# THESIS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION

## <u>TITLE</u>

## Galvanising the Single Market?

## Economic and Strategic Impacts of EMU for the Irish Dairy Industry

EUROPEAN CENTRAL BANK

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# Abstract

This thesis will explore the economic and strategic implications of EMU for the Irish Dairy Industry, however much of the framework developed can be readily adapted to other industries. It will provide support for the statement by the Chairman of Unilever that EMU will “galvanise” the Single European Market

It has been carried out using secondary research and a number of interviews with both people inside the dairy industry and those providing support to it.

Ireland will be a “founding member” of EMU and represents around 0.9 per cent of Euro-11 GDP. The Irish dairy industry is a major part of the Irish economy; it provides significant income and employment and EMU comes at a time of strategic complexity for the industry.

EMU represents a fundamental change in the European economic environment and will influence the behaviour of firms through four main channels of influence; exchange rates, interest rates, transaction and hedging costs and overall business confidence.

This thesis finds that there are a number of potential strategic impacts of EMU that should be fed into the strategic planning process at a company level. Issues such as the competitive environment, price transparency, pricing strategy, business structure, supply chain and product rationalisation are issues that require careful consideration.

# Acknowledgements

I would like to thank Wendy, my wife for her support during the past year, I couldn't have done it without her and to my son, Conor for keeping me going.

I have numerous people to thank for their time during the preparation of this thesis. However, I am extremely grateful to the following people:

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- Dr Frank W Roche, University College Dublin;
- Michael Barry, Manager, Food and Agribusiness, AIB
- Mr Joe Durkan, Department of Economics, University College Dublin


## Dedication

I wish to dedicate this thesis to my father, who taught me more than I ever realised, and who helped me with the research from Australia. Thanks Dad and Mum.

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# Chapter 1

# Introduction

# Introduction

EMU is the biggest economic change within Europe this century. The implications of EMU are expected to be significant. In economic terms it represents a regime change, it also poses a number of questions in terms of business strategy and has numerous operational implications for the individual firm. This thesis will set out the economic implications for Ireland of EMU and strategic issues posed by EMU in the context of the Irish Dairy industry.

I have chosen the topic because I am interested in EMU and the European Union. I have also had previous experience with EMU and it provides me with the opportunity to utilise the knowledge gained on the MBA in a practical way and builds upon my economics degree.

The thesis will assess the potential impacts of EMU on the Irish Dairy industry using a combination of secondary research and interviews with Dairy and service providers to the Dairy industry. The thesis will be structured in the following way:

- Introduction to EMU
- Implications for Ireland of EMU
- Overview of the Irish Dairy industry
- Economic implications for Ireland of EMU
- Strategic implications
- Overview of Operational implications
- Findings
- Conclusion.

# Chapter 2

# Research Methodology

# Research Methodology

The general research question that I am posing is will EMU will have a significant economic and strategic impact on companies in the Irish Dairy industry. The thesis will add to the statement by Niall Fitzgerald, Chairman of Unilever that EMU will "galvanise" the Single European Market.

The thesis has been compiled using a secondary research approach. The secondary research was conducted using a variety of sources. The principal sources of information were publications of dairy companies, industry associations, EMU consultants and the Internet. However as I conducted a number of interviews, I hope to have added the many insights of industry insiders to whom I have spoken to the thesis to add to the secondary research approach.

The data collection process has involved a number of face-to-face and telephone interviews with industry sources and a detailed search and review of available literature.

# Chapter 3

# Background to EMU

# Background to EMU

## 3.1 Introduction

This Chapter will outline the background to EMU and how EMU fits into the wider integration process within Europe. The 3 stages of EMU are discussed, as are details of the operation of the European Central Bank, the composition of the Euro-11, determination of lock-in rates and the Stability Pact.

## 3.2 Background

EMU is part of the wider integration of Europe which began over 40 years ago with the Treaty of Rome. There have been many plans over the years to introduce monetary union within Europe, the first dating back to a 1962 initiative of the then Commission of European communities. At that time a 9 year deadline was set, however as of today, EMU will be a reality from 1 January 1999.

Ireland has previous experience of a monetary union, with the UK, which lasted until 1979. Developments in exchange rate policy within Ireland this century are reproduced below:

- Early 1900s - 1914 - gold standard : currencies of major world economies could be exchanged for gold at a fixed rate
- 1914 - 1925 : Irish and UK currency floated
- 1925 - 1931 : gold standard re-adopted
- 1931 - end WWII : Irish and UK pounds floated
- End WWII - 1973 : Bretton Woods system introduced which involved fixed rates periodically realigned, US dollar was the anchor
- 1973 - 1979 - Irish and UK pounds floated against other currencies (including a period in the EEC's "snake" managed exchange rate system)

- 1979 Ireland withdrew from monetary union with the UK and joined the EMS (European Monetary System). From 1993 a 15% fluctuation band was introduced in the EMS. Source : IBEC.

### 3.3 EMU as part of the Single European Market

EMU can be seen as part of the wider integration of Europe. The Single European Market, established in 1992 has the following objectives:

- welding together the 12 individual markets of the Member States into one single market of 320 million people
- ensuring that this single market is also an expanding market
- ensuring that the market is flexible so that resources, both of people and materials, and of capital investment, flow into areas of greatest economic advantage.

Around 300 measures have been specified as necessary to complete the single market. They can be summarised into three broad areas:

- the removal of physical barriers to trade and competition, including the removal of border posts;
- the removal of technical barriers to trade and competition - the most obvious of these barriers being different national standards adopted for health and safety reasons or for environmental or consumer protection;
- the removal of fiscal barriers to trade and competition - in particular the harmonisation of indirect taxes across the EC.

At the time of writing, certain barriers remain and are being addressed by an EU wide committee with links to national bodies responsible for highlighting such barriers. EMU is likely to coincide with the further removal of such barriers. PricewaterhouseCoopers (PwC) argue that prior to 2002, economic liberalisation is likely to be well underway in areas such as:

- Telecommunications free trade
- The end of protected status for utility companies
- Full openness in public procurement
- Conformity of most standards, patent and transit rules

- Distance selling of financial services
- Coherent application of VAT
- Reduction of tax distortions between EU countries
- Harmonisation of regulations governing the sale of consumer goods and guarantees
- European company statutes
- Harmonisation of cross-border merger regulations.

## 3.4 Stages of EMU

EMU is part of a wider process of European integration and a necessary complement to the Single European Act in 1992. To put EMU in context, it is necessary to understand how EMU fits into European integration. There are two strands to the EMU concept that emerged from the 1991 Maastricht summit these being Economic and Monetary Union.

Economic Union involves:

- free movement of persons, goods, services and capital (the internal market)
- competition policy to ensure free markets
- a common policy for structural and regional development
- macro policy co-ordination including binding rules of budgetary policies.

Monetary Union involves the constitution of a currency area in which policies will be managed jointly with a view to attaining macro-economic objectives with the following four necessary conditions:

- the assurance of total and irreversible convertibility of currencies
- the complete liberalisation of capital transactions
- the irrevocable locking of exchange rate parities, leading eventually to a single currency

- all in the exchange rate mechanism of the European Monetary System.

Economic and Monetary Union is a three stage process:

***Stage 1 : July 1990 - December 1993 - monetary and fiscal co-operation.***

Focus on economic integration, completion of the single market and reform of Structural funds. Also involved the removal of capital controls, reduction of interest and inflation rate differentials and increasing stability of intra-European exchange rates. Also, the independence of national central banks was to be strengthened, along with conformance of domestic laws with the Treaty.

***Stage 2 : January 1994 - December 1998 - advancing budgeting and economic fronts***

The European Monetary Institute was established to co-ordinate monetary policies in the lead up to Stage 3, monetary union with a focus on convergence criteria. European Central Bank established in 1998 and Stage 3 participants selected.

***Stage 3 : Monetary Union - 1 January 1999 onwards.***

EU wide monetary and exchange rates policies and obligations to avoid excessive deficits to be introduced. Changeover to the single currency and irrevocable fixing of exchange rates of Stage three participants. Introduction and phasing out of national notes and coins.

This thesis will be dealing with Stage 3 of Economic and Monetary Union. Any reference to EMU therefore should be read as referring to Stage 3.

### 3.5 Timetable for Stage 3 of EMU

The timetable for EMU has been set as follows:

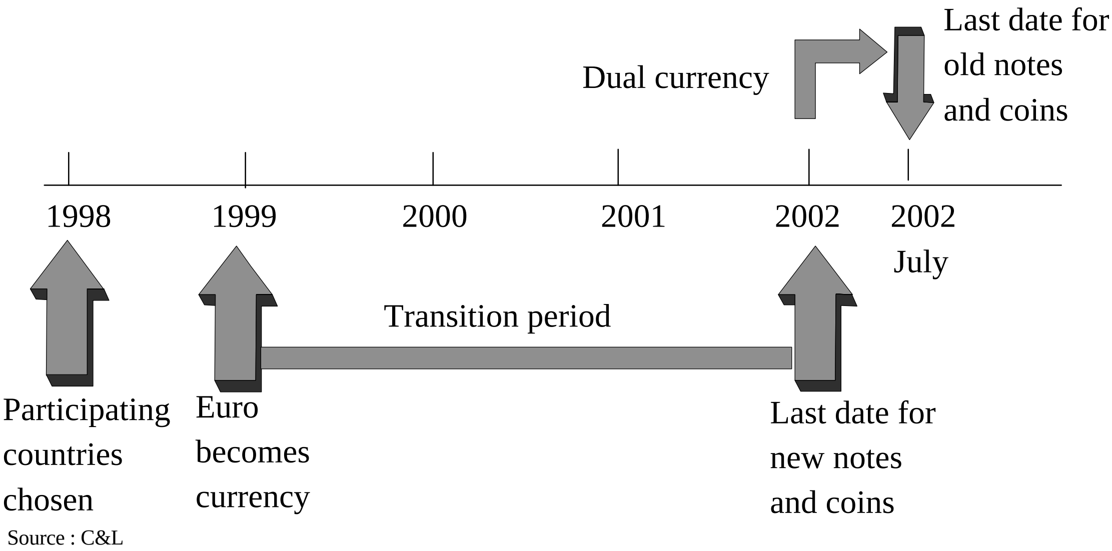



**Exhibit I: Timetable for EMU**

***1999***

- Exchange rates will be irrevocably fixed with the creation of the Euro on 1 January 1999
- European Central Bank to operate single monetary policy from 1 January 1999
- Euro can be used from 1999 but no-one can be forced to use it until 2002 (not tender)
- Euro will become the official unit of account for EMU central banks
- Government bonds issued after 1999 will be in Euros
- German banks aim to operate all payments systems in DM and Euros

***2002***

- Introduction of Euro notes and coins in January
- National notes and coins still legal tender until July 2002, but they may be withdrawn earlier
- Second wave of countries may be preparing to join by now (no definite timetable)

## 3.6 European Central Bank

At the heart of EMU is the establishment of a European Central Bank (ECB) whose role will be to formulate and execute the single monetary policy. All national central banks will cede responsibility for monetary policy to the ECB.

The forerunner to the ECB was the European Monetary Institute (EMI). The ECB comprises of a President, and up to four members of the Executive Board appointed by the Euro-11 members. The ECB will be directed by a Governing Council which will comprise of the Executive Board and the governors of the participating countries national central banks. The ECB will also have a General Council at which non-participating member states will be represented - it is anticipated that the General Council will only have an advisory role.

The main objective of the ECB is to maintain price stability within the Euro-11 zone. At the time of writing a definition of price stability has not been given, however many analysts expect an inflation rate target of between 0-2%.

At a more detailed level, the ECB will also be responsible for:

- continuing the work of the EMI and providing a framework and systems to allow for monetary policy to be conducted from 1 January 1999
- deciding when notes and coins are to be introduced (1 January 2002 at the latest)
- consulting with the Euro-11 Finance Ministers regarding the lock-in rates for Euro-11 countries.

A key function of the European Central Bank is to quickly establish credibility in the financial markets.

