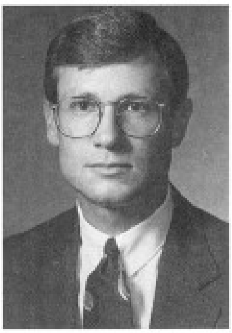
EMU: The Pending European Monetary Union

How Fluctuating Currency Exchange Rates Can Affect You

While U.S. suppliers have been discussing the impact of IEPO's (English translation: European Specialty Advertising Institute) first FIPO Show (English translation: International Specialty Advertising Festival) on promotional products trade between Europe and North America, another issue with more far-reaching implications has gone largely unnoticed – the pending European Monetary Union (EMU).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The scheduled 1999 introduction of the new European Community (EC) currency, the "euro," has already affected exchange rates, and could potentially shift corporate strategies within the global promotional products market. Two recent events illustrate the volatility of the situation: Germany's attempted revaluation of its gold reserves and the recent French elections.

Germany, with its historically strong deutsche mark, has been insisting on strict compliance with the guidelines laid out in the EC's blueprint for monetary union. The German position is that a weakening of the entry standards will permit softer economies to participate in the first round, thereby weakening the euro and possibly unleashing a round of inflation. Bonn's stalwart position against diluting the EMU criteria has kept jittery currency markets from losing faith in the euro.

However, with the costs of absorbing the former East Germany soaring and unemployment in double digits, Germany unexpectedly floated the trial balloon of revaluing its gold reserves. The revaluation would bring Germany closer to the EMU criteria by lowering its budget deficit as a percentage of gross domestic product. The transparency of this economic sleight-of-hand was interpreted by financial markets and EC governments as a softening of the German position. The deutsche mark, which had already been weakening due to the combination of bad economic news and the approach of monetary union, weakened further. Ultimately, Bonn opted against revaluation, but lost the bully pulpit on maintaining strict adherence to the EMU criteria.

The apparent softening of Bonn's position occurred just as the French were electing a socialist government that campaigned on instituting budget-busting programs to ease France's 12.8-percent unemployment rate. The new French government saw the German flirtation with gold revaluation as an opportunity to press for a greater EC emphasis on job creation at the expense of a strong launch of the euro.

At the recent EC Amsterdam summit, a compromise was reached that allowed both governments to declare victory, but actually resolved very little. As a result, it is likely the deutsche mark and French franc will limp to the 1999 launch of a monetary union, and the euro itself will get off to a less-than-healthy start.

If you think these financial and political machinations in European capitals have little or no effect on the promotional products business, think again. Should the trend toward softening the EMU guidelines continue, the subsequently weaker EC currencies (and, in 1999, weaker euro) will continue to provide a more favorable exchange rate for European suppliers looking to gain a foothold in the North American market. U.S. distributors may have greater access to innovatively designed European products at better prices than in the past. It will also create opportunity for U.S. supplier companies who are investing in European manufacturing operations. They will have the best of both worlds – a lower transfer price to the U.S. and greater access to the European market from an EC-based faciity.

As for U.S. suppliers looking to sell in the European market, a bright spot remains. The U.K. has opted out of the first round of monetary union and, with the British economy the healthiest in Europe, the pound remains strong. This provides U.S. suppliers with a solid opportunity in a European country with both a common language and a well-established distributor network. ■

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