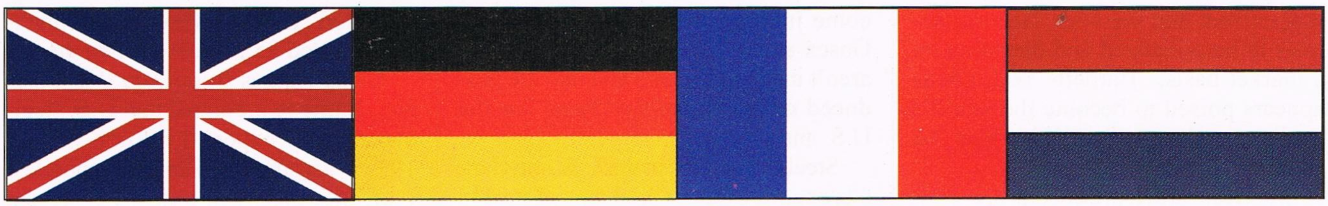


TRADE

How a common currency will affect steel trade in Europe

A single currency for Europe will make it easier to compare costs and prices among Europe's steel producers. Arbed of Luxembourg currently conducts most of its business in deutschemarks and francs

PHILIP BURGERT

The uncertain outlook for the European Monetary Union (EMU) is making it more difficult for European steelmakers to prepare for the introduction of a single European currency that would eliminate national currencies.

Recent changes of government in France and Britain threw into question the status of the currency, called the euro. There's also uncertainty about whether Germany and other major participants will meet budget-deficit requirements laid out by the EMU to assure a strong start for the euro.

It's also uncertain how many of the 15 European Union countries will participate in the euro. Sweden, Britain, and other countries have said they likely won't join the common currency, at least initially. Other countries may not qualify for participation. Countries that don't join in the first round will have a second chance in 2002.

Despite the uncertainties, preparations for the EMU now are shifting into high gear. The Frankfurt, Germany-based European Monetary Institute wants euro currency in noncash form, for use in bank transfers and most other financial arrangements, to be introduced on Jan. 1, 1999. Bank notes and coins will be introduced in late 2001. A few months after that, the national currencies of participating countries will be eliminated.

But the advantages of a common currency outweigh the costs and risks of the preparation process, European steelmakers say. The biggest advantages, says a spokesman for the European Confederation of Iron and Steel Industries

(Eurofer) in Brussels, are the elimination of:

- the costs of currency conversions,
- the pricing of products in multiple currencies, and
- the risks of losses from devaluations, such as when the British pound and Italian lira were devalued in 1992.

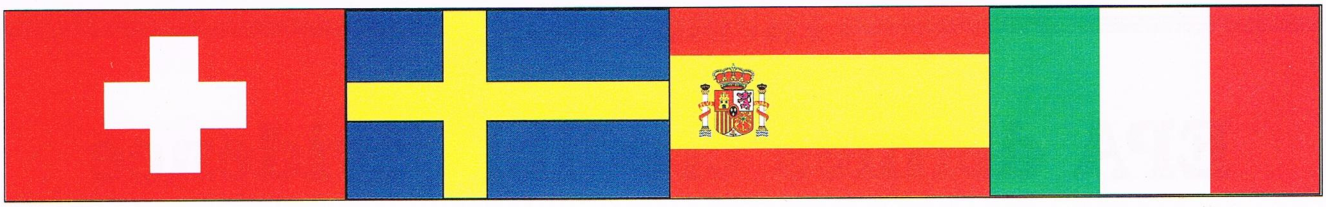
"If you have a single market, you should have a single currency," the spokesman says. A common currency would make it easier to compare costs and prices among Europe's steel producers.

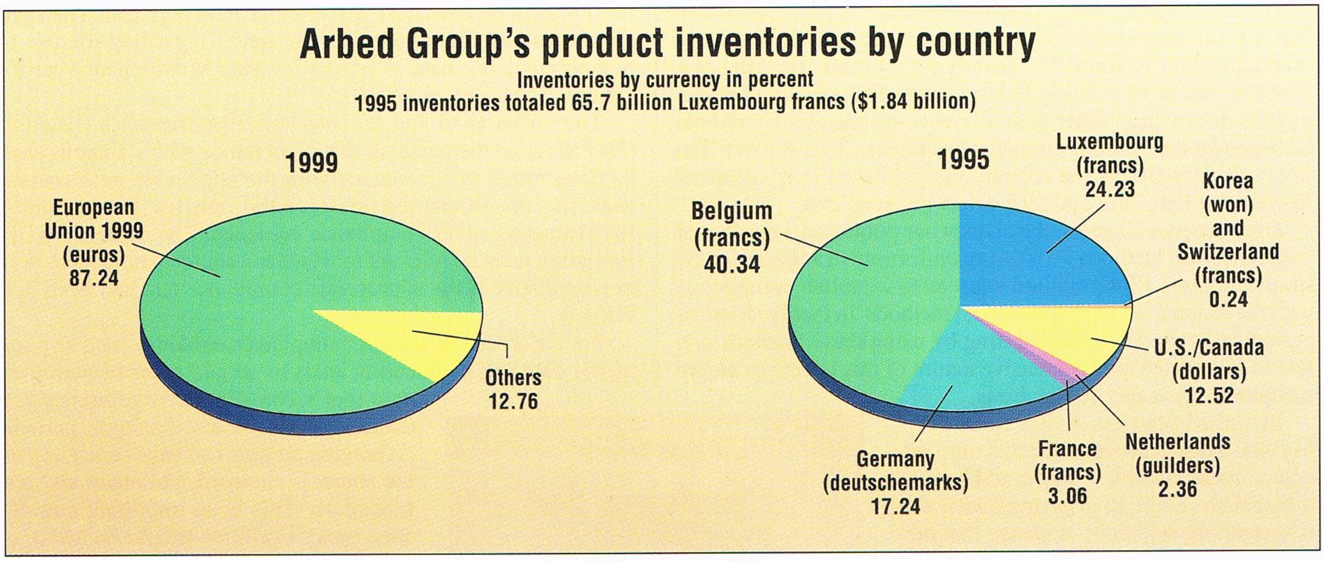
About half the steel products produced in Europe currently are exported from the country of production. Some companies, such as Luxembourg's Arbed SA, export more than that because of their small home markets. Arbed's home market is Europe, says Gerard Hoffmann, a financial planner at Arbed. Arbed currently conducts most of its business in the German mark, French franc, and the related Belgian and Luxembourg franc; the company transacts a lot of business in half a dozen other currencies (see charts). "We are a truly European manufacturer," Hoffmann says.

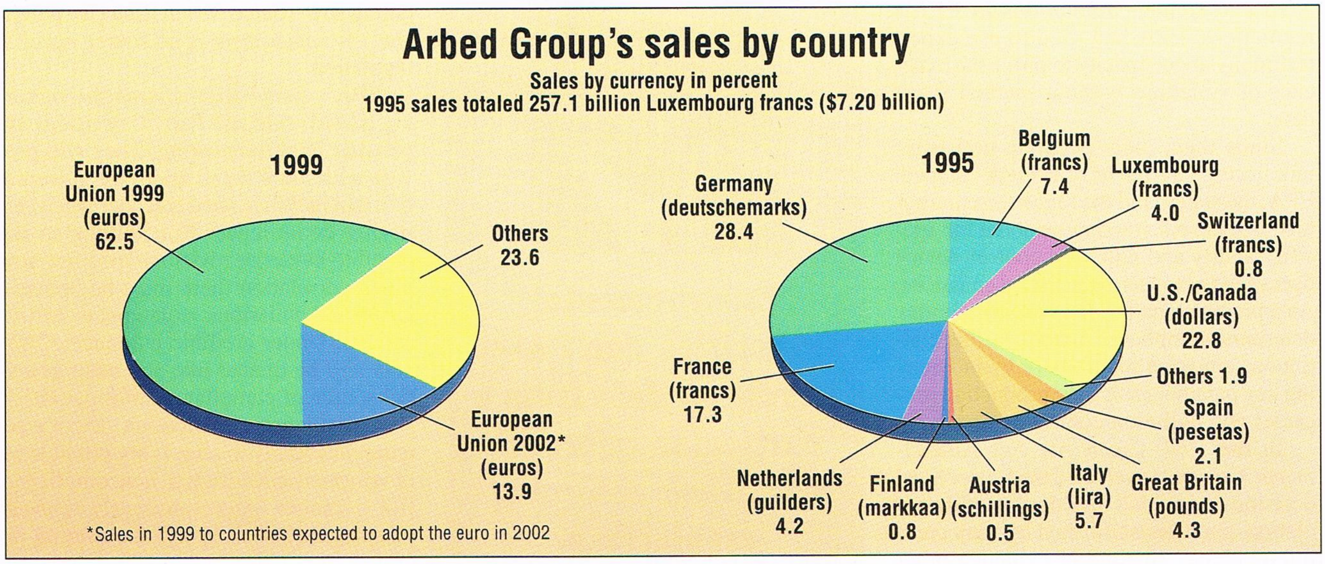
"If the euro takes hold, it could have a strong effect on competition between European companies," says Chris Harris, director of marketing and product development for BZW Metals and Energy in London. Unlike metals that are traded on an exchange, steel traditionally has been a fairly opaque market. With fewer home-market currencies, the steel market will become more transparent.

European steelmakers are concerned about the impact of a single currency on their ability—and their customers' ability—to export to other parts of the world. That partly will depend on the strength of the euro against the dollar, the dominant international currency, and other currencies. If the euro is too strong, it may discourage exports from Europe and encourage imports. The challenge for the planned European Central Bank will be to maintain the euro's balance with other currencies.

The euro will have a significant im-







pact on exports from small steel customers in Europe who primarily have been confined to their home markets, says Ilkka Arjalouto, vice president of finance and legal administration at Rautaruukki Oy (Oulu, Finland). European steelmakers long have known how to operate in international markets.

Preparing for the euro also involves converting all accounting, payroll, and computer systems to the single currency. Much of this is being done in conjunction with revising systems to be ready for the year 2000.

Steelmakers also will need to change contract terms to allow for payments in euros and to set up procedures to make this happen smoothly. Eurofer plans to host a meeting of European steelmakers to resolve foreseen problems; the companies currently are dealing with many of these issues individually. ❑

Philip Burgert, based in Düsseldorf, Germany, is the News Editor-Europe for American Metal Market.

Left to right: Some of Europe's flags (top) and the corresponding currencies (bottom): Great Britain (pound), Germany (deutschemark), France (franc), Netherlands (guilder), Switzerland (franc), Sweden (kroner), Spain (peseta), Italy (lira). The flag of the European Union is in the middle of p. 88.