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**Курсовая работа**

**по страноведению**

**The UK as a member of the EU**

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**Content**

Introduction

Chapter 1. History and reasons of the EU creation

* 1. A peaceful Europe (1945-1959)

1.1.1 The Robert Schuman declaration, 9 May 1950

1.2 Attempts of Britain

1.3 Government of M. Thatcher

1.4 The Treaty of Maastricht

1.5 Government of T. Blair

1.5.1 Social Chapter

1.5.2 The Treaty of Nice

1.5.3 Treaty of Accession

1.5.4 Under the Constitutional Treaty

Chapter 2. European economic integration

2.1 European Community Budget

2.1.1The budget as a source of problems among the EU partners

2.1.2 Budgetary revenues and expenditures

2.1.3 Reforms

2.2 Common Agricultural Policy

2.2.1 CAP objectives

2.2.2 CAP policies

2.2.3 UK policies

2.2.4 CAP inconsistencies

2.2.5 The 1992 and 1999 reforms

2.2.6 The 2003 reforms

**2.2.7 The 2007-08 CAP Heath check**

2.3 Economic and Monetary Union

2.3.1 European Monetary Union: reasons and history

2.3.2 Benefits and costs

2.3.3 The UK case

2.3.4 Summary and conclusions

Chapter 3. Politic integration the EU and the UK

3.1 Common foreign and security policy

3.1.1 Aims

3.1.2 The Main Players in CFSP

**3.1.3 Common Security & Defense Policy (CSDP)**

**3.1.4 Conclusion**

3.2 European constitution

3.2.1 The British Constitutional option: No constitution

3.2.2 Option 2: a none cosmetic revision

Conclusion

References

**Introduction**

The topic of my project is “The UK as a member of the EU”, which I have choose for my course paper. I consider this topic to be very actual and significant, because nowadays the European Union is the greatest political and economic centre of the world, an intergovernmental and supranational union of 27 democratic member states. The Union is constantly pretending to be the leader in world policy, but it has resistance on the part of several Member States. Traditionally Britain is one of them. Reason of such relations lies in a number of historical, cultural, political and economic factors. Relations with the EU for Britain are one of priority directions of policy, but at the same time the UK is craving for soverenity and independence and trying to keep influence on the political arena. That is why we can say “Britain is in the European Union, but not with it”.

The purpose of my project is to examine political and economic role of the UK in Europe.

I have established following problems for performance of the purpose of the project:

1. Reasons of creation the EU and prerequisites for Britain to enter the Union
2. History of relations
3. Political and economic role of the UK in Europe and main problems, connected with it

My work includes besides introduction, conclusion and 3 chapters.

Chapter 1 describes the history the EU creation, premises of British membership and problems connected with it.

Chapter 2 examines the role of GB in the European Economic Integration basically in main spheres such as Common Agricultural Policy (CAP), European Community Budget and Monetary system. Benefits and difficulties in each branch are scrutinized as well.

Chapter 3 considers political place of Britain in the Union, its influence on coming to conclusions and attitude of British government towards European Constitution.

**Chapter 1. History and reasons of creating the EU**

**1.1 A peaceful Europe (1945-1959)**

The historical roots of the European Union lie in the Second World War. Europeans are determined to prevent such killing and destruction ever happening again. Soon after the war, Europe is split into East and West as the 40-year-long Cold War begins. West European nations create the Council of Europe in 1949. It is a first step towards cooperation between them, but six countries want to go further.

economic government integration european

**1.1.1 The Robert Schuman declaration, 9 May 1950**

9 May 1950 – French Foreign Minister Robert Schuman presents a plan for deeper cooperation. Later, every 9 May is celebrated as “Europe Day”

18 April 1951

Based on the Schuman plan, six countries sign a treaty to run their heavy industries – coal and steel – under a common management. In this way, none can on its own make the weapons of war to turn against the other, as in the past. The six are Germany, France, Italy, the Netherlands, Belgium and Luxembourg. Building on the success of the Coal and Steel Treaty, the six countries expand cooperation to other economic sectors.

The 1957 Treaties of Rome established the European Community (EC) and the European

Atomic Energy Agency (Euratom). The EC set out

1. to create a common market encompassing the elimination of customs duties between Member States, free movement of goods, people, services and capital;
2. the removal of distortions in competition within this market;
3. To coordinate transport;
4. establish common agricultural and economic policies.

Euratom was set up to develop a common market in the peaceful uses of atomic energy. Under the Treaties of Rome, the Member States granted the European Commission a mandate to negotiate international trade agreements on their behalf.[5]

**1.2 Attempts of Britain**

Unlike other members, Britain had not suffered invasion in World War Two and unfortunately retained the illusion that it could play the role of a great power in its own right in partnership with the US, coincidentally up to the moment the EEC was born. The Britain's initially attempted to sponsor an alternative organization to the EEC with the creation of the European Free Trade Area in 1959 as a result of the Treaty of Stockholm. In numerical terms at least, the seven EFTA members (Austria, Britain, Denmark, Norway, Sweden, Portugal, Iceland), outnumbered the six EC member states (France, Germany, Italy, Belgium, the Netherlands); it was the EC countries that were the fast growing core of the European economy. This was clear in a memorandum sent by Prime Minister Harold Macmillian to his Foreign Secretary, Selwyn Lloyd, in 1959.