## 3.7 Determination of Lock-in Rates

Prior to 1 January 1999, the ECB in conjunction with Euro-11 Finance

Ministers will determine the lock in-rates for each Euro-11 state against the Euro. The following approaches are theoretically possible:

1. adopting whatever rates of exchange, for national currencies and for the ECU, are thrown up by markets on 31 December 1998
2. moving from market rates on 31 December 1998 to the "official" central rates of the ERM parity grid at that time
3. moving from market rates to a set of rates different from ERM central rates, either to adjust for past changes in competitiveness or to produce more rounded and consumer-friendly conversion rates
4. announcing some time in advance the rates which will be adopted in order to allow markets, firms and individuals to prepare themselves and to induce market exchange rates to converge towards the selected conversion rates
5. announce with the same intention, a formula according to which the conversion rates adopted on 1 January 1999 would be determined by some average of the market rates over the preceding months.

Source : Hundred Group

Whilst these alternatives are possible, there are two constraints that would make it difficult if not impossible to not adopt the closing market rates on 31 December 1998:

- the value of the ECU must not be modified according to the Maastricht criteria
- 1:1 parity between the Euro and the ECU should exist.

## 3.8 The Euro-11

In May 1998, the Council of Economic and Finance Ministers (ECOFIN) made recommendations to the Council regarding which countries will participate in the first wave and which countries will be granted a derogation. On 2 May 1998 the following countries were announced as participating in the first wave of EMU:

> "Euro-11" or "Insiders" : Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain.

The relative size of the Euro-11 can be seen in the following table:

| | | | |
|---|---|---|---|
| Germany | 29.2 | ***Ireland*** | ***0.9*** |
| France | 22.3 | Luxembourg | 0.2 |
| Italy | 20.9 | Netherlands | 5.3 |
| Spain | 10.6 | Austria | 2.9 |
| Portugal | 2.2 | Finland | 1.7 |
| Belgium | 3.7 | | |

Source: AIB

**Table I % Share of Euro 11 GDP**

Britain, Denmark, Greece, Sweden will not be participating in the first wave of EMU. Britain having exercised its opt-out clause.

The criteria for participation in Stage 3 of EMU was as follows:

| Monetary Variable | Criteria |
|---|---|
| **Exchange rates** | Two years remaining within the normal fluctuations of the European Exchange Rate Mechanism |
| **Inflation rates** | No more that 1 ½% greater than the average of the three best performing states |
| **Interest rates** | No more than 2% greater than the average of the three best performing states |
| **Government deficits** | No more than 3% of GDP |
| **Total government debt** | No more than 60% of GDP |

**Table II Stage 3 Participation Criteria**

Although the criteria above cover nominal convergence and key monetary variables, there was no formal assessment criteria for the cyclical or structural convergence of European economies. Cyclical convergence refers to the degree with which the cyclical positions are convergent at the time of entry into EMU, and whether historically country business cycles have been in phase with each other. Structural convergence refers to a broad range of indicators that measure the structural similarity of economies - according to Coopers & Lybrand (C&L) this will determine how they are subject to asymmetric shocks.

Although Ireland has fulfilled the nominal convergence criteria, the importance of cyclical and structural convergence for the Irish economy cannot be ignored and introduce risks of potential asymmetric shocks and instability.

## 3.9 Stability Pact

All Euro-11 countries will transfer responsibility for monetary policy to the European Central Bank, effective from 1 January 1999. As a result, national governments will lose all recourse to monetary policy as an economic tool to deal with asymmetric shocks (shocks that are particular to a country or region). With the loss of monetary policy as an economic tool, national government's main economic tool is fiscal policy.

Fiscal policy under EMU needs to be considered in the context of the Excessive Deficit Procedure of the Treaty and the Stability Pact that was agreed at the Dublin summit in December 1996 and which restricts the operation of fiscal policy and automatic stabilisers. The Stability Pact and Excessive Deficit Procedures require:

- Convergence criteria : government deficits no more than 3% of GDP; and government debt no more than 60% of GDP.
- Fines : of up to 0.5% of GDP where a country's deficit exceeds 3% of GDP and government debt exceeds 60% of GDP. Exemptions will only be made where GDP declines by 2 per cent or more over four quarters. Eichengreen argues that this has only occurred a few times in European history. Countries with GDP falling between ¾ to 2 percent could be exempted via a vote of the Council of Ministers. Fines will be repaid where deficits are brought back in line within one year, otherwise the money is forfeited.
- No Bail-out Clause : preventing the European Central Bank from bailing out bankrupt national governments has been made.

### 3.10 Summary

Ireland is a member of the first wave of EMU - the "Euro-11" - and represents 0.9% of Euro 11 GDP. Responsibility for monetary policy under EMU is vested in the European Central Bank, with fiscal policy remaining the responsibility of each national government which is in turn constrained by the requirements of the Stability Pact.

# Chapter 4

# Dairy Industry Overview

## Dairy Industry Overview

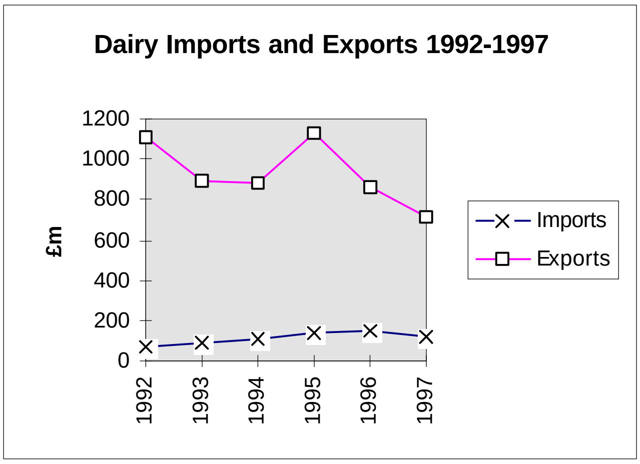
### 4.1 Introduction

This Chapter will provide an overview of the Irish Dairy Industry and will identify the major issues facing the industry.

### 4.2 Significance to the Irish Economy

The dairy industry is a major part of the Irish economy. It represents a significant portion of GDP, with a gross output level of around £2.3b in 1996. It accounts for one third of Agricultural output and in volume terms represents around 1.1 billion gallons of milk per year.

Ireland is a net export of dairy products as can be seen in the following diagram:




Source : Department of Agriculture, Food and Forestry, 1998

**Exhibit II Dairy Imports and Exports**

A further detailed breakdown of the sector which helps to highlight the importance of the Dairy industry is outlined below:

| | Value | % of total food sector |
|---|---|---|
| **Number of Local units** | 109 | 14 |
| **Gross Output** | 2309.5 | 27 |
| **Industrial Inputs** | 1847.6 | 34 |
| **Net output** | 461.9 | 15 |
| **Wages and salaries** | 151.2 | 25 |
| **Persons engaged** | 8107 | 20 |
| **Number of Enterprises** | 73 | 11 |
| **Turnover** | 3000.8 | 33 |
| **Gross Value Added** | 368.6 | 23 |
| **Labour Costs** | 226.3 | 31 |
| **Persons Engaged** | 10361 | 25 |

Source : Census of Industrial Production, 1996, CSO

**Table III Breakdown of Dairy Industry**

### 4.3 Main players in the Irish Industry

The Irish Dairy industry comprises around 10 significant indigenous dairy plc.s or co-operatives, four of which control over 70% of the Irish milk pool. These include Avonmore Waterford Group plc, Golden Vale plc, Kerry Group plc and Dairy Gold Co-op.

### 4.4 Issues Facing the Irish Dairy Industry

The major issues facing the Irish dairy industry are outlined below:

- Increasing retailer concentration within Europe : the concentration of retailers is growing in Europe. In most European markets, the top five food retailers account for 75 per cent of volume sales
- Globalisation of the food industry : e.g. Kerry group are expanding in line with the Pan-European expansion of one of their major customers, Frito-Lay
- Increased regulation from Europe in relation to food hygiene, traceability, etc.

- Introduction of a minimum wage : providing a floor on wage costs and making alternative employment more comparable and attractive for manufacturing staff
- Year 2000 computer date problem : which involves significant risk and resourcing
- Asian and Russian economic crises : placing pressure on exports and the global economic environment
- CAP reform : providing pressure on margins and supplier income
- WTO / GATT liberalisation : providing pressure on European prices to move towards world prices
- Partnership 2000 pressures : pressure from the recent Garda pay dispute
- Agenda 2000 : which involves the potential enlargement of the European Union to Central European countries such as Poland, increasing the single market and providing pressure for CAP reform.

## 4.5 Strengths, Weaknesses, Opportunities and Threats

Below is a high level analysis of the strengths, weakness, opportunities and threats in relation to the Irish dairy industry.

### *Strengths*

- Low cost production base
- Strong cash flows and access to institutional funds
- Market presence
- Growing diversification into other non-dairy sectors of the Food industry, e.g. meat
- Capability and professionalism of management within the sector
- A strong desire to grow and compete within the EU and internationally
- Strong market recognition / branding of the “Irishness” of products
- Surplus of domestic demand over milk supply quotas facilitates international expansion

### *Weaknesses*

- The production of milk is highly seasonal, resulting in a focus more on storable products. The CAP encouraged seasonality by developing a guaranteed market at all times for production
- Restrictions on milk supply via milk quotas
- The island of Ireland is peripheral to the continent
- A commodity orientation exists within dairy processors resulting in many of the value adding activities occurring outside Ireland. Some authors argue that this is due to Ireland having a comparative advantage in commodity production
- Limited access to GATT licenses to access Third Country markets

### *Opportunities*

- Potential diversification of companies into broadly based food groups
- Rationalisation within the Irish industry
- Acquisition of overseas dairy companies to complement existing objectives
- Focusing on growth segments within the dairy industry
- Changing consumer trends provide opportunities for product innovation, e.g. children's snack foods and other convenience foods;
- Focus on value added products

### *Threats*

- CAP reform lowering EU prices closer to world prices
- GATT issues
- EU enlargement
- Global economic crisis placing pressure on exports and trade

## 4.6 Porters Five Forces of Competition

Below is an analysis of the 5 forces of competition as developed by Porter:

### *Power of buyers*

Ireland's retail sector is one of the most consolidated sectors in Europe. Considerable power rests with the retailers due to the increasing volume requirements as they consolidate. Most have created large distribution centres, which in some cases result in Irish produce being shipped to the UK and re-distributed to Ireland for retail sale.

The relatively fragmented nature of Irish dairy processors and producers and their dependence on multiples for volume would indicate that significant power rests with buyers.

### *Power of suppliers*

At times of shortage, considerable power can rest with the milk producers who are likely to offer their milk to the highest bidder, this occurred in the so called "milk wars" of the 1980s. The plc arrangements and farmer ownership introduce a conflict between maximising the value of their investment in the plc and obtaining the highest possible milk price. The NESC report suggests that the preferences of milk producers leans more towards obtaining a higher milk price. This report also notes the significant effect lobbying by the industry has had on the treatment afforded to Ireland as part of CAP reform.

### *Rivalry amongst existing competitors*

To date, competition in the Irish Dairy industry has been more focused on raw material sourcing than on competition in the marketplace. In the domestic market, competition is limited to liquid milk and some consumer products.

### *Threat of substitutes*

Consumers are moving away from high fat products such as full fat cheese towards dietary / low fat products such as cottage cheese. Vegetarian cheese is an example of an emerging substitute product. Also, as consumers become more health conscious, a growing preference exists for fruit juice as a drink rather than milk.

In the food industry there is a growing demand for products that have been organically produced, and it is likely that similar demands will be made of the dairy industry. A recent survey indicated that the European Consumers tastes are moving towards “greener” products. A major substitute is the introduction of non-dairy spreads such as margarine.

### *Threat of new entrants*

The threat of new entrants is limited due to the milk quota system in operation. Total supply cannot be exceeded without incurring a superlevy fine. The domestic market is relatively small in European terms.

## 4.7 Common Agricultural Policy

The Common Agricultural Policy (CAP) is a major driving force within the Agri-food industries. The CAP was introduced in 1957 as part of the Treaty of Rome which established the then European Economic Community. CAP was formally launched on 1 January 1968 and seeks to regulate agricultural production, marketing and trade. CAP has three main objectives:

- unity of the market - removal of obstacles to trade and establishment of a common set of prices across the EU
- union preference - preference is given to EU producers before imports are allowed - i.e. imports are only allowed where internal EU production is insufficient for demand
- financial solidarity - the costs of running the CAP are charged to the EU budget as a whole and not directly to any individual member state.

CAP has two main areas of focus:

- Price and markets policy - maintaining the level and stability of agricultural prices
- Structures policy - to encourage the modernisation of farming and the food processing sector and also agri-environment and rural development measures.

CAP payments can take the form of market price support, direct payments to producers, grants and other developmental and structural assistance

CAP payments are regulated by the Agri-monetary system. This system pegs a “green” exchange rate to payments.

One of the effects of CAP has been the growing dependence of Irish Dairy companies on CAP support. CAP related payments now represents a significant percentage of agricultural incomes within Ireland and is recognised as contributing to the commodity culture that exists within the Irish Dairy sector.

## 4.8 Summary

The Irish dairy industry is a significant part of the Irish economy in terms of income and employment. There are a number of complex issues already facing the industry as Stage 3 of EMU is set to commence. The Common Agricultural policy represents a “distortion” to the operation of the dairy produce market, which is not evident in other non-agricultural industries.

# Chapter 5

# Economic Implications of EMU for Ireland

# Economic Implications of EMU for Ireland

## 5.1 Introduction

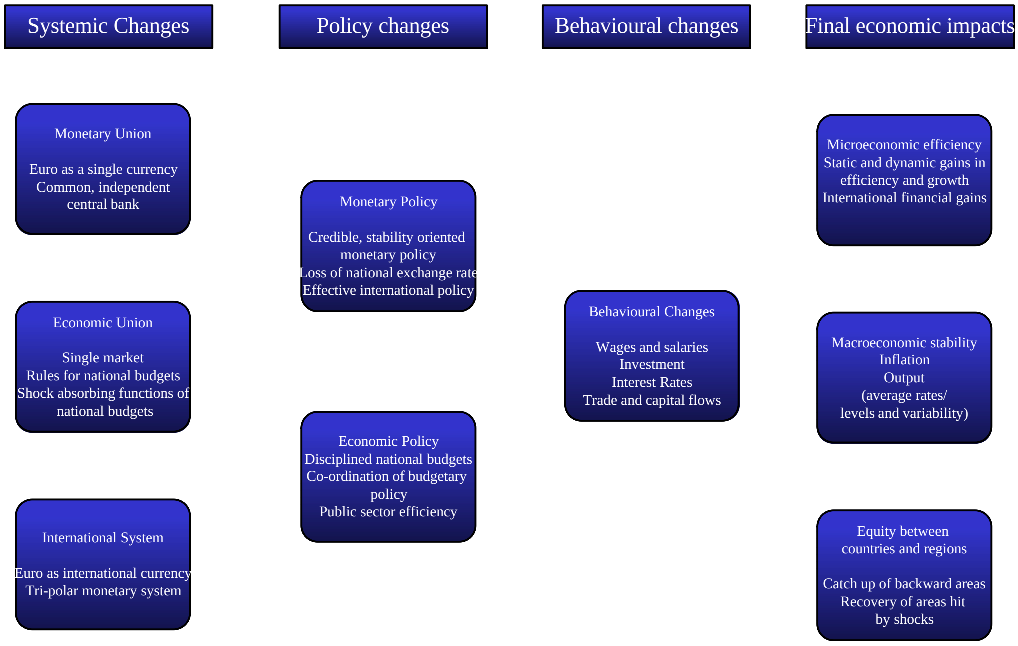
EMU will lead to a significant change in the European economic environment. This chapter will outline the potential impacts of EMU on the economic environment, thereby setting the scene for the likely economic variables that must be taken into account when setting business strategy, which is explored in the following Chapter.

## 5.2 Broad Impacts of EMU

The One Market, One Money report of the European Union summarised the impact of EMU on the three major objectives of economic policy:

| | |
|---|---|
| *Microeconomic efficiency* | sure advantages, as a single currency and economic union complement the single market and add to its impact. One market needs one money. Economic analysis supports the perceptions of industrialists that the benefits could substantially reinforce the gains from the Single Market. |
| *Macroeconomic stability* | sure advantages as regards better overall price stability (i.e. both very low inflation on average, with low variability) assuming that the issues of Central Bank design are handled well, and probably some gain also in terms of the real economy (lesser fluctuations in output and employment). |
| *Equity* | as between countries and regions. Opportunities and risks for all regions, and no a priori balance of relative advantage for the original or newer Member States The least-favoured regions have a real opportunity for rapid catch-up. EMU, like 1992 (Single European Market), is a positive sum game. |

A detailed schema of the impacts of EMU is reproduced below:




Source : One Market One Money, EC, 1990

**Exhibit III Impacts of EMU**

## 5.3 Monetary Policy

Responsibility for monetary policy will effectively be transferred to the European Central Bank with effect from 1 January 1999. As noted earlier, the principal objective of the ECB is price stability, which translates as low or zero inflation (an inflation rate of 0-2% is being put forward by some analysts).

The main impacts on Ireland of loss of monetary policy is summarised below:

- Ireland will have no tool to restore competitiveness using the exchange rate

- It is likely that monetary policy may not suit the circumstances of the Irish economy at points in time as Germany, France and Italy, representing 72.4% of Euro-11 GDP, are more likely to dominate ECB considerations. Ireland accounts for only 0.9% of Euro-11 GDP

- Monetary policy cannot be used by the Irish government to deal with asymmetric shocks that Ireland may face in the future, whilst at the same time fiscal remedies are constrained via the Stability Pact as discussed below.

## 5.4 Likely lock-in Rates

The likely lock-in rate for Ireland is currently 1 Euro = 0.8 punts. The bilateral rates against other EMU currencies were set on 2 May 1998 and succeeded a 3% revaluation of the Irish punt to IR£1 = 2.483DM. As the deadline for the announcement of the exchange rates is 31 December 1998, and due to the 1:1 parity required for the ECU and Euro it is likely that the value of the Euro will be influenced by Sterling movements in the interim.

This is due to the fact that Sterling comprises approximately 14% of the weight of the ECU. The IFA estimate that a consequence of say a 10% depreciation of Sterling against the DM would be a reduction in the value of the ECU by 1.3% by 31 December 1998. Therefore as the £IR/DM exchange rate would continue to be fixed at the rate of 2.483DM, the link-in rate for all 11 currencies would be revalued by around 1.3% against the Euro (source : IFA).

## 5.5 Impact on Irish Fiscal Policy

The Stability Pact imposes an ongoing restriction on national fiscal policy (government revenue and expenditure) as governments attempt to stay within the Stability Pact limits. Of particular importance is the potential impeding of the operation of automatic stabilisers as national economies deal with asymmetric economic shocks.

### *Role of Fiscal Policy - alternative views*

The role of fiscal policy in monetary union has been explored in two reports, the MacDougall report (1977) and the Delors report (1991). Both reports called for differing approaches for fiscal policy in monetary union and at the time of writing, neither approaches are in place:

- MacDougall - called for fiscal federalism at the EU level, requiring an EU wide budget of around 5% of EU GDP
- Delors - recognised that a budget of the magnitude proposed by

> MacDougall might not be politically feasible and recommended that there be greater co-ordination of fiscal policies across the EU.

However, neither of these views are currently in place within the EU. It is likely that they will become widely debated as Stage 3 of EMU proceeds.

### *Impact on Automatic stabilisers*

An automatic stabiliser operates when there is no deliberate action by a national government to deal with a change in economic activity, rather the action occurs automatically. For example, take the case of rising unemployment : tax revenues will decrease due to PAYE decreases and less spending results in lower VAT receipts. However government spending in the form of increased social welfare, e.g. dole payments, will rise automatically. As a result, the impact on aggregate demand is dampened by the injection of social welfare payments into the economy.

In the case of EMU, this could lead to governments raising taxes and cutting spending in economic downturns to ensure that the economy stays within the Stability Pact criteria. This could lead to fiscal policy becoming pro-cyclical.

However if deficits and government debt are maintained well within the Stability Pact criteria, then automatic stabilisers would have room to operate. For example, if countries started out with a 4 percent surplus, there would be scope for a 7 per cent swing in fiscal policy.

Governments could also look for a sustained decline in deficits by permanently increasing taxes or reducing expenditure. It has been estimated that budget deficits rise or fall by approximately 2-3% of GDP from their mean level over the business cycle. Therefore in order to allow automatic stabilisers room to operate, government budgets will need to be roughly balanced on average over the economic cycle.
Also, different European economies respond differently to monetary policy, for

example in the case of the UK, the economy is very sensitive to changes in interest rates.

## 5.6 Risk of Shocks

The European Commission in their paper, One Market One Money argue that the risk of shocks to individual economies should actually reduce under EMU for the following reasons:

- Integration of economies following the Single Market in 1992
- The potential for exchange rate shocks and shocks induced by inappropriate monetary policy should be reduced
- Wage bargainers will become more careful as they risk introducing uncompetitiveness for individual countries.

However the risks of asymmetric shocks will remain even though economies are converging with increasing European integration. In order to deal with shocks, there are a number of areas that are available to the Irish economy:

- wage and labour flexibility
- Infrastructural improvements (e.g. telecommunications, power, transport)
- education reform
- structural reform
- increases in productivity and efficiency of national industries.

### *Wage flexibility as a tool to restore competitiveness*

Wage flexibility will be a key competitive consideration under EMU, most notably due to the loss of competitive devaluation as a tool to restore competitiveness. It will be one of the two main labour mechanisms for dealing with asymmetric shocks, the other being factor mobility, e.g. the movement of labour into regions or countries not subject to the shock. For various reasons, such as culture and language barriers to labour mobility, this section deals with wage flexibility as an alternative.

The following statement from the current Irish government (Fianna Fáil and the Progressive Democrats coalition) in relation to successful entry into EMU should be pursued further by Irish companies and lobby groups in the lead up to the re-negotiation of the social partnership agreement:

> *"taking full account of the possible effects of EMU participation in the negotiation of the next social partnership agreement"*

Companies should take action now and plan for a future round of wage negotiations and ensure that the government statement is fulfilled.

The full statement by the coalition is as stated below:

*"A major task of Fianna Fáil and the Progressive Democrats in Government will be to ensure that the Irish economy copes successfully with the challenges of entry into EMU in accordance with the provisions in the Maastricht Treaty, particularly in the initial absence of Britain. In principle, EMU will be good for Irish business and Irish jobs through lower interest rates, reduction of exchange rate risks and savings in transactions costs, making Ireland more attractive for the purposes of tourism, trade and investment. Successful EMU entry will require :*

- *Tighter fiscal discipline*
- *Support for full observance of the Maastricht criteria across Europe*
- *Support for European-wide employment measures*
- *Full consultation with the exposed sectors of the economy about the potential problems faced by them, so as to ensure that all sectors of the workforce derive equal advantage from EMU membership*
- *Taking full account of the possible effects of EMU participation in the negotiation of the next social partnership agreement*
- *Urgent consultation with the social partners in the event of any economic development post-EMU entry that would seriously threaten*

*employment*

- *Negotiating the continuation of EU Structural Funds, so as to avoid or mitigate any sudden shock to the Irish economy."*

### *Profit sharing as a possible solution*

Profit sharing has been proposed as a means to help address the competitiveness issue in the face of potential exchange rate fluctuations under EMU. Under profit sharing employee payments will rise and fall based on the success of the company. O'Riordan,1997 argued that the added impetus to profit sharing that would arise under EMU should be utilised by Irish companies, and outlined the case of Finland whose trade unions and employer confederations supported the use of "stabilising buffers" such as personnel funds and other profit based salary components to prepare for currency related shocks. Like Ireland, Finland is significantly exposed to "out" countries.

Also, the NESC, in a report titled "Strategy into the 21st Century" stated *"It is notable that those who propose that Irish wages be linked to the Sterling exchange rate have said little about what should happen in the event Sterling strengthens against the Irish currency or the Euro"*.

O'Riordan recognised that profit sharing has been explicitly stated in the current Partnership 2000 agreement : "*profit sharing arrangements can have significant benefits at both enterprise and macroeconomic level. Where these are developed, they can also assist the handling of problems arising from possible downward movement of Sterling"*.

### 5.7 Implications for the US dollar

The Euro will also have implications for the international monetary system.

| | Output | Trade |
|---|---|---|
| United States | 26.7 | 28.3 |
| European Union | 30.8 | 20.4 |
| Euro-11 | 18.4 | 18.9 |
| Germany | 8.9 | 12.4 |
| Japan | 21.0 | 10.3 |

Source : Bergsten

**Table IV Share of World Output and Trade %**

It is likely that a successful Euro will result in a rival to the US dollar which currently shares around 40-60% of global financial transactions. As, there is no EU-US agreement to limit volatility, increased volatility is likely between US dollar-Euro than US dollar-NCU. Bergsten argues that likely official reserve shifts into Euros could amount to between \$100-300 billion with a much higher figure of around \$500 billion and \$1trillion for private portfolio diversification. Whilst the timing of the shifts could vary, exchange rates could be effected significantly with a currency adjustment of 35-70 per cent resulting from a cumulative diversification of \$500-1000bn. However, he states that the figures should not be taken too seriously as interest rates would respond, collective actions to not destabilise markets may be likely, supply of Euros would increase as borrowers and asset holders use the Euro. Therefore the likely magnitude of the exchange rate impact could be much less that 35-70 per cent

Irish companies with US dollar denominated contracts or US operations should pay particular attention to the risk and plan a defensive strategy accordingly. Alternatives could include denominating future contracts in Euros, other treasury management techniques or relocation of elements of the value chain. It is important to recognise that there are other alternative points of view about the strength of the Sterling and the impacts of EMU on the US dollar, however what companies must plan for is the eventuality that no matter what happens, increased uncertainty will exist between the Euro and Sterling and the Euro and the US dollar, as monetary policy between the three zones may rarely be in sync and as each economy deals with external shocks differently.

## 5.8 Economic Benefits and Costs of EMU for Ireland

Many of the benefits and costs of EMU can be readily identified whilst it is not possible to determine the impacts of a number of other factors as summarised in the following table:

| EMU | Benefits | Costs |
|---|---|---|
| **Tangible** | • Reduction in interest rates for Ireland of around 2%<br>• Price stability, reduced inflation | • ½% EU GDP reduction in transaction costs<br>• 1% reduction in transaction costs for Ireland<br>• Seigniorage lost - 0.5% GDP in 1988 - not significant recently<br>• Transition costs (vary by company) |
| **Intangible** | • EU growth prospects<br>• Price transparency<br>• EU integration effect<br>• Increased attractiveness of Ireland for FDI<br>• Removal of exchange rate variability and uncertainty<br>• Completion of single market<br>• Political factors | • Loss of competitive devaluation tool<br>• Loss of monetary policy<br>• Risk of asymmetric shocks<br>• Influence of Ireland - insignificant on Euro-11 scale as 0.9% of Euro-11 GDP |

**Table V Benefits and Costs of EMU**

The ESRI estimated the likely impact of EMU to the Irish economy as a whole. Their findings are summarised in the following table:

| | UK Out<br>Avg. Impact on GNP (%) | UK In<br>Avg. Impact on GNP (%) |
|---|---|---|
| **Tranquil Scenario** | 1.4 | 1.8 |
| **Risk of Shocks** | -1.0 | -0.4 |
| **Net Effect** | 0.4 | 1.4 |
| **Net Effect - Avg. Impact on Employment** | 10,000 | 20,000 |

Source : ESRI, 1996

**Table VI Likely Impact of EMU**

As can be seen, the most favourable scenario is where the UK joins due to the lowering of exchange rate shocks and greater savings on currency costs. Although these estimates are subject to uncertainty, the ESRI has identified a number of non-quantifiable benefits that may further increase the likelihood of benefits to Ireland:

- convenience of a common currency
- impact of commitment to Europe
- increased currency stability engendering business confidence
- impact on investment plans amongst Irish and overseas investors
- intangible political factors.

They also recognise that the benefits may be smaller than those flowing from completion of the Single European Market in 1992 or from the massive inflow of structural funds into Ireland over the past decade.

### *An Update to the ESRI 1996 report*

The main risk arising from the 1996 report was a serious lack of competitiveness coupled with reduced means of policy instruments to deal with them. The risk still remains of a Sterling depreciation however the risk has been reduced somewhat with the strengthening of the independence of the central bank and with the likelihood of the UK remaining within the convergence criteria to make second wave entry possible.

In relation to fiscal policy, Ireland now has more room to manoeuvre as the government surplus moves further and further away from the point at which the stability pact criteria kick in.

Structural changes have taken place with employment in the “more dynamic” sectors of the economy increasing, hence reducing the dependence on traditional sectors. At the same time the services sector is booming, providing alternative employment for those in vulnerable sectors.

### *Impact on employment - an alternative view*

As can be seen from the above, the net effects on employment are not significant when taken as a percentage of the Irish population of 3.6million.

In terms of the employment effect, the assumptions used by the ESRI have been questioned by Barry, 1997 in terms of wage flexibility. Barry finds that when the assumptions on wage flexibility are changed in a more plausible direction, the employment effects are significant. Barry argues wages respond asymmetrically to both inflationary and deflationary shocks. Wages are sticky, i.e. they tend to be less flexible in a downwards direction and more flexible in an upwards direction. This means that an appreciation of, say the Euro, would lead to an increase in real wages and hence generate unemployment whilst an exchange rate appreciation is more likely to be dissipated in inflation. The basis of his argument is that the ESRI used wage and price data from 1983-1995, a period where there were no dramatic price reductions as devaluation was used to offset effects of decreases in the value of Sterling - hence wage reductions were not negotiated downwards in responses to the decrease in competitiveness during that period. The national wage agreement was not negotiated downwards when the UK left ERM in 1992. A second weakness based on hysteresis in unemployment was not taken into account by the ESRI, according to Barry.

All in all, Barry finds that the employment losses could be twice as large as the ESRI study predicts.

### 5.9 Impact on Foreign Direct Investment

To date, Ireland has had considerable success in attracting foreign direct investment (FDI). Whilst there are many reasons for this success, it is accepted that most MNCs setting up in Ireland do so to access continental European markets. The removal of the currency risk barrier is expected to result in a positive impact on FDI within Ireland.

### 5.10 Summary

Ireland represents around 0.9% of the Euro-11 GDP, it is unlikely that monetary policy at the European-wide level could effectively deal with asymmetric shocks. Indeed, Ireland is not represented on the Board of the European Central Bank.

Competitive devaluation has been used in the past by previous governments. This tool will no longer be available to deal with competitiveness issues under EMU. Other alternatives to restore competitiveness should be considered and planned for such as wage flexibility, rationalisation of production and structural reform.

Emphasis could be placed on wage flexibility as part of the next round of wage negotiation with the social partners to ensure competitiveness and the ability to deal effectively with asymmetric shocks.

The likelihood of asymmetric shocks and associated macro-economic instability should be monitored by company strategists with contingency plans put in place that would ensure that the effect on the company and employment is minimised.

# Chapter 6

# Addressing Delayed Entry of the UK

# Addressing Delayed Entry of the UK

## 6.1 Introduction

This chapter will provide an overview of the options open to Irish firms as a result of delayed UK entry into EMU. It will also list the five economic tests that have been proposed by the UK government as a pre-requisite for entry into EMU.

## 6.2 Extent of Use of Foreign Currencies by Irish Companies

According to a survey conducted by Bannon (IBEC) of 570 Irish firms receiving support from an Bord Trachtala, quoted currencies for export contract were as follows:

| Currency | % of total export value |
|---|---|
| Sterling | 25.6 |
| Dollar | 31.7 |
| Deustchmark | 12.4 |
| Punt | 15 |
| Other | 15.3 |
| Total | 100 |

Source: Bannon, 1996

**Table VII Total Export Value by Currency**

As seen above, around 55% of export value is quoted in Sterling or the US dollar, followed by 27% in currencies which will be subsumed into the Euro (Deustchmark and Punt). As can be seen, the interaction of the Euro to both Sterling and the US dollar will have a significant effect on the competitiveness of Irish exports.

## 6.3 Historical Trends

EMU represents a regime change and historical trends and relationships are not as likely to be relied upon. As a result, treasury managers will need to pay particular attention to trends and developments and are expected to spend an increasing amount of time on research as new developments are emerging daily.

## 6.4 Sterling

The non-participation of the UK in ERM2 is likely to introduce further uncertainty in relation to Sterling and the Euro as fluctuations will not be constrained by ERM bands. There is a view that Sterling is currently overvalued and that Sterling will depreciate against the Euro.

Within the Irish Food sector, there are varying degrees of exposure Sterling, for example, the UK accounts for around 80 per cent of cheddar cheese exports. Due to the strength of Sterling at present, Irish companies are competitive, however the downside is the likely devaluation of Sterling post EMU. It is expected that EMU may indirectly effect the location of elements of the value chain, particularly in relation to secondary processing. Strategies for dealing with delayed entry of the UK into EMU are outlined in Chapter 6.

The UK is also the principal competitor on the domestic market for food products. Hence any depreciation of Sterling would increase the competitiveness of UK food products on the Irish market whilst at the same time reduce the competitiveness of exports to the UK.

To date, the uncertainty associated with EMU and the UK has been reduced to a certain extent, although not significantly. It is clear that the UK will not be joining EMU in the first wave. The UK Chancellor of the Exchequer, Gordon Brown, has laid down five economic tests which the UK has to meet prior to entering EMU. In overall terms, *"the Government's central economic objective* *is to achieve high and stable levels of growth and employment*". Britain's economic interests in the single currency need to be judged against this central objective.

The five economic tests are outlined below and were assessed by HM Treasury in October 1997:

- Are business cycles and economic structures compatible so that we and others could live comfortably with Euro interest rates on a permanent basis?
- If problems emerge is there sufficient flexibility to deal with them?
- Would joining EMU create better conditions for firms making long-term decisions to invest in Britain?
- What impact would entry into EMU have on the competitive position of the UK's financial services industry, particularly the City's wholesale markets?
- In summary, will joining EMU promote higher growth, stability and a lasting increase in jobs ?

HM Treasury outline sustainable and durable convergence. "*Sustainable and durable convergence is the touchstone and without it we cannot reap the benefits of a successful EMU. It means that the British economy:*

- *has converged with Europe*
- *can demonstrably be shown to have converged*
- *that this convergence is capable of being sustained*
- *that there is sufficient flexibility to adapt to change and unexpected economic events*".

Deutsche Bank argues that the UK five economic tests are "*probably irrelevant*", but do "*highlight the urgent reforms needed to prepare the economy for sustainable entry into EMU*", especially the housing market. And, even if the market "*attaches a 75% probability*" of UK entry by 2003, for Deutsche Bank, this is "*too optimistic*" (June 98).

### *Implications for Irish Firms*

The decision of the UK not to join the first wave has had the following effects on Irish businesses:

- the full benefits of EMU for Ireland have not been realised
- increased exchange rate uncertainty and volatility for Irish firms as the UK remains out of ERM2
- dealing with the uncertainty of UK entry - impact on short and long term planning.

As the UK is one of Ireland's major trading partners, the risk of Sterling volatility remains and could increase. The reliance on the UK for trade is shown in the following table:

| | **Exports** | | **Imports** | |
|---|---|---|---|---|
| | **£000** | **% of total** | **£000** | **% of total** |
| **UK** | 6994.4 | 25.4 | 7169.9 | 35.6 |
| **Rest of EU 15** | 12770.6 | 46.8 | 4221.0 | 20.9 |
| **Rest of World** | 7581.7 | 27.8 | 8763.2 | 43.5 |
| **Total** | **27296.7** | **100.0** | **20154.1** | **100.0** |

Source : IBEC, CSO

**Table VIII Irish, UK and EU - total merchandise trade, 1995**

To place the food industry in perspective:

- represents 32% of gross Irish output
- represents 25.2% of Irish exports
- exports are 48.9% of sales
- the UK is 33.9% of exports.

## 6.5 Addressing "Delayed Entry" of the UK

In the short term, measures need to be put in place to deal with the increased uncertainty and volatility likely between Sterling and the Euro. Forfas (1998) have developed approaches for companies to deal with this issue. The main areas covered in the report in relation to Sterling are as follows:

### *Financial measures*

The financial measures that can be put in place are as follows:

- Invoicing customers in Euros : this removes exchange rate risk, however its acceptance depends on customer relationships and on the credibility of the Euro as an international currency (F1)
- Accepting foreign exchange exposure : this involves the acceptance of the entire currency risk and is more likely to be used for small infrequent transactions (F2)
- Use of Hedging Instruments : use of derivatives to manage currency risk (F3)
- Holding sterling bank accounts : payments and receipts could be offset against each other, therefore reducing the amount of Sterling at risk (F4)
- Absorbing any fluctuations within the company : this involves absorbing short term losses and requires large capital base and profits (F5)
- Costing products to account for fluctuations : this depends on the price sensitivity of the customer, as the cost of fluctuations are borne directly by the customer (F6)
- Generate additional capital : as a cushion to delay with the uncertainty of EMU and to obtain an adequate capital base. (F7)

### *Marketing Measures*

The marketing measures that can be put in place are as follows:

- Developing strong brands which can absorb changes in price due to currency fluctuations : however this requires significant resources, but economies of scale could be achieved with Pan-European marketing campaigns, as marketing, branding costs are amortised over a larger output base (M1)

- Broadening customer relationships to reduce the reliance on price : the challenge for Irish Food companies is to respond to the customer service opportunities posed by EMU. Some academics argue that relationship marketing is one of the last avenues for sustaining long term customer relationships. The facilitation of customers requirements could offer competitive advantage or at the least, prevent competitive disadvantage. This could involve the use of electronic ordering systems which incorporate the supplier into the customers value chain, thereby increasing switching costs (M2)

- Reducing reliance on UK markets : this has been a feature within the Irish economy over recent years (M3)

- Develop joint marketing initiatives with other companies : more appropriate to smaller Irish companies, resources could be pooled to reduce the costs of marketing campaigns, e.g. financing trade missions, joint brands. (M4)

- Repositioning products into less price sensitive market sectors : for example where price in an indicator of quality (M5).

### *Production Measures*

The production measures that can be put in place are as follows:

- Increasing operational efficiency : to increase utilisation of resource and hence improve competitiveness. For example,. new sourcing agreements, productivity agreements with workers, business process reengineering (P1)

- Relocating part of the firms production process : companies in the Food industry are well advanced in this respect, for some products, secondary processing occurs in the UK. This provides a natural hedge against Sterling movements and brings the company closer to the UK customer (P2)

- Switch sourcing to Sterling locations : this would reduce the net exposure on sterling markets as both raw materials and final invoicing would be in the same currency. Only the profit element would be subject to currency risk (P3).

### *Distribution Measures*

The distribution measures that can be put in place are as follows:

- Increase integration with procurement process of sterling customers : UK retailers such as Tesco and Sainsbury have in place sophisticated ordering systems which integrate suppliers into their network. This could create interdependence between customer and supplier and may reduce price sensitivity, although not completely as retailers are increasing in size and hence bargaining power (D1)

- Reengineer the company's distribution network : for example sales force reorganisation to tackle the single market, new distribution channels for new markets, use of electronic commerce for direct access to customers (D2)

### *Corporate Measures*

The Corporate measures that can be put in place are as follows:

- Rationalisation through merger / disposal or acquisition : thereby reducing the dependence on Sterling across the group and increasing the ability of the company to withstand currency pressure (C1)

- Form network / joint venture or strategic alliances : Forfas report that Irish industry is fragmented and that most companies face poor economies of scale. Alliances could enable companies to achieve the critical mass necessary to expand further into Europe (C2)

Forfas have placed a timescale to benefit realisation and potential cost for each of the above measures as follows:

| Investment Cost | | | |
|---|---|---|---|
| High | | M3 P2 | D1<br>M1 D1 C1 |
| Medium | | F5 M2 P1<br>M5 P3 | M4 F7 C2 |
| Low | F1<br>F2<br>F3<br>F4<br>F6 | | |

**Timescale**

Source: Forfas

**Exhibit IV Timescale versus Investment Cost**

## 6.6 Summary

Whilst the above provides costs and timescales on each of the initiatives proposed, for an individual company variations could be substantial as change programs are put in place, cultures altered, unions consulted, etc. In addition, where medium to longer terms measures are considered, a judgement on the likely entry date of the UK into EMU is necessary to ensure that change programs are implemented in the appropriate timescales.

# Chapter 7

# Manufacturing, Retail and Agricultural Implications

# Manufacturing, Retail and Agricultural Implications

## 7.1 Introduction

This chapter will outline the major economic impacts of EMU for the Irish dairy industry and will explore the impacts on two of the main customers and suppliers to the dairy industry; retailers and agriculture. The Chapter uses the approach of the ESRI study of the Economic Implications for Ireland of EMU.

## 7.2 Background

In 1996, the government commissioned the ESRI to research the potential implications for Ireland of EMU. This study evaluated the implications of EMU using three different scenarios that existed at the time:

1. UK and Ireland do not join EMU
2. Ireland joins with the UK exercising its opt-out clause
3. UK in and Ireland out.

At the time of writing, alternative (2) exists. Since the publication of the ESRI study, the UK Chancellor of the Exchequer has published five economic tests which are to be satisfied prior to the UK entering EMU. The ESRI did not specifically analyse the situation where the UK did not enter the first wave of EMU, but was likely to join in the near future (markets are currently attaching 75% probability to the UK joining in 2003).

## 7.3 Sectoral Impacts - Manufacturing Industry

The dairy industry is a major part of Irish manufacturing industry. In the period 1987-1996, the industry grew by 17%. When the effect of the inclusion of overseas based multinational corporations are adjusted for, the indigenous Irish

Dairy industry represents a significant proportion of employment and GDP.

EMU is expected to effect the manufacturing industry through four main channels:

- exchange rate effects on competitiveness
- interest rate differentials
- differences in currency transaction costs
- the importance of stability in engendering business confidence.

The ESRI have assessed the likely impacts of these channels against major sectors of manufacturing industry within Ireland and found that Sterling exposure is moderate, interest sensitivity is low and the impact of transaction savings is low. The dairy industry's domestic market is seen as reasonably protected on a number of fronts - transport, freshness issues for liquid milk and strong consumer branding. However the destination for most value added products is the UK, therefore the exposure to Sterling movements are higher than for other products.

The income elasticity for dairy products is low. Interest rate sensitivity is therefore considered low, as more buoyant domestic demand is not likely to result in more than a moderate response.

It is important to recognise the proportion of inputs sold on the domestic market to other manufacturers who in turn export products that contain dairy inputs. However this is considered to be low in the ESRI report.

### *Industrial Structure*

The size and cost structure of an individual company is likely to have a bearing on the sensitivity of the company to interest rate changes and exchange rate fluctuations.

### *Exchange Rate Exposure*

In terms of an overall assessment, the dairy sector is assessed as having moderate risk or exposure to exchange rates. This is due to the nature of the product mix exported to the UK (higher value added) and the high dependency upon domestic materials. The issue in the light of further CAP reforms is the response of agricultural output volumes to greater price flexibility and the likelihood of greater farm price flexibility that would ease pressure on margins. The ESRI conclude by stating that pressure on margins may revert Ireland back to more of a focus on commodity production, away from the higher value added activities. This it would seem is an issue that warrants further investigation and planning as the overall thrust of the Irish Government's Food Development Strategy is a focus on value added activities.

In terms of non-EMU currencies other than Sterling, a similar issue exists in relation to competitive devaluations and their impact on the meat and dairy sectors.

### *Interest Rate Sensitivity*

Interest rate sensitivity is analysed in the ESRI report in so far as it impacts upon domestic demand and the levels of personal taxation.

The likelihood is that the differential between Irish and German interest rates will be lowered and hence sectors with large domestic demand are likely to benefit from lower interest rates and reduced personal taxation. This effect is considered to be low from a dairy and meat point of view as the income elasticity of demand is low for these products. Also the link between investment demand and the meat and dairy sectors is also important as lower interest rates may significantly stimulate investment. Benefits from lower interest rates depend on stock levels, capital structure and degree of dependence upon the Irish capital markets.

The dairy sector is classified as having a low sensitivity to interest rate changes. Most Irish Food companies have reasonably high gearing levels. Also, dairy production is highly seasonal and consequently demands for working capital vary greatly during the year. The expected reduction in interest rates will have a positive impact on already tight margins and should lead to a reassessment of the capital structure by firms in the industry.

The effect of lower interest rates depends upon the size of domestic market, size of the "unit", income elasticity of demand, sectoral investment demand sensitivity to interest rate changes, stock levels, capital structure and degree of dependence upon the Irish capital markets.

### *Transaction Costs*

Overall transaction costs tend to be relatively low and can be classified into two main areas:

- Hedging costs : the major cost involved is that of hedging forward against future currency fluctuations. Hedging costs can amount to 1%, and therefore can be significant in sectors with low operating margins
- Currency conversion costs : whilst the costs of currency conversion are low, it is likely that the convenience factor involved may encourage companies to enter new markets as complicated currency conversions is a negative under the current situation. The costs of currency conversion have been measured by the EU at around 0.4% of EU GDP.

### *Stability*

The confidence and stability effects from having a stronger currency are difficult if not impossible to quantify. However if the likelihood exists of greater instability against Sterling, investment in those sectors facing stiff competition from the UK may be discouraged. Conversely investment in those sectors based on EU wide competition may be encouraged.

### 7.4 Broad Impacts of EMU for agriculture - as a supplier to the Dairy Industry

The primary sector is the main supplier of raw materials to the Dairy industry. The Dairy industry receives price and market support in the form of export refunds and intervention which are designed to be passed on to farmers in the form of higher prices.

The impact on the agricultural sector of EMU is through the macro-economic channels of influence outlined above. However the agricultural sector is subject to the Common Agricultural Policy and if financed through European funding (EAGGF/FEOGA). Payments are made based on the ECU (European Currency Unit). Guarantee payments comprise market support (intervention and storage and export refunds) and direct payments. The significance of these payments and the trend away from market support to direct payments can be seen in the following table:

| £m | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|
| **Market support** | 1070.7 | 1137.7 | 811.1 | 869.8 | 764.1 | 632.5 |
| **Direct support** | 281.0 | 229.9 | 279.3 | 326.2 | 470.0 | 611.0 |
| **Total** | **1351.7** | **1362.5** | **1090.4** | **1196** | **1234.1** | **1243.5** |

Source : ESRI, 1996

**Table IX Market Support and Direct Payments Trends**

The Agri-monetary system is designed to smooth out day to day fluctuations in market exchange rates by maintaining stable green rates until a variation of 5% exists between the national currency and the green rate. It therefore also delays the impact of changes in exchange rates on the agricultural sector.

Monetary union on 1 January 1999 is occurring at a time of increasing trade liberalisation and CAP reform, and will change the nature of the CAP payments. The green pound will disappear for Euro-11 countries. However the UK green pound will continued to vary with its market exchange rate.

In conclusion, the ESRI argue that as farm incomes become more flexible in the future, exchange rate fluctuations are likely to be shared by the Dairy companies and farmers. This is due to the fact that in the past, competitive pressures from Sterling devaluation have been absorbed by the processing sector due to CAP administration of price levels, use of intervention, export refunds which effectively set a floor price for supplies.

The reduced farm prices passed on by the processors should be cushioned to a certain extent by the increase in direct payments.

The current relationship that exists within Irish Agriculture, where farmers / suppliers are also principal shareholders in the major plc.s could become increasingly strained as processors attempt to pass back reduced prices to their suppliers who are also major shareholders.

The ESRI have put EMU in perspective for the Agricultural sector *"While the EMU could have some implications for the agricultural sector in the coming years, the future direction of the CAP is potentially a much bigger issue"*.

The removal of the Green pound for Euro-11 members will remove an additional level of bureaucracy in monitoring and administration and hence will free up resources to be used in more productive activities. Those Irish companies with UK operations will still need to deal with the green pound however.

The Agri-monetary system for those countries participating in the first wave will be abolished with the introduction of the single currency. CAP related payments will now be made in Euro.

The pressure on prices and margins arising from CAP reform will be compounded to a certain extent by price transparency arising from the introduction of EMU.

The commodity orientation of Irish processors may potentially be reduced due to CAP reform as higher margins are sought by processors.

## 7.5 Broad Impacts of EMU for retailers - as customers of the Dairy Industry

The following is a summary of the EMU implications for retail distribution in Ireland. There are around 8,500 food retailers, food related or convenience stores in Ireland based on 1992 CSO figures which represent around £6 billion in retail turnover. Ireland has one of the most concentrated retail markets in Europe with around 65% of the market dominated by three companies (Power Supermarkets, Dunnes Stores, and Musgrave controlled retailers).

A survey by Myers and Alexander in 1995 of European retailers found Ireland to be one of the most unattractive expansion possibilities due to the small size of the domestic market. Hence any reduction in currency risk due to EMU is likely to have a significant impact given the survey findings in the short term.

There are a number of significant trends within the retail industry which include:

- increasing concentration and hence retailer power is increased
- growth across Europe
- establishment of central European procurement centres
- closer involvement of UK retailers in the Irish market.

Monetary union effects the following impacts on the retailing sector:

- retailer-customer interface
- point of sale operation including disruption and confusion, costs and resourcing
- distribution channel relationships
- integration of European retail structures.

### *Retail-customer interface*

The retail sector will have the additional responsibility of being a front line with consumers, educating them in the use of the single currency using appropriately trained staff. This would provide an opportunity for a supplier to be proactive in helping the retailer with EMU issues as well as ensuring the consumer is not confused about the suppliers product and any changes that EMU might bring to the product (e.g. pack size variation, psychological price points, content changes). Queuing will also be effected as transactions take longer as customers get used to the currency and queue at either punt or Euro tills. This takes on particular significance in 2001, as retailers might prefer the start date of dual currencies in quieter periods such as after the new year sales. High service levels provided during the transition period could prove to be a competitive advantage.

### *Point of sale operation*

Adjustment of price sources (e.g. catalogues, on the product, on shelf, on the till / POS machine and on receipts). Where to place the dual pricing will be an issue for retailers. Use of bar codes would involve an easier change to pricing. Pricing by weight could be an issue as the per kilo weight and the price for the product will need to be priced in both Euros and punts. Payment impacts such as dual till drawers, cash reconciliations, change currencies and ATM notes need to be considered. Costs of software conversion could be significant and may provide retailers with an opportunity to upgrade equipment. EMU may also encourage the use of non-cash payment mechanisms.

### *Distribution Channels*

Overall, EMU is seen as adding to the integration of distribution channels that is already underway.

In 1996, 40-50% of products sold in retail outlets in Ireland were sourced in the UK. Therefore exchange rate risk is a determinant of retail prices and the likelihood of importing or sourcing locally. However the integration of distribution is seen as having a longer lasting effect. EMU will have other effects for retailers such as:

- reduction in benefits from using say 30 day trade credit and gaining interest on money held due to the reduction in interest rates
- reducing the costs of international sourcing such as currency exchange, fluctuations thereby improving already tight margins
- increasing sourcing and distribution cost transparency : inefficient suppliers will be readily highlighted and opportunities created for reductions in costs.

### *Integration of European Retail Structures*

Cross border trading is on the increase, EMU is seen as not hindering the process.

## 7.6 Summary

Sterling / Euro exchange rate movements could have a significant impact on prices, adjustment could be made by switching source or by renegotiating prices with reductions passed back to the supplier. This could also raise pressure on the dairy manufacturers to further pass back reductions in prices to their suppliers, namely the farming community. In the event of an adverse currency movement, use of UK (including Northern Ireland which is seen as an opportunity for growth) based distribution centres may become increasingly likely for the larger retailers.

Proactive management by suppliers could help build relationships and gain customer loyalty. Retailers will be facing significant costs as they deal with the implications of EMU and margins will be under pressure. It is likely that they may require a contribution from suppliers to costs or be fairly aggressive in price negotiations. Again due to the increasing power of retailers, pressure on dairy manufacturer margins is likely to increase.

Smaller retailers will not be as likely as the larger retailers to be able to absorb the costs that the transition to the new currency will bring. This could provide a competitive opportunity for larger suppliers to help provide guidance and assistance to the smaller retailers, although EMU programmes are being run by the Small Firms Association and IBEC.

# Chapter 8

# Strategic Implications

# Strategic Implications

## 8.1 Introduction

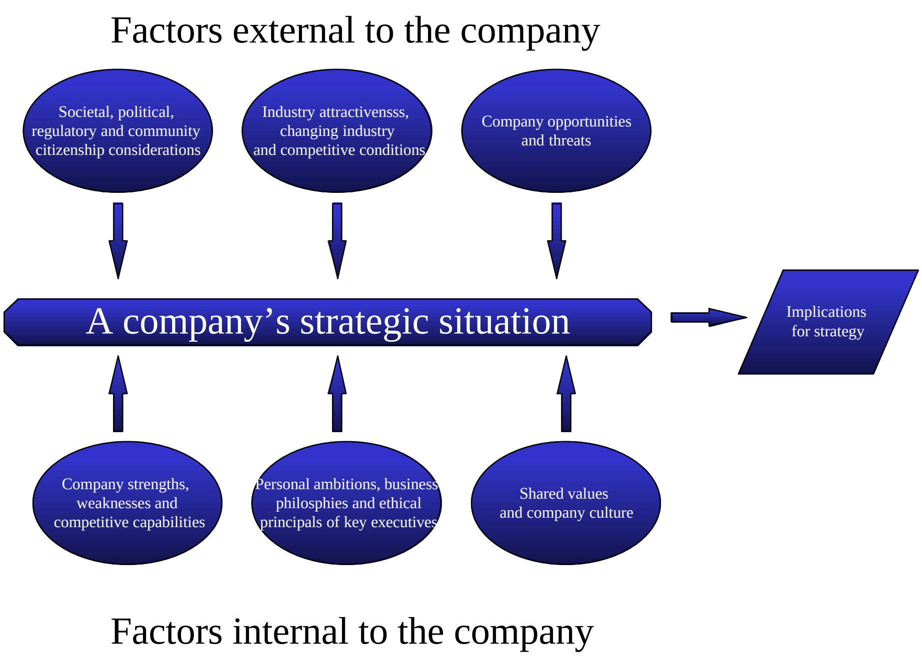
This chapter outlines potential strategic implications of EMU. It sets EMU in the context of other current issues within the Dairy industry and presents a menu of possible strategic effects of EMU. It does not attempt to apply them to companies within the Dairy industry, as each company has differing strategic intentions, however relevant examples from the industry are included.

## 8.2 Strategy

Strickland et al define the 5 tasks of strategic management as:

1. Developing a Strategic Vision and Business Mission
2. Setting Objectives
3. Crafting a Strategy to Achieve the Objectives
4. Implementing and Executing the Strategy
5. Evaluating performance, reviewing new developments and initiating corrective adjustments.

A key aspect of the task of strategic management is the analysis of factors that shape the choice of company strategy. EMU represents a significant shift in the external environment of Irish Dairy companies and has potentially far reaching implications for the choice of strategy and tactics. Economic integration effects, monetary channels of influence (interest rates, exchange rates, hedging and transaction costs and business confidence) and other single currency effects should be fed into the strategic planning process. An assessment of the implications of EMU should therefore be made as part of the ongoing feedback loop to strategy and tactics to ensure strategies remain current and appropriate. The role of the external environment in setting business strategy is represented in the following diagram:




Source : Strickland et al

**Exhibit V Factors influencing Business Strategy**

In a multi-business unit company, the strategic planning process should also involve an examination of corporate level, business level, functional and operating unit strategies and tactics. EMU is therefore an all pervasive issue.

## 8.3 Monitoring the External Environment

The existing economic environment monitoring functions within companies will need to be adapted to cope with the new economic environment that EMU represents. In some cases EMU may provide companies with the impetus to create economic or environmental monitoring functions to keep up to date and ensure opportunities and risks arising from the EMU environment are identified early. For example, the potential impact of the Euro on the value of the US dollar appears to have been largely ignored by companies to date. Many companies have presumably set up structures to monitor developments at an EU level in terms of food regulation, standards and hygene.

## 8.4 Dealing with the uncertainty of EMU

The strategic issues arising from EMU are much less tangible than the operational issues which are more certain and concrete and hence easier to deal with.

Courtney et al argues that adopting a wait and see strategy for dealing with uncertainty until the future becomes clear can create a window of opportunity for competitors. This could be clearly the case with EMU as competitors seize the potential opportunities created by EMU and challenge the existing industry mind-set, for example through the use of electronic commerce.

The first stage of dealing with uncertainty is gaining knowledge of the situation. Information can reduce the level of uncertainty facing a company and to this extent creating an EMU function would be a useful starting point for companies as the function would provide a central knowledge repository for the volumes of EMU information that is available.

A number of industry consultants are stating that from a strategic perspective, the key question is not whether are you prepared but rather can you afford not to be prepared for EMU.

Many companies are appear to be relying on the fact that they are quick adapters and are adopting a "wait and see" approach. For large companies this poses a risk in that mobilising staff and effecting change can take a number of years - at the time of writing there are less than 4 months until Stage 3 of EMU becomes a reality.

At the time of writing, considerable uncertainty remains for Irish business. Issues include:

- Likely date of entry of UK into EMU
- Rate of adoption in trade

- Consumer reaction to Euro and price points
- Level of volatility between Euro and Sterling and US dollar
- Credibility of European Central Bank.

### 8.5 Survey of Areas of Potential Strategic Impact

EMU potentially effects all business areas as illustrated below:

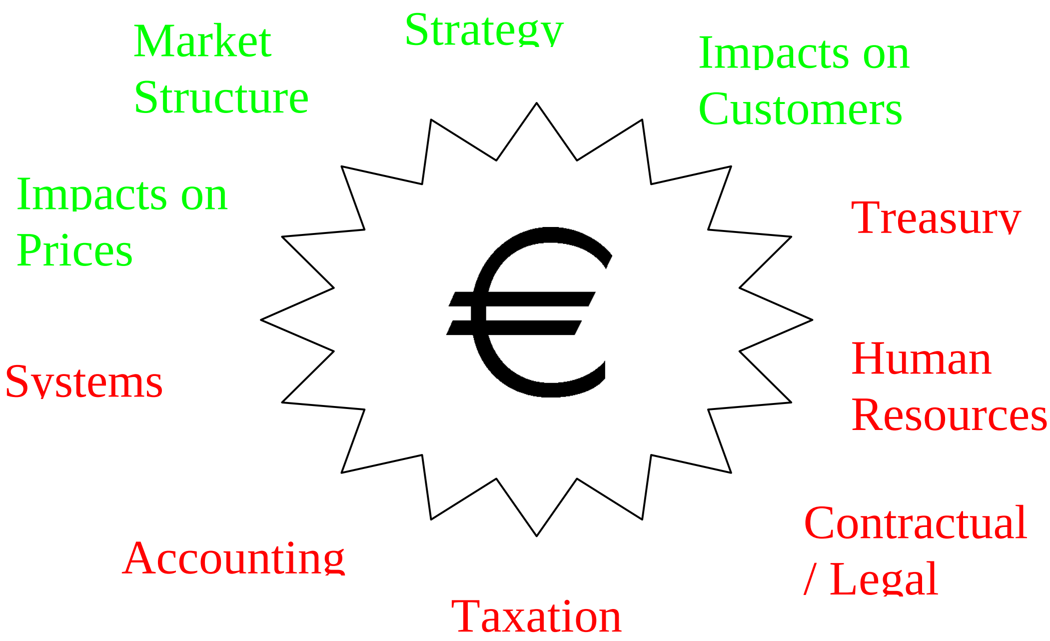



**Exhibit VI Areas influenced by EMU**

The evidence from the FEE 1997 Survey of Companies across European Union countries ranked the following issues in order of importance:

1. Accounting and financial reporting 84%
2. Marketing, pricing and distribution 80%
3. Internal financial management 75%
4. Treasury management 73%
5. Information technology 72%
6. Purchasing 69%
7. Legal/Contractual issues 59%

| | | |
|---|---|---|
| 8. | Staff Training | 52% |
| 9. | Taxation | 52% |
| 10. | Strategic business | 51% |
| 11. | Location of suppliers | 28% |
| 12. | Production | 18% |
| 13. | Location of production plants | 11% |
| 14. | Other | 14% |

This survey shows that many companies are focusing on essentially operational issues, as many of the strategic issues are ranked very low in importance.

## 8.6 Strategic Impact

A method of determining at a broad level the potential strategic impact of EMU is reproduced below. The checklist was developed by the FEE.

The statements set out below help in assessing the importance of the introduction of the Euro for a company. Consider the extent to which each of the statements is true for the company (on a scale of 1-5). The more the statements apply and the higher the indicator number, then the greater the likely effects will be for the company.

1 = does not apply at all; 5 = applies strongly

| | | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1 | We buy from more than one member of the European Union | | | | | |
| 2 | We sell in more than one member of the European Union | | | | | |
| 3 | We operate in a highly competitive marketplace with relatively easy barriers to entry to overcome | | | | | |
| 4 | We operate on low margins and added competition is likely to erode those margins further | | | | | |
| 5 | Our margins are lower than those of our competitors | | | | | |
| 6 | Our costs tend to be higher than our competitors | | | | | |
| 7 | We use differential pricing in different European Union national markets | | | | | |
| 8 | Our customers are not particularly loyal and are unlikely to remain with us if prices and service standards change and we are unable to match the changes | | | | | |
| 9 | We expect the introduction of the Euro to create new market opportunities for us. | | | | | |
| 10 | We expect new competitors to emerge | | | | | |
| 11 | Our competitors expect to change over to the Euro early on | | | | | |
| 12 | Our suppliers/customers expect us to change to the Euro early on | | | | | |
| 13 | We would like to establish new strategic partnerships in other Union countries | | | | | |
| 14 | We see strong possibilities for mergers and acquisitions in other Union countries | | | | | |
| 15 | We see ourselves as vulnerable to acquisition or merger pressures | | | | | |
| 16 | We are looking for opportunities to restructure the business | | | | | |
| 17 | We believe that we have opportunities to develop our product range and patterns of production | | | | | |
| 18 | We want to look for new cheaper/more reliable sources of raw material | | | | | |
| 19 | We see a need to review our manufacturing arrangements | | | | | |
| 20 | We have plans for significant new investment | | | | | |
| 21 | We want to explore opportunities for new purchasing arrangements | | | | | |
| 22 | We are heavily dependent upon small suppliers/outlets | | | | | |
| 23 | We believe we can utilise technology to expand our markets | | | | | |
| 24 | We will be looking for new sources of capital finance in the next few years | | | | | |

Source: FEE

**Table X Checklist to assess the importance of the Euro**

## 8.7 EMU in context

Stage 3 of EMU will be implemented at a time when many other complex and significant business issues are on the Board Room agenda. Issues for Irish dairy companies as derived from the industry overview in Chapter 4 include:

- Increasing retailer concentration within Europe
- Globalisation of the food industry
- Increased regulation from Europe in relation to food hygiene, traceability, etc.
- Introduction of a minimum wage
- Year 2000 computer date problem
- Asian and Russian economic crises
- CAP reform

- WTO / GATT liberalisation
- Partnership 2000 / wage pressures.

### 8.8 Strategic Implications of EMU

This section outlines the potential strategic implications of EMU and attempts to back the assertions up with statistical information and commentary from industry sources where possible. It is important to note that the remainder of this chapter contains items to take into account when performing a strategic business impact analysis of EMU for a company. It will outline areas of strategy where EMU is expected to have implications for companies. However it is important to note that the significance of these strategic impacts will vary greatly from company to company depending on factors such as company size, extent of exporting, industry sector, resources available, industry position, etc.

A Menu of potential strategic issues has been prepared by FEE:

1. For companies operating only within national markets as well as those operating across national boundaries, competition will become more severe.
2. New competitors will emerge.
3. As a result of increased competition prices are likely to fall.
4. Cost comparability (transparency) will also occur and this may lead to a levelling up of labour costs even though other costs may fall.
5. However, the long run investment climate is likely to become more stable with lower financing costs.
6. Input costs to businesses are likely to fall.
7. Customer expectations are likely to change about quality, packaging and service levels.
8. There will be new market opportunities.
9. Opportunities for developing strategic partnerships will change as will the possibilities for mergers and acquisitions.
10. The structure of the business may need review because of new competitive pressures, perhaps from manufacture to assembly to

marketing.

11. Should the product range be streamlined and brands merged?

12. Are there new opportunities for volume production?

13. Are there new opportunities for low volume but high value products?

14. Should sources of raw material be changed?

15. Can long run purchase arrangements be made?

16. Should manufacturing plants be relocated or consolidated?

17. If the company relies on small suppliers or small outlets, do those small organisations need support during the changeover period?

18. Will new opportunities become available to utilise technology to expand markets?

19. Should the companies approach to research and development be rethought?

20. The establishment of a homogeneous capital market will improve substantially the efficiency of capital allocation and this will impact in the longer run in harmonisation of dividends and taxation and in business disclosure requirements.

Source : FEE, 1998

## 8.9 Increased Competition

EMU is expected to result in increased competition within Europe as summarised below:

- instant price comparisons can now be made across Europe for both consumer and wholesale prices, increasing the likelihood of cross-border trading and purchasing
- simplified cross-border trading
- Europe will continue to be seen as a single market by third countries and increasingly so by companies in member states
- removal of currency risk premia is likely to encourage smaller firms to seek export markets not previously considered worthwhile due to costs of market entry
- reduction in interest rates encouraging investment
- the increased attractiveness of the EU as a source for foreign direct

investment as the single market becomes more attractive to foreign companies

- companies will be able to build scale to access the enlarged domestic market. This may result in competitors access previously “protected” domestic markets
- favourable economic growth within Europe is a stated objective of the ECB, this will support investment and market growth
- new entrants due to market opportunities and reduced costs of investment.

Many companies are already dealing with competitiveness issues. The Avonmore Waterford Group (AWG) have announced a major reorganisation recently. The need for change is described in the press release as reflecting:

- Changing consumer purchasing and consumption trends
- Continuing integration and globalisation of the food industry world-wide
- Further consolidation of the retail sector internationally
- EU Agenda 2000 proposals which will reduce market supports for milk, beef and cereals
- Future WTO agreements which will further liberalise international trade.

Hence EMU is not described as having a major influence on the competitiveness program at AWG. However, AWG are consciously readying themselves for increased competition which will indirectly address any EMU competitive effects.

### 8.10 Financial Implications

Financial implications of EMU include:

- channels of economic influence described in Chapter 5 (exchange rates, interest rates transaction and hedging costs)
- costs of the EMU project itself
- potential loss of gross margin due to competition and price transparency effects.

The cost of an EMU project for an individual company can be significant. IBM estimate that the costs to European businesses will amount fo £130-200 billion with many people arguing that it will cost more than the millenium bug / Year 2000 computer problem. Under accounting regulations, these costs must be written off in the year incurred, thereby dampening profits in 1998 and beyond. Based on a recent survey, a leading retailer estimated that the costs of EMU would amount to 2% of sales turnover for the first two years of EMU, whilst Mercedez Benz have reported that they expect to recoup EMU costs within two years.

Irish interest rates are expected to fall with EMU, and according to the IFA, the Euro-short term interest rates will be about 2% below current Irish rates. Most Irish Food companies have reasonably high gearing levels. Also, Irish meat and dairy production is highly seasonal and consequently demands for working capital vary greatly during the year. The expected reduction in interest rates will have a positive impact on already tight margins and should lead to a reassessment of the capital structure by firms in the industry.

### 8.11 Cost Transparency

Under EMU, costs will be transparent across Europe. It can be argued that the ability to compare costs existing already, however this process was clouded by exchange rate uncertainty and many companies were not organised to take advantage. This is evidenced in the recent moves by UK retailers to establish Pan-European procurement centres. However as one industry insider put it *"everyone had calculators before EMU"*.

Wage transparency may result in the levelling of labour costs around Europe to a certain extent. Wage bargaining may involve direct comparison of wages across Europe and may increase productivity comparisons between countries and industries as part of this process. Ireland ranked as one of the cheapest labour cost countries in a recent UNICE report. (Ranked 3rd against the European countries, Australia, Canada, Japan and USA). Whilst labour mobility is one solution to wage differentials, research has shown that due to cultural and language reasons, European labour is not as mobile as its US counterpart. As a result, transparent wage differentials and trade union pressure, should lead to pressures for wage increases within Ireland adding to the existing pressures on Partnership 2000. Differences in labour productivity are highlighted in the following table:

| | Productivity (%) | Costs (%) | Jobless rate (%) |
|---|---:|---:|---:|
| **Austria** | 90.9 | 89.5 | 4.4 |
| **Belgium** | 97.6 | 107.6 | 9.2 |
| **Finland** | 81.4 | 93.8 | 14.0 |
| **France** | 95.3 | 95.5 | 12.4 |
| **Germany** | 92.9 | 95.3 | 9.7 |
| **west** | 100.0 | 100.0 | 8.3 |
| **east** | 60.4 | 74.4 | 15.7 |
| **Ireland** | 69.5 | 71.8 | 10.2 |
| **Italy** | 85.3 | 79.9 | 12.1 |
| **Netherlands** | 85.4 | 94.4 | 5.2 |
| **Portugal** | 34.5 | 37.4 | 6.8 |
| **Spain** | 62.0 | 66.9 | 20.8 |
| **UK** | 71.7 | 68.0 | 7.1 |

Source : Kiel Institute of World Economics, 1997

**Table XI Differences in Labour Productivity**

Input costs : Potential for international sourcing without currency risk will lead companies to seek alternative sources of supply or place downward price pressure on existing agreements. This is the converse of the price transparency pressures outlined below - i.e. Suppliers will be able to place pressure on their suppliers.

Costs are also likely to alter due to increased competition within Europe, a fall in financing costs due to lower interest rates and exchange rate costs, greater scale and an enlarged domestic market.

## 8.12 Products

EMU may provide the opportunity to increase volume across Europe with Pan-European products due to increasing depth of the single market. It may also increase the opportunity to develop products for identified market niches where higher value could be obtained.

A review of brands and products should be undertaken to determine whether rationalisation is feasible. For example product variations across Europe can reflect culture and local market requirements.

Also as costs are lowered under EMU, previously uneconomic products may now be feasible to produce to an increased domestic market.

The change brought to the marketplace by EMU should lead to companies refocusing their Research and Development to ensure any changes to the marketplace and customer needs are understood and acted upon.

## 8.13 Price transparency

Price transparency is expected to bring a number of changes to the competitive environment within Europe. Under EMU, all Euro11 consumers will be able to instantly compare prices across Europe as a straightforward comparison of prices will be facilitated by the single currency. This is expected to have significant implications and should contribute directly to the expansion of mail order, electronic commerce, internet trading sectors within Europe.

A further product classification can be used to identify the potential impact:

- commodity / non-commodity ("pure" price competition)
- perishable / non-perishable (impacting time to market)
- tradeable / non-tradeable (effecting ability to readily export).

However, the impact of price transparency depends on levels of competition and psychological price adjustments, the composition of costs and the tradeability of the products. For the food industry, price and cost determinants include:

- bargaining power of multiples
- response to demand of changes in price
- alternate sources of supply
- Pan-European transport and reducing logistics costs
- indirect tax rates - e.g. there is no VAT on food in the UK
- distribution structures and costs
- "cost of location"
- local wage rates.

The main impacts of transparent pricing across Europe is expected to be:

- Revision in psychological pricing : new price points acceptable to the consumer will need to be developed, thereby having significant knock-on effects

- An increase in the provision of information on products and services using media such as the Internet. Obtaining information will be less costly than previously

- Increased competition as consumers can potentially source products across Europe. The significance of this impact depends on the tradability of the product or service, degree of branding, the costs of transportation and the potential cost saving involved

- The gradual erosion of discriminatory pricing (charging different prices in different markets with different elasticities of demand). However, 48 per cent of Irish companies in a recent IBEC survey indicated that price transparency would cause no major difficulties for territorial pricing

- Reduced margins as competition intensifies on both the domestic market and abroad, margins are potentially eroded via pricing conversions, discriminatory pricing is reduced

- In addition where price differentials exist to a significant extent between markets, it is possible that these products may be re-imported thereby increasing competition and placing further downward pressure on prices.

- The accordian effect of own brand and branded price differentials.

Current estimates place a value of approximately 0.8 Irish pounds for one Euro. As a result, Ireland is "fortunate" in that it is the only Euro-11 participant whose currency unit (Irish punt), is "worth less" than one Euro. As a result, price compression issues will be less of an issue than for say Italy or France and the likelihood of margin erosion will be less also.

For example, price transparency will place pressure on margins. To maintain margins on existing products the following could be considered:

- Pack size variations could be an option to maintain margins as new psychological price points are identified

- Rounding up to the nearest price point (limited in use by EU regulations)

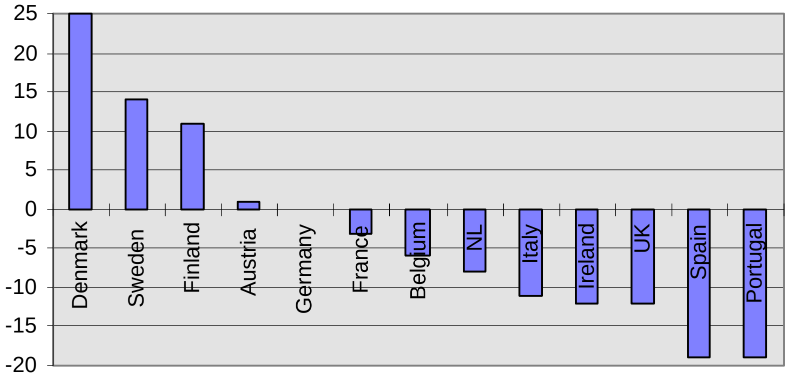
- Alteration of product content
- Relationship Marketing : the challenge for Irish Food companies is to respond to the customer service opportunities posed by EMU. Some academics argue that relationship marketing is one of the last avenues for sustaining long term customer relationships. The facilitation of customers requirements could offer competitive advantage or at the least, prevent competitive disadvantage
- Branding : effective branding offers a way of maintaining margins. The greenness and environmentally friendliness of Ireland is seen as an advantage, and strong brands have already been established - e.g. Kerrygold. Weak brands are expected to face fierce discounting.

It has been reported that Mars have introduced a new sized Mars Bar recently. The idea behind the pack size variation is that once the Euro takes off, the new pack size will convert naturally to a specified Euro price point with consumers having been used to the new pack size for a number of years.

However any variations to the product have the potential to confuse consumers and to raise the interest of consumer groups, particularly if prices tend to rise or perceived value decreases. Negative publicity is a risk of this approach. The views of the incoming Director of Consumer Affairs (William Fagan having recently resigned) will have an important bearing on the approach to be adopted by individual companies.

Dresdner Kleinwort Benson Research (DKBR) have placed an estimate on the variability of food prices across Europe and found that food is one of the most variable products across Europe as measured by a standard variation of 14.7 for the Euro-11 and 19 for the EU-15. This would indicate that some degree of convergence in prices is highly likely, although food is still one of the most culturally bound products. This would suggest that a certain level of price reduction from EMU is likely given the very high variation that currently exists. DKBR have also identified divergences in tradable consumption prices across Europe, using Germany as the base.

**1999 estimates, based on ERM central rates (except for Britain, Denmark and Sweden)**




Source : Eurofocus, Kleinwort Benson Research

**Table XII : Divergences in tradeable consumption prices against Germany (%)**

To demonstrate existing variations in food prices across Europe, below is a comparative price of a Big Mac in local currency converted to US dollars, for August 1998:

| Country | Price of Big Mac |
|---|---|
| Austria | 2.62 |
| Belgium | 2.87 |
| Britain | 3.05 |
| Denmark | 3.39 |
| Finland | 3.70 |
| France | 2.84 |
| Germany | 2.78 |
| Greece | 2.20 |
| Ireland | 2.61 |
| Italy | 2.47 |
| Netherlands | 2.63 |
| Spain | 2.40 |
| Sweden | 3.00 |

Compared to a US cost of 2.59. Luxembourg & Portugal not included

**Table XIII Price of a Big Mac**

Also, the variations in the price of Scotch Whiskey can be seen below:

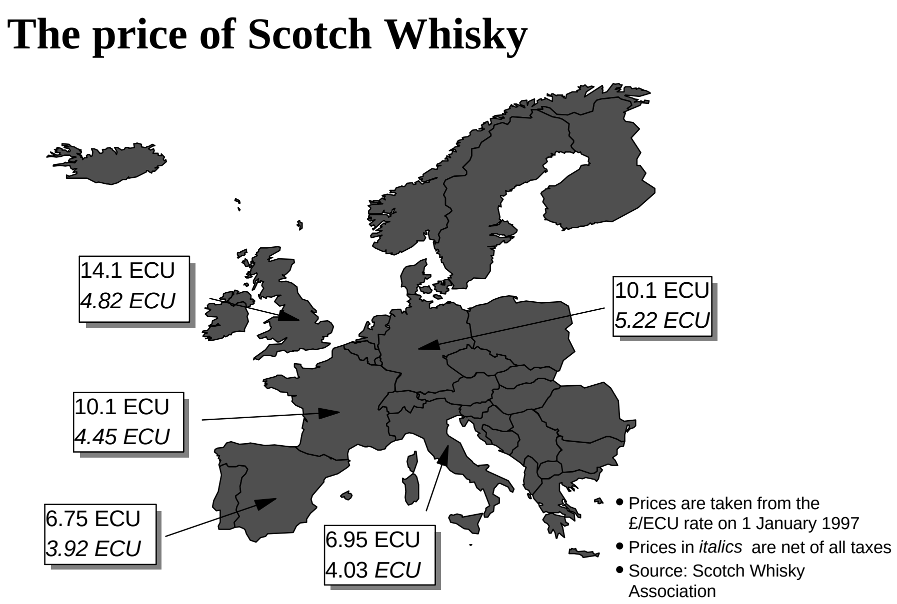



**Exhibit VII    Price of a Scotch Whiskey**

### 8.14 Impact of the Euro on psychological price points

The use of psychological price points is widespread throughout the retail industry. The effectiveness of new psychological price points depends on consumer reaction, both to the new product offering and to the new price point. Price points will be altered due to the conversion from punts to Euros at a likely exchange rate of around 1 Euro equals 0.8 punts. As a result, alteration to price points could lead to:

- margin erosion as new price points acceptable to the consumer are sought and rounded downwards to the nearest Euro price point. Negotiating power between retailers and suppliers will determine whether the share of remaining gross margin remains prior to conversion
- pack size variation to maintain margins
- product content changes to maintain margins.

The Euro will require significant alteration to these price points, as new Euro price points are established. For example, 99p will translate to 124 cents at a given exchange rate of 1 Euro = .8p. This raises the issues of where is the closest psychological price point, ie, EUR1.19 or EUR1.29. Clearly, if 1.19 is chosen, then an effective margin reduction will occur - existing negotiating power will determine who carries or "funds" the reduction. If 1.29 is chosen then margins will increase and adverse consumer reaction may occur.

For own brand and branded products similar issues exist. Take the following example, assuming 1 Euro = IEP.8.

| **Product** | **Current Price (£)** | **Converted (EUR)** | **New price point** |
|---|---|---|---|
| **Own brand** | 114p | 142.5 | 139 or 149 |
| **Branded** | 124p | 155.0 | 149 or 159 |

Various Euro price points based on current estimates of lock-in rates are identified in the following table:

| | | | | | |
|---|---|---|---|---|---|
| **Euro** | 1.00 | 0.49 | 0.99 | 1.99 | 9.99 |
| **DEM** | 1.96 | 0.96 | 1.94 | 3.90 | 19.58 |
| **FRF** | 6.60 | 3.23 | 6.53 | 13.13 | 65.93 |
| **ITL** | 1940 | 951 | 1921 | 3860 | 19380 |
| **IRP** | 0.78 | 0.38 | 0.77 | 1.55 | 7.79 |
| **UK£** | 0.68 | 0.33 | 0.66 | 1.35 | 6.79 |

Source : European Insight Group, 1998

**Table XIV Euro Price Points**

As can be seen, significant price "compression" issues exist for say, the Italians (who are also introduced to decimal points in currency for the first time) face compression from ITL 1929 to EUR0.99

Also, products with higher retail sales prices could also suffer from higher margin losses:

| | Euro RSP | Market | Previous | Margin LOSS % |
|---|---|---|---|---|
| **Holiday** | 599 | 1,174 DEM | 1,290 DEM | 8 |
| **PC** | 999 | 679 UK£ | 799 UK£ | 15 |
| **Car** | 49999 | 97M ITL | 100M ITL | 3 |

Source : European Insight Group, 1998

**Table XV Potential Margin Losses**

Companies will have to monitor closely the effect of the new psychological price points. Sales data will demonstrate consumer reaction to the new offerings. By necessity, this may require more detailed analysis, for example by pack size. This may involve additional resources or the development of an executive information system to help track trends and report exceptions.

The change in psychological price points wil require some retooling or reorganisation of the production process and involve significant costs. Companies have the options of adjusting packaging, investing in new machinery, sourcing from another manufacturer or convert into a marketing company (at least for that product). The option chosen depends on the significant of the product, costs involved and other business specific criteria.

Suppliers and retailers should also work together to obtain a mutually acceptable solution.

## 8.15 Consumers

Consumer reaction to EMU is critical to the Euro will shape and determine each companies response. Both suppliers and retailers are involved in the education and awareness process in some form, which could be used to reduce consumer confusion.

Consumer attitudes and behaviour should be monitored closely prior to and during the transition process to help shape strategic responses to EMU.

The pricing effects of EMU can be likened to the decimalisation of the Irish pound in 1971. Many Irish consumers appear to be wary of Euro conversion due to the perceived inflationary effects of decimalisation in 1971. For example, a box of matches worth one penny pre-decimalisation was still one penny, however the number of pennies in the pound was reduced from 240 to 100. A recent survey by European Insight Group found that Irish consumers were wary of inflationary impacts of EMU.

EMU may lead to changing consumer expectations over quality, packaging and service levels as consumers compare products across Europe, thereby increasing the level of standardisation across Europe.

Consumer awareness will be a key issue that determines that rate of adoption of the Euro as a payment mechanism during the transition period. Consumers are at the end of the chain and from 1 January 1999, the Euro will become more tangible as it will begin to appear on bank statements and consumers take up the option of paying in Euros with their credit cards.

The exact rate of adoption within the trade is unknown and depends upon the levels of adoption by both business-to-business transactions and by consumers. The uncertainty associated with business to business transactions can be reduced by talking to customers and suppliers regarding their needs and preparing a strategy accordingly. Many trade associations are developing codes of practice for members, and this has been evidenced by the Food, Drink and Tobacco Federation code of practice issued in 1998. ICOS is also currently preparing a code of practice for its members.

The rate of adoption by consumers depends on the level of awareness compaigns and the preferences of the individual consumer (subject to “no compulsion no prohibition” in principle). Market research could be used during the transition period to guage consumer and customer opinion. Close contact with customers would provide necessary feedback to ensure that the EMU strategy remains appropriate. Feedback could also be obtained from customer facing staff or use of a Help Desk to answer queries.

## 8.16 Supply Chain

EMU is expected involve an examination of the supply chain in the following respects:

- Already, many Pan-European retailers are establishing Pan-European procurement centres. This is likely to place further demands on existing suppliers in terms of margins and volume required, as suppliers follow their retailers expansion into Europe
- Companies will have the ability to source globally and price in Euros
- The costs of hedging can be pushed up the supply chain
- Increase in extent of pricing in Euros at source
- The need for shortening lead times as price transparency takes hold
- