do not earn enough to make it above the poverty threshold. Unemployed people are particularly exposed.

Action under this priority will require modernising, strengthening our employment education and training policies and social protection systems by increasing labour participation and reducing structural unemployment, as well as raising corporate social responsibility among the business community. Access to childcare facilities and care for other dependents will be important in this respect. Implementing flexicurity principles and enabling people to acquire new skills to adapt to new conditions and potential career shifts will be key. A major effort will be needed to combat poverty and social exclusion and reduce health inequalities to ensure that everybody can benefit from growth. Equally important will be our ability to meet the challenge of promoting a healthy and active ageing population to allow for social cohesion and higher productivity.

Flagship Initiative: "An Agenda for new skills and jobs"

The aim is to create conditions for modernising labour markets with a view to raising employment levels and ensuring the sustainability of our social models. This means empowering people through the acquisition of new skills to enable our current and future workforce to adapt to new conditions and potential career shifts, reduce unemployment and raise labour productivity.

At EU level, the Commission will work:

– To define and implement the second phase of the flexicurity agenda, together with European social partners, to identify ways to better manage economic transitions and to fight unemployment and raise activity rates;

– To adapt the legislative framework, in line with 'smart' regulation principles, to evolving work patterns (e.g. working time, posting of workers) and new risks for health and safety at work;

– To facilitate and promote intra-EU labour mobility and better match labour supply with demand with appropriate financial support from the structural funds, notably the European Social Fund (ESF), and to promote a forward-looking and comprehensive labour migration policy which would respond in a flexible way to the priorities and needs of labour markets;

– To strengthen the capacity of social partners and make full use of the problem-solving potential of social dialogue at all levels (EU, national/regional, sectoral, company), and to promote strengthened cooperation between labour market institutions including the public employment services of the Member States;

– To give a strong impetus to the strategic framework for cooperation in education and training involving all stakeholders. This should notably result in the implementation of life-long learning principles (in cooperation with Member States, social partners, experts) including through flexible learning pathways between different education and training sectors and levels and by reinforcing the attractiveness of vocational education and training. Social partners at European level should be consulted in view of developing an initiative of their own in this area;

– To ensure that the competences required to engage in further learning and the labour market are acquired and recognised throughout general, vocational, higher and adult education and to develop a common language and operational tool for education/training and work: a European Skills, Competences and Occupations framework (ESCO).

At national level, Member States will need:

– To implement their national pathways for flexicurity, as agreed by the European Council, to reduce labour market segmentation and facilitate transitions as well as facilitatig the reconciliation of work and family life;

– To review and regularly monitor the efficiency of tax and benefit systems so to make work pay with a particular focus on the low skilled, whilst removing measures that discourage self-employment;

– To promote new forms of work-life balance and active ageing policies and to increase gender equality;

– Promote and monitor the effective implementation of social dialogue outcomes;

– To give a strong impetus to the implementation of the European Qualifications Framework, through the establishment of national qualification frameworks;

– To ensure that the competences required to engage in further learning and the labour market are acquired and recognised throughout general, vocational, higher and adult education, including non formal and informal learning;

– To develop partnerships between the worlds of education/training and work, in particular by involving social partners in the planning of education and training provision.

Flagship Initiative: "European Platform against Poverty"

The aim is to ensure economic, social and territorial cohesion, building on the current European year for combating poverty and social exclusion so as to raise awareness and recognise the fundamental rights of people experiencing poverty and social exclusion, enabling them to live in dignity and take an active part in society.

At EU level, the Commission will work:

– To transform the open method of coordination on social exclusion and social protection into a platform for cooperation, peer-review and exchange of good practice, and into an instrument to foster commitment by public and private players to reduce social exclusion, and take concrete action, including through targeted support from the structural funds, notably the ESF;

– To design and implement programmes to promote social innovation for the most vulnerable, in particular by providing innovative education, training, and employment opportunities for deprived communities, to fight discrimination (e.g. disabled), and to develop a new agenda for migrants' integration to enable them to take full advantage of their potential;

– To undertake an assessment of the adequacy and sustainability of social protection and pension systems, and identify ways to ensure better access to health care systems.

At national level, Member States will need:

– To promote shared collective and individual responsibility in combating poverty and social exclusion;

– To define and implement measures addressing the specific circumstances of groups at particular risk (such as one-parent families, elderly women, minorities, Roma, people with a disability and the homeless);

– To fully deploy their social security and pension systems to ensure adequate income support and access to health care.

3. MISSING LINKS AND BOTTLENECKS

All EU policies, instruments and legal acts, as well as financial instruments, should be mobilised to pursue the strategy's objectives. The Commission intends to enhance key policies and instruments such as the single market, the budget and the EU's external economic agenda to focus on delivering Europe 2020's objectives. Operational proposals to ensure their full contribution to the strategy are an integral part of the Europe 2020.

3.1. A single market for the 21st century

A stronger, deeper, extended single market is vital for growth and job creation. However, current trends show signs of integration fatigue and disenchantment regarding the single market. The crisis has added temptations of economic nationalism. The Commission's vigilance and a shared sense of responsibility among Member States have prevented a drift towards disintegration. But a new momentum – a genuine political commitment - is needed to re-launch the single market, through a quick adoption of the initiatives mentioned below. Such political commitment will require a combination of measures to fill the gaps in the single market.

Every day businesses and citizens are faced with the reality that bottlenecks to cross-border activity remain despite the legal existenceof the single market. They realise that networks are not sufficiently inter-connected and that the enforcement of single market rules remains uneven. Often, businesses and citizens still need to deal with 27 different legal systems for one and the same transaction. Whilst our companies are still confronted with the day-to-day reality of fragmentation and diverging rules, their competitors from China, the US or Japan can draw full strength from their large home markets.

The single market was conceived before the arrival of Internet, before information and communication technologies became the one of the main drivers of growth and before services became such a dominant part of the European economy. The emergence of new services (e.g. content and media, health, smart energy metering) shows huge potential, but Europe will only exploit this potential if it overcomes the fragmentation that currently blocks the flow of on-line content and access for consumers and companies.

To gear the single market to serve the Europe 2020 goals requires well functioning and well-connected markets where competition and consumer access stimulate growth and innovation. An open single market for services must be created on the basis of the Services Directive, whilst at the same time ensuring the quality of services provided to consumers. The full implementation of the Services Directive could increase trade in commercial services by 45% and Foreign Direct investment by 25%, bringing an increase of between 0.5% and 1.5% increase in GDP.

Access for SMEs to the single market must be improved. Entrepreneurship must be developed by concrete policy initiatives, including a simplification of company law (bankruptcy procedures, private company statute, etc.), and initiatives allowing entrepreneurs to restart after failed businesses. Citizens must be empowered to play a full part in the single market. This requires strengthening their ability and confidence to buy goods and services cross-border, in particular on-line.

Through the implementation of competition policy the Commission will ensure that the single market remains an open market, preserving equal opportunities for firms and combating national protectionism. But competition policy will do more to contribute to achieving the Europe 2020 goals. Competition policy ensures that markets provide the right environment for innovation, for example through ensuring that patents and property rights are not abused. Preventing market abuse and anticompetitive agreements between firms provides a reassurance to incentivise innovation. State aid policy can also actively and positively contribute to the Europe 2020 objectives by prompting and supporting initiatives for more innovative, efficient and greener technologies, while facilitating access to public support for investment, risk capital and funding for research and development.

The Commission will propose action to tackle bottlenecks in the single market by:

– Reinforcing structures to implement single market measures on time and correctly, including network regulation, the Services Directive and the financial markets legislative and supervision package, enforce them effectively and when problems arise, resolve them speedily;

– Pressing ahead with the Smart Regulation agenda, including considering the wider use of of regulations rather than directives, launching ex-post evaluation of existing legisation, pursuing market monitoring, reducing administrative burdens, removing tax obstacles, improving the business environment, particularly for SMEs, and supporting entrepreneurship;

– Adapting EU and national legislation to the digital era so as to promote the circulation of content with high level of trust for consumers and companies. This requires updating rules on liability, warranties, delivery and dispute resolution;

– Making it easier and less costly for businesses and consumers to conclude contracts with partners in other EU countries, notably by offering harmonised solutions for consumer contracts, EU model contract clauses and by making progress towards an optional European Contract Law;

– Making it easier and less costly for businesses and consumers to enforce contracts and to recognise court judgments and documents in other EU countries.

3.2. Investing in growth: cohesion policy, mobilising the EU budget and private finance

Economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and capacities are mobilised and focused on the pursuit of the strategy's priorities. Cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions.

The financial crisis has had a major impact on the capacity of European businesses and governments to finance investment and innovation projects. To accomplish its objectives for Europe 2020, a regulatory environment that renders financial markets both effective and secure is key. Europe must also do all it can to leverage its financial means, pursue new avenues in using a combination of private and public finance, and in creating innovative instruments to finance the needed investments, including public-private partnerships (PPPs). The European Investment Bank and the European Investment Fund can contribute to backing a "virtuous circle" where innovation and entrepreneurship can be funded profitably from early stage investments to listing on stock markets, in partnership with the many public initiatives and schemes already operating at national level.

The EU multi-annual financial framework will also need to reflect the long-term growth priorities. The Commission intends to take the priorities, once agreed, up in its proposals for the next multi-annual financial framework, due for next year. The discussion should not only be about levels of funding, but also about how different funding instruments such as structural funds, agricultural and rural development funds, the research framework programme, and the competitiveness and innovation framework programme (CIP) need to be devised to achieve the Europe 2020 goals so as to maximise impact, ensure efficiency and EU value added. It will be important to find ways of increasing the impact of the EU budget – while small it can have an important catalytic effect when carefully targetted.

The Commission will propose action to develop innovative financing solutions to support Europe 2020's objectives by:

– Fully exploiting possibilities to improve the effectiveness and efficiency of the existing EU budget through stronger prioritisation and better alignment of EU expenditure with the goals of the Europe 2020 to address the present fragmentation of EU funding instruments (e.g. R&D and innovation, key infrastructure investments in cross-border energy and transport networks, and low-carbon technology). The opportunity of the review of the Financial Regulation should also be fully exploited to develop the potential of innovative financial instruments, whilst ensuring sound financial management;

– Designing new financing instruments, in particular in co-operation with the EIB/EIF and the private sector, responding to hitherto unfulfilled needs by businesses. As part of the forthcoming research and innovation plan, the Commission will co-ordinate an initiative with the EIB/EIF to raise additional capital for funding innovative and growing businesses;

– Making an efficient European venture capital market a reality, thereby greatly facilitating direct business access to capital markets and exploring incentives for private sector funds that make financing available for start-up companies, and for innovative SMEs.

3.3. Deploying our external policy instruments

Global growth will open up new opportunities for Europe's exporters and competitive access to vital imports. All instruments of external economic policy need to be deployed to foster European growth through our participation in open and fair markets world wide. This applies to the external aspects of our various internal policies (e.g. energy, transport, agriculture, R&D) but this holds in particular for trade and international macroeconomic policy coordination. An open Europe, operating within a rules-based international framework, is the best route to exploit the benefits of globalisation that will boost growth and employment. At the same time, the EU must assert itself more effectively on the world stage, playing a leading role in shaping the future global economic order through the G20, and pursuing the European interest through the active deployment of all the tools at our disposal.

A part of the growth that Europe needs to generate over the next decade will need to come from the emerging economies as their middle classes develop and import goods and services in which the European Union has a comparative advantage. As the biggest trading bloc in the world, the EU prospers by being open to the world and paying close attention to what other developed or emerging economies are doing to anticipate or adapt to future trends.

Acting within the WTO and bilaterally in order to secure better market access for EU business, including SMEs, and a level playing field vis-à-vis our external competitors should be a key goal. Moreover, we should focus and streamline our regulatory dialogues, particularly in new areas such as climate and green growth, where possible expanding our global reach by promoting equivalence, mutual recognition and convergence on key regulatory issues, as well as the adoption of our rules and standards.

The Europe 2020 strategy is not only relevant inside the EU, it can also offer considerable potential to candidate countries and our neighbourhood and better help anchor their own reform efforts. Expanding the area where EU rules are applied, will create new opportunities for both the EU and its neighbours.

In addition, one of the critical objectives in the next few years will be to build strategic relationships with emerging economies to discuss issues of common concern, promote regulatory and other co-operation and resolve bilateral issues. The structures underpinning these relationships will need to be flexible and be politically rather than technically driven.

The Commission will draw up in 2010 a trade strategy for Europe 2020 which will include:

– An emphasis on concluding on-going multilateral and bilateral trade negotiations, in particular those with the strongest economic potential, as well as on better enforcement of existing agreements, focussing on non-tariff barriers to trade;

– Trade opening initiatives for sectors of the future, such as "green" products and technologies, high-tech products and services, and on international standardization in particular in growth areas;

– Proposals for high-level strategic dialogues with key partners, to discuss strategic issues ranging from market access, regulatory framework, global imbalances , energy and climate change, access to raw materials, to global poverty, education and development. It will also work to reinforce the Transatlantic Economic Council with the US the High Level Economic Dialogue with China and deepen its relationship with Japan and Russia;

– Starting in 2011 and then annually before the Spring European Council, a trade and investment barriers report identifying ways to improve market access and regulatory environment for EU companies.

The EU is a global player and takes its international responsibilities seriously. It has been developing a real partnership with developing countries to eradicate poverty, to promote growth and to fulfil the Millenium Development Goals (MDGs). We have a particularly close relationship with Africa and will need to invest further in the future in developing that close partnership. This will take place in the broader ongoing efforts to increase development aid, improve the efficiency of our aid programmes notably through the efficient division of labour with Member States and by better reflecting development aims in other policies of the European Union.

4. EXIT FROM THE CRISIS: FIRST STEPS TOWARDS 2020

Policy instruments were decisively, and massively, used to counteract the crisis. Fiscal policy had, where possible, an expansionary and counter-cyclical role; interest rates were lowered to historical minima while liquidity was provided to the financial sector in an unprecedented way. Governments gave massive support to banks, either through guarantees, recapitalization or through "cleaning" of balance sheets from impaired assets; other sectors of the economy were supported under the temporary, and exceptional, framework for State aid. All these actions were, and still are, justified. But they cannot stay there permanently. High levels of public debt cannot be sustained indefinitely. The pursuit of the Europe 2020 objectives must be based on a credible exit strategy as regards budgetary and monetary policy on the one hand, and the direct support given by governments to economic sectors, in particular the financial sector, on the other. The sequencing of these several exits is important. A reinforced coordination of economic policies, in particular within the euro area should ensure a successful global exit.

4.1. Defining a credible exit strategy

Given remaining uncertainties about the economic outlook and fragilities in the financial sector, support measures should only be withdrawn once the economic recovery can be regarded as self-sustaining and once financial stability has been restored4. The withdrawal of temporary crisis-related measures should be coordinated and take account of possible negative spill-over effects both across Member States as well as of interactions between different policy instruments. State aid disciplines should be restored, starting with the ending of the temporary state aid framework. Such a coordinated approach would need to rely on the following principles:

– The withdrawal of the fiscal stimulus should begin as soon as the recovery is on a firm footing. However, the timing may have to differ from country to country, hence the need for a high degree of coordination at European level;

– Short-term unemployment support should only start to be phased out once a turning point in GDP growth can be regarded as firmly established and thus employment, with its usual lag, will have started to grow;

– Sectoral support schemes should be phased out early as they carry a large budget costs, are considered to have by and large achieved their objectives, and due to their possible distorting effects on the single market;

– Access-to-finance support should continue until there are clear signs that financing conditions for business have broadly returned to normal;

– Withdrawal of support to the financial sector, starting with government guarantee schemes, will depend on the state of the economy overall and of the stability of the financial system in particular.

4.2. The reform of the financial system

A crucial priority in the short term will be to restore a solid, stable and healthy financial sector able to finance the real economy. It will require the full and timely implementation of the G20 commitments. Five objectives will in particular have to be met:

– Implementing the agreed reforms of the supervision of the financial sector;

– Filling the regulatory gaps, promoting transparency, stability and accountability notably as regards derivatives and market infrastructure;

– Completing the strengthening of our prudential, accounting and consumer protection rules in the form a single European rule-book covering all financial actors and markets in an appropriate way;

– Strengthening the governance of financial institutions, in order to address the weaknesses identified during the financial crisis in the area of risk identification and management;

– Setting in motion an ambitious policy that will allow us in the future to better prevent and if needed manage possible financial crises, and that – taking into account the specific responsibility of the financial sector in the current crisis – will look also into adequate contributions from the financial sector.

4 European Council conclusions of 10/11 December 2009.

4.3. Pursuing smart budgetary consolidation for long-term growth

Sound public finances are critical for restoring the conditions for sustainable growth and jobs so we need a comprehensive exit strategy. This will involve the progressive withdrawal of short-term crisis support and the introduction of medium- to longer-term reforms that promote the sustainability of public finances and enhance potential growth.

The Stability and Growth Pact provides the right framework to implement fiscal exit strategies and Member States are setting down such strategies in their stability and convergence programmes. For most countries, the onset of fiscal consolidation should normally occur in 2011. The process of bringing the deficits to below 3% of GDP should be completed, as a rule, by 2013. However, in a number of countries, the consolidation phase may have to begin earlier than 2011 implying that the withdrawal of temporary crisis support and fiscal consolidation may in these cases need to occur simultaneously.

To support the EU's economic growth potential and the sustainability of our social models, the consolidation of public finances in the context of the Stability and Growth Pact involves setting priorities and making hard choices: coordination at EU can help Member States in this task and help address spill-over effects. In addition, the composition and quality of government expenditure matters: budgetary consolidation programmes should prioritise 'growth-enhancing items' such as education and skills, R&D and innovation and investment in networks, e.g. high-speed internet, energy and transport interconnections – i.e. the key thematic areas of the Europe 2020 strategy.

The revenue side of the budget also matters and particular attention should also be given to the quality of the revenue/tax system. Where taxes may have to rise, this should, where possible, be done in conjunction with making the tax systems more "growth-friendly". For example, raising taxes on labour, as has occurred in the past at great costs to jobs, should be avoided. Rather Member States should seek to shift the tax burden from labour to energy and environmental taxes as part of a “greening” of taxation systems.

Fiscal consolidation and long-term financial sustainability will need to go hand in hand with important structural reforms, in particular of pension, health care, social protection and education systems. Public administration should use the situation as an opportunity to enhance efficiency and the quality of service. Public procurement policy must ensure the most efficient use of public funds and procurement markets must be kept open EU-wide.

4.4. Coordination within the Economic and Monetary Union

The common currency has acted as a valuable shield from exchange rate turbulences for those Member States whose currency is the euro. But the crisis has also revealed the extent of the interdependence between the economies within the euro area, namely in the financial domain, rendering spill-over effects more likely. Divergent growth patterns lead in some cases to the accumulation of unsustainable government debts which in turn puts strains on the single currency. The crisis has thus amplified some of the challenges faced by the euro area, e.g. the sustainability of public finances and potential growth, but also the destabilising role of imbalances and competitiveness divergences.

Overcoming these challenges in the euro area is of paramount importance, and urgent, in order to secure stability and sustained and employment creating growth. Addressing these challenges requires strengthened and closer policy co-ordination including:

– A framework for deeper and broader surveillance for euro area countries: in addition to strengthening fiscal discipline, macro-economic imbalances and competitiveness developments should be an integral part of economic surveillance, in particular with a view to facilitating a policy driven adjustment.

– A framework for addressing imminent threats for the financial stability of the euro area as a whole.

– Adequate external representation of the euro area in order to forcefully tackle global economic and financial challenges.

The Commission will make proposals to take these ideas forward.

5. DELIVERING RESULTS: STRONGER GOVERNANCE

To achieve transformational change, the Europe 2020 strategy will need more focus, clear goals and transparent benchmarks for assessing progress. This will require a strong governance framework that harnesses the instruments at its disposal to ensure timely and effective implementation.

5.1. Proposed architecture of Europe 2020

The strategy should be organised around a thematic approach and a more focused country surveillance. This builds on the strength of already existing coordination instruments. More specifically:

– A thematic approach would focus on the themes identified in Section 2, in particular the delivery of the 5 headline targets. The main instrument would be the Europe 2020 programme and its flagship initiatives, which require action at both EU and Member States level (see Section 2 and Annexes 1 and 2). The thematic approach reflects the EU dimension, shows clearly the interdependence of Member States economies, and allows greater selectivity on concrete initiatives which push the strategy forward and help achieve the EU and national headline targets.

– Country reporting would contribute to the achievement of Europe 2020 goals by helping Member States define and implement exit strategies, to restore macroeconomic stability, identify national bottlenecks and return their economies to sustainable growth and public finances. It would not only encompass fiscal policy, but also core macroeconomic issues related to growth and competitiveness (i.e. macro-imbalances). It would have to ensure an integrated approach to policy design and implementation, which is crucial to support the choices Member States will have to make, given the constraints on their public finances. A specific focus will be placed on the functioning of the euro area, and the interdependence between Member States.

To achieve this, the Europe 2020 and Stability and Growth Pact (SGP) reporting and evaluation will be done simultaneously to bring the means and the aims together, while keeping the instruments and procedures separate and maintaining the integrity of the SGP. This means proposing at the same time the annual stability or convergence programmes and streamlined reform programmes which each Member State will draw up to set out measures to report on progress towards their targets, as well as key structural reforms to address their bottlenecks to growth. Both these programmes, which should contain the necessary cross-references, should be submitted to the Commission and other

Member States during the last quarter of the year. The European Systemic Risk Board (ESRB) should report regularly on macro-financial risks: these reports will be an important contribution to the overall assessment. The Commission will assess these programmes and report on progress made with their implementation. Specific attention will be devoted to the challenges of the Economic and Monetary Union.

This would give the European Council all the information necessary to take decisions. Indeed, it would have an analysis of the economic and job situations, the overall budgetary picture, macro-financial conditions and progress on the thematic agendas per Member State, and would in addition review the overall state of the EU economy.

Integrated guidelines

The Europe 2020 strategy will be established institutionally in a small set of integrated 'Europe 2020' guidelines (integrating employment and broad economic policy guidelines), to replace the 24 existing guidelines. These new guidelines will reflect the decisions of the European Council and integrate agreed targets. Following the opinion of the European Parliament on the employment guidelines as foreseen by the Treaty, the guidelines should be politically endorsed by the June European Council before they are adopted by Council. Once adopted, they should remain largely stable until 2014 to ensure a focus on implementation.

Policy Recommendations

Policy recommendations will be addressed to Member States both in the context of the country reporting as well as under the thematic approach of Europe 2020. For country surveillance, they will take the form of Opinions on stability/convergence programmes under Council Regulation (EC) No 1466/97 accompanied by recommendations under the Broad Economic Policy Guidelines (BEPGs, Article 121.2). The thematic part would include Employment recommendations (Article 148) and country recommendations on other selected thematic issues (for instance on business environment, innovation, functioning of the single market, energy/climate change etc.), both of which could also be addressed to the extent that they have macroeconomic implications through the recommendations under the BEPGs as indicated above. This set-up for the recommendations would also help ensure coherence between the macro/fiscal framework and the thematic agendas.

The recommendations under the country surveillance would address issues with significant macroeconomic and public finance implications, whereas the recommendations under the thematic approach would provide detailed advice on micro-economic and employment challenges. These recommendations would be sufficiently precise and normally provide a time-frame within which the Member State concerned is expected to act (e.g. two years). The Member State would then set out what action it would take to implement the recommendation. If a Member State, after the time-frame has expired, has not adequately responded to a policy recommendation of the Council or develops policies going against the advice, the Commission could issue a policy warning (Article 121.4).

5.2. Who does what?

Working together towards these objectives is essential. In our interconnected economies, growth and employment will only return if all Member States move in this direction, taking account of their specific circumstances. We need greater ownership. The European Council should provide overall guidance for the strategy, on the basis of Commission proposals built on one core principle: a clear EU value added. In this respect, the role of the European Parliament is particularly important. The contribution of stakeholders at national and regional level and of the social partners needs also to be enhanced. An overview of the Europe 2020 policy cycle and timeline is included in Annex 3.

Full ownership by the European Council

Contrary to the present situation where the European Council is the last element in the decision-making process of the strategy, the European Council should steer the strategy as it is the body which ensures the integration of policies and manages the interdependence between Member States and the EU.

Whilst keeping a horizontal watching brief on the implementation of the Europe 2020 programme, the European Council could focus on specific themes (e.g. research and innovation, skills) at its future meetings, providing guidance and the necessary impulses.

Council of Ministers

The relevant council formations would work to implement the Europe 2020 programme and achieve the targets in the fields for which they are responsible. As part of the flagship initiatives, Member States will be invited to step up their exchange of policy information of good practices within the various Council formations.

European Commission

The European Commission will monitor annually the situation on the basis of a set of indicators showing overall progress towards the objective of smart, green and inclusive economy delivering high levels of employment, productivity and social cohesion.

It will issue a yearly report on the delivery of the Europe 2020 strategy focusing on progress towards meeting the agreed headline targets, and assess country reports and stability and convergence programmes. As part of this process, the Commission will present policy recommendations or warnings, make policy proposals to attain the objectives of the strategy and will present a specific assessment of progress achieved within the euro-area.

European Parliament

The European Parliament should play an important role in the strategy, not only in its capacity as co-legislator, but also as a driving force for mobilising citizens and their national parliaments. Parliament could, for instance, use the next meeting with national parliaments to discuss its contribution to Europe 2020 and jointly communicate views to the Spring European Council.

National, regional and local authorities

All national, regional and local authorities should implement the partnership, closely associating parliaments, as well as social partners and representatives of civil society, contributing to the elaboration of national reform programmes as well as to its implementation.

By establishing a permanent dialogue between various levels of government, the priorities of the Union are brought closer to citizens, strengthening the ownership needed to delivery the Europe 2020 strategy.

Stakeholders and civil society

Furthermore, the Economic and Social Committee as well as the Committee of Regions should also be more closely associated. Exchange of good practices, benchmarking and networking - as promoted by several Member States - has proven another useful tool to forge ownership and dynamism around the need for reform.

The success of the new strategy will therefore depend critically on the European Union's institutions, Member States and regions explaining clearly why reforms are necessary - and inevitable to maintain our quality of life and secure our social models -, where Europe and its Member States want to be by 2020, and what contribution they are looking for from citizens, businesses and their representative organisations. Recognising the need to take account of national circumstances and traditions, the Commission will propose a common communication tool box to this effect.

6. DECISIONS FOR THE EUROPEAN COUNCIL

The Commission proposes that the European Council, at its meeting in Spring 2010:

– agrees on the thematic priorities of the Europe 2020 strategy;

– sets the five headline targets as proposed in section 2 of this paper: on R&D investments, education, energy/climate change, employment rate, and reducing poverty, defining where Europe should be by 2020; invites the Member States in a dialogue with the European Commission to translate these EU targets into national targets for decisions at the June European Council, taking into account national circumstances and differing starting points;

– invites the Commission to come forward with proposals for the flagship initiatives, and requests the Council (and its formations) on this basis to take the necessary decisions to implement them;

– agrees to strengthen economic policy co-ordination to promote positive spill-over effects and help address the Union's challenges more effectively; to this end, it approves the combination of thematic and country assessments as proposed in this communication whilst strictly maintaining the integrity of the Pact; it will also give special attention to strengthening EMU;

– calls on all parties and stakeholders (e.g. national/regional parliaments, regional and/or local authorities, social partners and civil society, and last but not least the citizens of Europe) to help implement the strategy, working in partnership, by taking action in areas within their responsibility;

– requests the Commission to monitor progress and report annually to the Spring European Council, providing an overview of progress towards the targets, including international benchmarking, and the state of implementation of the flagship initiatives.

At its subsequent meetings:

– endorses the proposed integrated guidelines which constitutes its institutional underpinning following the opinion of the European Parliament;

– validates the national targets following a process of mutual verification to ensure consistency;

– discusses specific themes assessing where Europe stands and how progress can be accelerated. A first discussion on research and innovation could take place at its October meeting on the basis of a Commission contribution.

Джерело: *Повідомлення Комісії. Європа-2020. Стратегія для розумного, сталого та всеохоплюючого зростання// Європейська Комісія, Брюссель. – 03.03.2010. – COM(2010)2020-остаточна версія [Електронний ресурс]. – Режим доступу: old.minjust.gov.ua/file /31493.doc*

Textbook

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EUROPEAN ECONOMIC INTEGRATION

Tutorial

Submitted 30.10.19. Format 60×84 1/8. C.p.p. 15,7. R.p.p. 15,6.
Circulation 300 copies. Order № 190966

Editorial and publishing department of NULES of Ukraine.
Street Heroiv Oborony, 15, Kyiv, 03041
Tel. 527-81-55
Certificate of the subject of publishing house DK № 4097 dated 17.06.2011