For the first time since the Napoleonic era the major continental powers are united in a positive economic grouping with considerable political aspects, which, although not specifically directed against the United Kingdom, may have the effect of excluding the UK both from European markets and from consultation in European policy [2,p.136-137]

These economic and political implications motivated the first application for membership lodged by the UK in 1961 under a Conservative government. But British opponents drew on two substantial political arguments against accession.

The first related to the United Kingdom’s world role. Opponents of EC entry felt the UK should align itself with the Commonwealth countries and the USA, linking those nations to the EC, rather than risk merging into a ‘European super-state’.

The second argument focused on ’sovereignty’. The principle of supremacy alarmed a small number of British politicians. The faction feared that some of Parliament’s powers would be irretrievably lost to Community institutions. Opponents of entry argued that such a transfer of political power was undesirable. But they also argued that it was constitutionally impossible for the UK to honor the obligations EC membership entailed, since it had always been assumed that Parliament was a sovereign law-market, unable to bind either itself or its successors as Costa would require. [3, p.39]

However, new states could be admitted only with the consent of all the existing members, and on both occasions the French government, headed by De Gaulle, vetoed British entry. In many ways, De Gaulle’s vision of Europe accorded with what in later years would be seen as a distinctly Thatcherite position. De Gaulle adopted a distinctly nationalist position, distrusted EC institutions such as the Commission, and wanted to see the member state holding the upper hand. However, where he differed from Thatcherite views on Europe was that De Gaulle wanted to maintain the Franco-German axis as a key relationship within the EC with France as a dominant partner. De Gaulle also saw Europe as a third force between the US and the Soviet Union, with France at the helm. His opposition to UK membership was based on the fear that the UK would be a Trojan horse for US influence and would lead to the creation of an Atlantic Community dependent on America. Despite other member states favoring UK membership, De Gaulle imposed a unilateral veto in January 1963 based on his concern about US influence and his anger at a US-UK deal on nuclear weapons made at Nassau in July 1962 under which the US agreed to supply Polaris missiles to the UK.

Harold Wilson’s Labour Government, elected in 1964, also pursued EC membership. Wilson sought to modernize the UK economy and to adapt to the ‘white heat’ of the technological revolution. However, the application lodged by Wilson’s Government was again rebuffed by De Gaulle who expressed himself unsure of Britain’s European vocation.

The political complexion of Europe changed in 1969 when De Gaulle was replaced by George Pompidou. Although a Gaullist, Pompidou was prepared to agree to British accession. The new Social Democrat West German Chancellor, Willy Brandt, also supported British membership. This combined with the election in Britain in 1970 of Edward Heath’s Conservative Government. Heath was a committed European who had made his maiden speech in the House of Commons in favor of ECSC membership. Negotiations began in June 1970 and in a 1971 White Paper outlined the implications of membership, which would include hefty budget contributions and an increased cost of living amounting to 3 % over six years, mainly linked to a 15 % increase in food prices because of the CAP.

The British negotiating team led by Geoffrey Rippon was not in a strong position. Some concessions were wrought on Commonwealth trade, but essentially, the British were forced to sign up to the 13,000 pages of EC law as it then stood (it has since risen to around 80,000 pages). Parliamentary approval was secured in October 1971 by 356 votes to 244, but only because 69 Labour MPs defied a three-line Whip to support membership. The Treaty of Accession was signed in Brussels on 22 January 1972 with Britain becoming a member of the EC on 1 January 1973. [2, p.142]

In the meantime the French Government succeeded in getting principles established for the CAP and for the financing of the Community (the own resources system) which were highly favorable to France and which Britain had to accept. In the entry negotiations the most that could be achieved was a seven year transitional period with gradually increasing financial contributions and an assurance that "if an unacceptable situation should arise, the Institutions would find equitable solutions".

When Mrs. Thatcher came to power in 1979, the 7 year transitional period was almost over and the British net contribution was indeed unacceptable. It took nearly five years and innumerable Council meetings to find the equitable solution. In most EU negotiations it is usually possible to find a solution which gives at least something to every one, even if some are not fully content. In the budget negotiation Britain was bound to be isolated because all other member states would either pay more or gain less from the budget if the British net contribution was reduced. It was a true zero sum game. After much aggravation, agreement was reached in 1984 and the British came within two thirds of a percentage point of their opening position. By now they understood better how the EC really worked and insisted that the solution should be enshrined in a revised "own resources" decision, thus ensuring that it can only be changed by ratification in all member states, (the provision originally secured by France to protect its own favorable budget position).

The European Parliament became directly elected. Steps were taken to establish policies for Research and for the Environment and for Regional Development, all favored by the British. The political cooperation (foreign policy cooperation) machinery was set up, Association Agreements were made with the African, Caribbean and Pacific countries (ACP) and some other important countries, the Common Fisheries Policy took (unsatisfactory) shape and, at the end of the 1970s, the European Monetary System (EMS) was created, with Britain not joining the Exchange Rate Mechanism (ERM) but having the right to join later. Progress with putting into effect the Single Market was very slow, except in the field of tariff reduction.

**1.3 Government of M. Thatcher**

Margaret Thatcher began her campaign for the completion of the Single Market in Copenhagen in 1982. It was finally rewarded with success in Luxemburg in 1986 with agreement on the Single European Act. The key elements to this important Act were:

* Increase the EEC to 12
* Develop the Exchange Rate Mechanism (ERM), Britain did not join this until 1990
* Increase the EEC’s control on environmental issues and other areas of national governments.
* Develop a free internal market for goods, labour and capital by 1992. This restricted the ability of individual member states to control these areas of activity.
* Increase the role of the European Parliament, thereby decreasing the role of individual national parliaments. However, UK citizens would elect MEP’s to sit in the European Parliament at Strasbourg.

The next six years were spent agreeing nearly 300 directives to create the Single Market with Jacques Delors and Arthur Cockfield (the British Commissioner) keeping Ministers hard at work. The consequences have been wholly beneficial economically, with the elimination of barriers to trade and the scrapping of restrictions on millions of firms. It has, however, had some negative side effects, as the regulations essential to create a real single market provided ammunition to those hostile to the EU, particularly in the UK.

One great internal development of the 1990s was the achievement of EMU. This had many things to be said for it. A single market without a single currency would always have been subject to attack. To be able to travel Europe-wide without changing your money is a huge advantage. But the move to EMU (European Monetary Unification) was more a political than an economic decision and the jury is still out on the question of whether all Eurozone countries will be able to live with its "one size fits all" single short-term interest rate. [2, p.156-164]

**1.4 The Treaty of Maastricht**

7 February 1992 the Treaty on European Union (TEU) is signed in Maastricht, entered into force on 1 November 1993.

The Maastricht Treaty based on three ‘pillars’:

1. pillar I – the EC;
2. pillar II – new intergovernmental arrangements for a CFSP;
3. Pillar III – increased co-operation on justice and home affairs.

The main provisions of the Treaty were:

* The principle of subsiduarity was embodied.

The Treaty also enshrined the principle of subsidiarity, under which action in areas where the EC and Member States share competence should be taken at European level only if objectives cannot be achieved by Member States acting alone, and can be better achieved by the EC.

* Concept of European citizenship introduced, allowing citizens in the EU to vote in European Parliament and local elections in whichever member state they live.

It introduced the concept of EU citizenship as a supplement to national citizenship.

* Institutional reform introduced – new powers to the European Parliament and extension of qualified voting majority in the Council of Ministers.
* A common foreign and security policy allowed for through intergovernmental cooperation
* Agreement on increased intergovernmental cooperation on issues such as immigration and asylum seekers.
* Move towards economic and monetary union.

The Maastricht Treaty was not welcomed among many Conservatives, even though bit was John Major who signed up to the Treaty. It had a long and difficult passage through Parliament. One major complaint was it increased the path towards federalism. Eurosceptics attacked this claiming it was the slide towards a European superstate with a huge centralized bureaucracy. However, supporters of Maastricht and federalism interpret as a means of decentralizing power, not centralizing it. Another controversial issue was monetary union. Maastricht laid down the disappearance of national currencies and the introduction of a single European currency, and the establishment of central European bank. This would have powers to set interest rates for the whole EU.The other contentious area of Maastricht was the Social Chapter. The aim was to harmonize laws across the EU on social issues such as workers rights e.g. a minimum wage; this was designed to prevent unfair competition through exploitation of workers. In order to stave off defeat at home, and keep the Conservative Party on board, John Major negotiated an opt-out of the Social Chapter claiming it would increase the costs to business.[5]

**1.5 Government of T. Blair**

**1.5.1 Social Chapter**

In 1997 Labour party, headed by T. Blair, was elected. The Blair government immediately demonstrated its pro-EU credentials by incorporating the Social Charter into UK law. It stood back, however, from participating in the launch of the single European currency in 1999. The government’s official position on this issue was that it supported the single currency in principal, but would not join until economic conditions were appropriate. The government also promised that the UK would not to join until the electorate had voted to do so in a referendum. [3, p.24]

A new government found itself plunged immediately into a new round of treaty amendment negotiations. The proposals aired in the Amsterdam Treaty were relatively modest in effect. The Amsterdam Treaty was signed in 1997 and the UK agreed with following issues:

* On human rights, discrimination on the grounds of gender, race, religion, sexuality and age was outlawed.
* Free movement of people was guaranteed (although UK and Eire allowed keeping their border controls).
* Law on divorce, immigration, visas and asylum were to be common throughout the EU.
* Europol – an intelligence-gathering agency – to begin operations.
* Budgetary deficits to be regulated once the single currency introduced.
* Coordination of employment strategy between member states.
* Social Chapter to be incorporated into the Treaty following UKs signing up to the Social Chapter in 1997.
* High ranking civil servants to coordinate common foreign and security policy.
* More powers for the European Parliament.

The UK could not agree on the following:

* No progress on reforming the EU institutions.

**1.5.2 The Treaty of Nice**

The Treaty of Nice was signed in 2001 and entered into force in 2003. It introduced changes to the EU institutional machinery in preparation for enlargement. From 1 January 2005, the number of votes allocated to each Member State in the European Council changes to take account of prospective new members. The total rises from the 87 votes held by the 15 Member States until June 2004 to up to 345 votes held by a potential 27 Member States. France, Germany, Italy and the United Kingdom will each have 29 votes. Assuming 27 Member States, the total required for a qualified majority will increase from 62 to 255, and for a blocking minority from 26 to 91. From 2005, the European Commission will comprise one member from each country, although when the EU reaches 27 members, the number of commissioners will be capped at a figure less than the total number of Member States. However, provisions in the Constitutional Treaty, if adopted, will supersede some of the Treaty of Nice provisions.

**1.5.3 Treaty of Accession**

The Treaty of Accession, signed by 25 heads of state in Athens in April 2003, provided for the accession to the EU of ten members on 1 May 2004. Under the Treaty, nationals of the ten new Member States have the right to move freely within the EU from that date for all purposes except for work. The Treaty allows for the imposition of transitional work restrictions on nationals of the new Member States, except Cyprus and Malta, until 30 April 2011. United Kingdom has waived its right to impose these transitional work restrictions, subject to certain safeguards.

In June 2003, the Convention’s findings were presented in the form of a draft Constitutional Treaty at the Thessaloniki European Council. 29 October 2004 the 25 EU countries sign a Treaty establishing a European Constitution.

**1.5.4 under the Constitutional Treaty:**

Member States will confer competences on the EU;

* national parliaments will have a role in monitoring and enforcing subsidiarity;
* a full-time president of the European Council will work alongside the existing presidents of the European Commission and the European Parliament;
* an EU foreign minister will bring together the roles of external relations commissioner and council high representative;
* a legally binding charter of rights will be introduced;
* the EU will become a single legal ‘personality’ (until the Treaty is ratified by all Members the EC and the EU have separate legal personalities);
* there will be greater co-operation on social security, justice and home affairs;
* A simpler voting system will be introduced where decisions would pass if supported by at least 55 per cent of Member States, representing at least 65 per cent of the EU.

When citizens in both France and the Netherlands voted 'No' to the Constitution in referendums in 2005, EU leaders declared a "period of reflection".

13 December 2007 the 27 EU countries sign the Treaty of Lisbon, which amends the previous Treaties. It is designed to make the EU more democratic, efficient and transparent, and thereby able to tackle global challenges such as climate change, security and sustainable development. Before the Treaty can come into force, it has to be ratified by each of the 27 Member States. [5]

**Chapter 2. European economic integration**

**2.1 European Community Budget**

**2.1.1 The budget as a source of problems among the EU partners**

The general budget of the European Community is an account of revenues from specific resources and expenditures for specific purposes, required by law to be in expostbalance. It remains insignificant in size (about 1 per cent of the EU GDP, while members' budgets average up to 40 per cent of their GDP). The narrowness of its structure affects both the contributions to it and the payments from it, 'the budgetary incidence', which is different for each member state. Therefore, unintentionally the budget functions as an instrument of inter-country redistribution, which in the 1970s propelled the Community into an acrimonious crisis that threatened to undermine the very process of European integration. The cause of this crisis was the members' net contribution to the EU budget, the difference between what they paid in and what they received from the budget. Germany and, after its accession to the EU, the UK were the only two member states that paid more into the budget than they got out of it. However, while at this time Germany's relative prosperity (measured by real GDP per head) was well above the EU average, the UK's was below the EU average. This problem was caused by two aspects of the budgetary process originating in the revenue and the expenditure sides of the EU budget. [11, p.52]

**2.1.2 Budgetary revenues and expenditures**

At the beginning of the 1980s, when the crisis reached its peak, the EU budget was financed by its 'own resources' which were made up of:

* customs duties, agricultural levies, and sugar levies on imports from non-EU countries;
* The members' contribution based on value added tax (VAT). At that time, a significant proportion of UK imports were coming from outside the EU, while as an indirect tax the VAT is regressive and does not reflect ability to pay. As a result, the UK was a major contributor to 'own resources' because of its dependence on non-EU imports and its VAT payment, both of which overcharged it relative to its prosperity.

Budgetary expenditure on Community policies was dominated by a few items which caused different distributional effects among the partners:

* Expenditure on the CAP which until the mid-1980s accounted for more than two-thirds of the total and went mostly to member states with relatively large surplus-producing agricultural sectors, such as Denmark. Germany and the UK, with relatively small agricultural sectors, were net importers of agricultural products and therefore low recipients of CAP spending.
* The 'structural funds' for regional development and social policy which accounted for less than 20 per cent of the total. The UK benefited from the regional fund but, set alongside the CAP spending, the sums received were insignificant. [8, p.12]

**2.1.3 Reforms**

The commitment to complete the Single Market programme by 1992 and to move towards EMU finally compelled the Community to implement the long overdue radical overhaul of Community finances. In addition to the 'traditional own resources' of agricultural levies (now replaced by tariffs), sugar levies, and customs duties and the 'third' resource based on VAT, a new topping-up 'fourth' resource was added based on members' GNP and thus reflecting each country's relative prosperity. The Community decided also to restructure the expenditure side of the budget by:

* increasing real expenditure by about 22 per cent to help promote economic and social cohesion between the EU member states and regions for accelerated progress towards EMU;
* Increasing the structural funds' allocation in real terms by 40 per cent and to agriculture by 9 per cent.

These developments changed the structure and the size of the general budget.

Although these innovations were generally on target, the remodeled budget continued to create unfair inequalities in 'net positions' between countries. Therefore, the Commission had to admit that 'the budgetary imbalance of the UK is no longer unique' but extended to Germany, the Netherlands, Sweden, and Austria, which went through budget deficits with the EU larger than the UK (as a percentage of GNP), and naturally wanted similar rebates.

In 1999 the European Council decided instead to:

* reduce the shares of these four countries in the financing of the UK correction to 25 per cent of its normal value;
* neutralize any windfall gains to the UK, caused by enlargement or other future events;
* cut the maximum call-in rate for the VAT resource so that the more equitable

Fourth resource, a proportion of GNP, makes the largest contribution to the budget. [11, p.53-55]

**2.2 Common Agricultural Policy**

The Common Agricultural Policy (CAP) is a system of European Union agricultural subsidies and programmes. It was proposed in 1960 by the European Commission. It followed the signing of the Treaty of Rome in 1957, which established the Common Market. [7, p.5]

**2.2.1 CAP objectives**

The initial objectives were set out in Article 39 of the Treaty of Rome:

* to increase productivity, by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour;
* to ensure a fair standard of living for the agricultural Community;
* to stabilize markets;
* to secure availability of supplies;
* to provide consumers with food at reasonable prices.

From the beginning of European integration, farmer’s income was the issue that dominated the debate on agricultural policy. Nevertheless, all CAP objectives have largely been achieved, but at a high cost. [11, p.46]

The latter function was assigned to a specially established fund financed from the EU budget, the European Agricultural Guidance and Guarantee Fund (EAGGF).

**2.2.2 CAP policies**

The CAP has used an assortment of instruments to achieve its objectives, the most important of which was price-fixing (in a common currency, such as the ecu and nowadays the euro, €) at levels well above the world market prices. Producer’ increased incomes fall short of the coat of the policy incurred by the consumers of the commodity, who paid high prices, and the taxpayers, who finance the EU budget. A direct income subsidy to producers would have achieved the same increase in their incomes at a lower cost.

**2.2.3 UK policies**

Inevitably, the CAP set up a system of winners and losers among produsers, consumers, and taxpayer and, depending on the relative national production and consumption of agricultural products, between the EU states. The UK, which is a net importer agricultural commodities, had before joining the EU set up policies on imports, mostly from Commonwealth countries, at prices determined competitively by international trade, and supported its farmers by production subsidies, called *deficiency payments,* financed largely by taxpayers. Since UK producer support prices before joining the EU were about 50 per cent lower than CAP prices, the price increases affected both UK consumers and producers, but differently. The accession stage of UK membership lasted five years and the actual pattern of adjustment was different for each comrnodity.

As a result, during the period 1972-86 the total volume of UK agricultural output grew by more than 20 per cent, while the share of food and agricultural imports in the real value of UK imports jumped from 40 to 60 per cent, with adverse welfare and balance of payments effects arising from 'trade diversion', the switch from low- to high-cost suppliers. Not surprisingly, the CAP is regarded by UK consumers and taxpayers as a device by which the EU generously subsidizes inefficient (French and Italian) farmers from the EU budget—to which they complained that they made excessive contributions.

**2.2.4 CAP inconsistencies**

However, the good times for the farmers did not last long. The entry of the UK into the EU coincided with the rise in the price of oil, which caused a long period of inflation and unemployment. From the mid-1970s, despite increases in the volume of output, farm incomes fell as CAP support prices failed to keep pace with inflation in input prices, such as increases in the real cost of labour, interest payments, and rents. Inevitably, these effects changed the structure of UK agriculture; for example, in the first ten years reducing the dairy farms by 50 per cent, the cereal farms by 30 per cent, and the employment of farm labour by 25 per cent. At the same time, increasing EU budgetary expenditure, mounting surpluses of agricultural output, and international pressures by agricultural exporting countries induced several attempts at reforms. Those inspired by mainly budgetary constraints, such as 'milk quotas' and 'co-responsibility levies', were supply controls based on previous volumes of production and attempted to alleviate the budget crises by penalizing excess production without correcting price distortions which continued to inflict high welfare losses. [11, p.47-50]

**2.2.5 The 1992 and 1999 reforms**

In 1992, the MacSharry reforms (named after the European Commissioner for Agriculture, Ray MacSharry) was the first significant reform of the CAP. Support prices were reduced and compensatory “direct payments” were introduced. These compensatory payments are still being made today – around €18 billion a year of direct payments date back to this first reforms.3 similar reforms occurred in 1999, but the next major step was taken in 2003 when the link between direct payments and production was broken. This reduced the negative economic impact of the payments, and made receipt dependent on meeting minimum standards of good agricultural and environmental condition. [1, p.19]

Although with these reforms the EU took a big step towards market liberalization, the process of change was slow, and this triggered the need for further reforms. The new agreement for CAP reform was signed in 1999.

The new reforms extended the direct farm payments and the cuts in support prices by as much as 50 per cent. They also attempted, but without success, to ease the 'budgetary imbalance' of the big contributors to the EU budget—Germany, the Netherlands, Austria, Sweden, and the UK—by a partial 'renationalization' of farm spending which would have cut CAP's income support from 100 to 75 per cent, the members paying the balance to their own producers. [11, p.51-52]

**2.2.6 The 2003 reforms**

The next major step was taken in 2003 when the reforms aimed to ‘decouple’ direct payments from the production activity. This reduced the ‘production for subsidy’ link of the payments, and made receipt dependent on meeting minimum standards of good agricultural and environmental condition—the so-called ‘cross-compliance’ conditions. The centerpiece of the 2003 reforms was the ‘Single Payments Scheme’ (SPS), aimed at simplifying all the disparate product-specific area and headage payments into one single payment per farm. [13, p.7]

The basic elements of the new CAP:

* The CAP consists of a 'single farm payment', independent of production.
* The full granting of the single farm payment and other direct payments are linked to a number of statutory environmental, food safety, animal and plant health, and animal welfare standards ('cross-compliance') which will also contribute to the maintenance of rural landscapes.
* There are revisions to the CAP policy by price cuts for most of the products of key sectors traditionally supported (such as cereals and dairy products).
* Direct payment for bigger farms is cut ('digression') to generate additional finance for the new rural development policy.
* A mechanism for financial discipline will be introduced to ensure that the farm budget remains fixed until 2013.
* Countries, such as the UK, that wish to apply further radical reforms are allowed to do so.

The reforms entered into force in 2004-2005. [11, p.52]

**2.2.7 The 2007-08 CAP Heath check**

In May 2008 the European Commission produced a substantial set of proposals for change to the CAP. These proposals, which required three separate legislative measures in order to implement and was at least partly opposed by some Member States, reflect the outcome of consultation and the fast-changing global food market in which prices have been rising sharply.

Rising economic prosperity in India and China and a growing world population have contributed to a global shortage of food, notably cereals and rice. Between September 2006 and February 2008, for example, the prices of wheat rose 96 per cent and dairy products by 30 per cent. The first part of the EU’s May 2008 package dealt with immediate measures to tackle the shortage of supply (and the concomitant rise in food prices). These included lifting all tariffs on imported cereals, abandoning set aside for arable crops and the scrapping of milk quotas by 2015.

Rising food prices are an opportunity to move away from producer support to a more market orientated system as higher prices make subsidies unnecessary in many sectors. A strengthening of competition through the scrapping of things like milk quotas, the simplification of administration to reduce the bureaucratic burden on farmers and allowing Member States more flexibility in implementation would all help to reduce the regulatory impact of the CAP.

If adopted, further changes will mean a reduction in the number of very small farmers who receive subsidies; at present there are a large number who have less than a hectare of land and who receive a few hundred Euros each year in payments that cost more to administer than they are worth.

**2.3 Economic and Monetary Union**

**2.3.1 European Monetary Union: reasons and history**

For establishing an integrated competitive market which by common prices would lead to the optimal allocation of resources, increase welfare, and promote economic growth, the EU has adopted four fundamental principles:

* Free trade in goods
* Free trade in services
* Free mobility of capital
* Free mobility of labor

However, the existence of separate national currencies, which are subject to erratic exchange rate swings, causes unpredictable fluctuation in inter-country prices, which disturb the volume and direction of trade and therefore the process of market integration. It is also possible that recurrent currency misalignment could promote protectionist sentiments and undermine the single market. Therefore, from early European Monetary Union (EMU) was set as an objective component of European integration, necessary for establishing and maintaining monetary stability. Its realization became more urgent after completion of the Single Market, which made monetary integration necessary for setting up an environment of stabilizing competitiveness leading to attainment of its potential benefits. [12]

The Maastricht Treaty provided for the establishment of a European economic and monetary union in stages, culminating in the establishment on 1 January 1999 of a single currency, the euro, by the participating EU Member States. Thus on 1 March 2002, for twelve of fifteen countries the objective of monetary integration was realized by establishing a new currency, the euro (€), run by a new EU monetary authority, the ‘Euro system’, made up of the European Central Bank (ECB) and the European System of Central Banks (ESCB)of the member states. The main task of the Euro system is to ensure price stability as the means for minimizing distortions in the allocation of resources and fostering economic growth.

**2.3.2 Benefits and costs**

The economic reasons for monetary integration concern the benefits and costs of a single currency in an integrated market. The benefits are positively associated with the openness of a country and its volume of international trade and include:

* price transparency across borders, increasing the volume of trade, and enhancing competition and market integration;
* the efficiency of a single money as a unit of account and store of value;
* standardization and lowering of interest rates, including within a stable market;
* Increased policy credibility from elimination of devaluations.

But a single currency involves risk, which are negatively associated with the openness of a country to international trade. The members of a monetary union give up:

* the right to use their own monetary policy and the option to adjust their exchange rate (by devaluation/ revaluation) to counteract asymmetric shock by changes in relative prices;
* to use of seigniorage as a source of budgetary revenue;
* the independence of other national policies (e.g. budgetary policy), which are constrained by the common monetary policy.

But three EU Member States are outside the euro area. These are Denmark, Sweden and the United Kingdom. [11, p.55-56]

**2.3.3. The UK case**

The UK Government has set out five ‘economic’ tests, which must be met before any decision to join can be made. The five tests are:

* whether can be sustainable convergence between Britain and EMU economies;
* whether there is sufficient flexibility to cope with economic change;
* the effect on investment;
* the impact on the UK financial services industry;
* Whether it is good for employment. [14, p.343]

The results of these tests were announced on the 9th of June in 2003. Although four of five economic tests for adopting the euro as a national currency had not been met, there were obvious economic benefits to joining. In other words, Britain will inevitably join the euro but later. The details of the assessment are presented in the following:

1. *The test of convergence with the euro zone had failed outright.*

Although the UK business cycle converge more than several euro zone countries, and inflation, long-term interest rates, government deficit, and debt have all moved closer to that of the euro zone, the test has failed because there was not enough evidence to show that this convergence is sustainable. This is mainly because of some significant differences in the structure of the two economies, more especially in the UK’s housing market. The high level of UK mortgage debt and the dominance of variable rate mortgages make the UK particularly sensitive to changes in interest rate. The link between house prices and consumer spending is more pronounced in Britain than in the euro zone. Demand for housing is much higher than supply, partly because of the rigidity of planning regulations. Therefore, a common European interest rate could lead to instability in the UK housing market. There are also differences, described as medium-risk, in the UK’s pattern of financial market and investment linkages.

Another reason is high trade interdependence. The euro zone is Britain’s biggest market, and the surest and fastest way to speed the process of convergence is for the UK to join the EMU. In 2002, the fourteen members of the EU accounted for 52.5 per cent of British trade in goods. That is why EU enlargement and membership of the euro could lead to an increase in Britain’s trade with the euro zone by between 5 and 50 per cent over next thirty years with no trade diversion from trading partners in other parts of the world.

1. *The test on labour flexibility also failed.*

Britain's labour market has become more flexible since 1997 and already is the most flexible in Europe. But the euro zone economies are experiencing a lower growth rate than the UK. EU monetary policy would be inappropriate for the UK. The lack of a strong EU central budget mobilizing fiscal transfers, and the limited intra-EU labour mobility, imply that more reforms are necessary to make the British labour market more flexible, e.g. by regional wage settlements and a restructuring of housing benefits to remove the disincentive to move. The UK government would also like to see more flexibility on the EU side, e.g. in the stability and growth pact (SGP), to give member states more leeway to offset asymmetric swings in their economies.

1. *The test on inward investment has failed.*

The third test is concerned with the prospective effects of a decision to join on the amount of investments. On the one hand, higher investment is supposed to be a reward for joining the euro. Exchange rate risk wills no longer trouble businesses. “More trade and greater price transparency should mean more competition and thus higher productivity growth.” On the other hand, staying out means less investment. As a matter of fact, the share of foreign direct investment dramatically fell in the last year. However, a closer study found that this test should not be marked as passed since the full convergence was not met.

1. *The only test to have been passed so far is the impact on financial services.*

The City has continued to attract business since the launch of the euro four years ago. This proves that the City will remain a powerful financial centre whether inside or outside EMU. Nevertheless, joining the single currency might strengthen London's position as a financial centre because it would remove any unease about locating operations outside the euro zone. It may also improve the UK's ability to compete for business generated by EU enlargement and the continued development of euro financial markets. In retail financial services the benefits would include lower costs on euro-area transactions, better allocation of investment portfolios, and scale economies for investment funds. Joining the euro could encourage cross-border mergers and acquisitions involving UK companies, induce euro-area banks to locate to London, and strengthen the pre-eminence of the City.

1. *Impact on jobs, stability, and growth failed—until convergence and flexibility criteria were satisfied.*

Joining the euro could boost trade and thus national income, although the estimates are highly uncertain. But any gains could be outweighed by the costs of greater economic instability and higher unemployment in the EMU that can only be avoided by sustainable convergence between Britain and the euro zone and more flexibility. Interest rates are not likely to be significantly lower inside the euro than outside, and frequently they may not meet the needs of the British economy. [11, p.60-66]

**2.3.4 Summary and conclusions**

Joining the euro is not a policy but a strategy. It is not simply business as usual but with a different name for the currency. Many things will change as a result. It’s not a short-term fix but a medium-term programme to deliver long-term benefits.

**Chapter 3. Politic integration the EU and the UK**

* 1. Common foreign and security policy
     1. **Aims**

The Common Foreign and Security Policy (CFSP) is a common, rather than a single, foreign and security policy i.e. Member states act collectively in those areas where they all agree. The CFSP aims:

* to safeguard the common values, fundamental interests, independence and integrity of the Union in conformity with the principles of the United Nations Charter;
* to strengthen the security of the Union in all ways;
* to preserve peace and strengthen international security, in accordance with the principles of the United Nations Charter, as well as the principles of the Helsinki Final Act and the objectives of the Paris Charter, including those on external borders;
* to promote international cooperation;
* to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms.

It came into being when the Treaty on the European Union (the Treaty of Maastricht) entered into force on 1 November 1993. [10, p.20]

**3.1.2 The Main Players in CFSP**

* The European Council (a meeting of EU Heads of State or Government) sets the CFSP agenda.
* The General Affairs and External Relations Council (GAERC), the monthly meeting of Member States’ Foreign Ministers, is the main decision-making body. Other formations of Member States’ Ministers can sign off the least contentious of decisions.
* The High Representative for CFSP (currently Javier Solana) assists the GAERC by preparing and implementing policy discussions.

The 1997 Amsterdam Treaty created a new post of High Representative for the CFSP who would also be the Secretary General of the Council. Under the Treaty his sole authority is limited to "assisting" the Council and the Member State holding the Presidency, which remained (and remains) responsible for the management of the CFSP. [5]

* The Political and Security Committee (Brussels-based meeting at ambassadorial level) deals with the day-to-day running of CFSP.

The Commission has no decision-making role within CFSP, but takes part in discussions.

* The European Parliament has no decision-making role within CFSP, but is kept informed. [6]

**3.1.3 Common Security & Defense Policy (CSDP)**

Part of the CFSP is the European Security and Defence Policy (ESDP). This gives the EU military and civilian tools to contribute to international security by setting up missions in conflict and post-conflict areas. [5]

The aim of the CSDP is to give to the EU a politico-military capability for purely European operations where the US and/or NATO do not want to be involved, for example, for peacekeeping and other military and security tasks, without undermining the importance of NATO as the provider of territorial defense for most Member States. [12]

The Maastricht Treaty brought defense policy into the EU for the first time. However the arrangements for giving it effect (through the Western European Union) came rapidly to be seen as ineffectual. Recognizing this and chastened by the weak European military showing in the Balkans, at a bilateral summit at St Malo in 1998, the United Kingdom and France went a stage further. Their joint initiative was adopted by the European Council in Cologne in 1999 as the new European Security and Defense Policy (since renamed). Details were fleshed out at the Helsinki European Council in December 1999 and have been developed continuously ever since. They included ambitious force goals (a corps level - up to 60,000 troops - deployment capability by 2003, now postponed to 2010) and new command, control and politico-military structures (Military Committee, Military Staff, political control by the Political and Security Committee, see above). They also included ambitious capabilities on the civilian (civ-mil) side to win the peace in addition to military capabilities to win the war. As with NATO, there is no standing army, only national units voluntarily assigned on each occasion for joint operations.

The CSDP is still work in progress. The Lisbon Treaty makes no fundamental changes to EDSP except to provide an obligation on Member States to come to one another’s defense in the unlikely event of armed aggression against one of them - but this is an obligation on Member States and not on the EU. The Treaty also renames the EDSP the Common Security & Defense Policy (CSDP) [5].

**3.1.4 Conclusion**

The UK fully supports an effective EU foreign policy and is committed to playing an active role in the formulation of CFSP. When EU Member States are able to speak with one voice on international affairs, they can achieve more and exercise greater influence than any single Member State could alone. [6]

**3.2 European constitution**

A process of constitutional and institutional reform of the European Union (EU) led to the signing of the Treaty Establishing a Constitution for Europe (here referred to as the EU Constitution) in October 2004. The Treaty was abandoned following negative referendums on ratification in France and the Netherlands in 2005. There was much speculation in the media about the reasons for the French and Dutch rejection of the Constitution. Among those cited were the prospect of Turkish entry, the Polish plumber, the lack of social Europe, etc. [9, p.5-12]

A ‘reflection period’ was introduced, which was brought to an end in early 2007 by the German Presidency of the EU. Germany re-opened the Treaty reform debate during the first half of 2007 and in March 2007 the “Berlin Declaration” confirmed the aim of achieving a “renewed common foundation” for the EU before European Parliament elections in 2009. In June 2007 the German Presidency set out a ‘road map’ for reform and the European Council adopted a Mandate in which it stated.

The Treaty of Lisbon was concluded in Lisbon on 18 October 2007 and signed on 13 December 2007. The content of the Treaty, though not its structure, is similar in a great many respects to the EU Constitution. It is the sixth major Treaty amendment to the 1957 Treaty of Rome. [4, p.7-8]

**3.2.1 The British Constitutional option: No constitution**

This is a real option. The UK has never had a Constitution, but become one of the worlds leading parliamentary democracies.

The question is not whether it is better or not to have a Constitution for Europe, the question is rather whether Europe can do without and still evolve in a desirable direction.

Arguments to support this view:

1. Many of the positive changes brought about by the Constitution could be implemented without the adoption of the current Constitution. A good example is that of the EU Foreign Minister. All it takes is the political will in the Council to implement this change. Of course, without a Constitution, this is not guaranteed. However, the Council should play a critical role both in the choice of the High Representative for Common Foreign and Security Policy and the EU Commissioner for External Affairs. It could thus nominate the same person for both jobs. Many other changes, apart from the voting rules in the Council and most legal changes can be implemented without the Constitution. [9, p.15-28]
2. The status quo is not as bad as many have stated. The most important difference implied by the rejection of the Constitution is that one maintains the Nice rules for qualified majority. It is generally agreed that these rules make it very difficult to adopt new legislation. However, it is not necessarily clear why this should be considered a bad thing. Most of the legislation related to economic and monetary integration has been passed (liberalization of services being a big exception). [3, p.39-40]

**3.2.2 Option 2: a none cosmetic revision**

This way implies a new Convention, a new Intergovernmental Conference and a new ratification process.

There are clear disadvantages to such an option.

1. It is not clear from the referendum results in France and the Netherlands in which direction to go.
2. A revision of the current draft might take a very long time. [15, p.24-27]

**Conclusion**

In my work I have examined such topic as “The UK as a member of the EU” and have come to the conclusion that the loss of status as world power and economic downturn, connected with it, made British politicians take choose between sovereignty and future flourishing, connected with the EU membership. In 1964 Britain applied for the Union, but its application was rebuffed, and only in 1973 the UK could enter the EU.

United Europe and Britain have relations in many spheres. For example in economy, it is Common Agricultural Policy and European Monetary Union, in policy – Common foreign and security policy and European Constitution. But the greatest problems in relations between the UK and the EC are joining the Euro and Constitution, because British government considers that these two points threat soverenity and independence of the UK.

That is why I think that in future we will not see any revolution changes in relations between the UK and the EU although it is difficult for the EU to find proper strategy to be united, and it has become a reason for the Union to find a new way of development. But in spite of it I consider GB is considered to have essential role as strategic partner for united Europe and the UK will be one of the most powerful states in the EU as well as in the world.

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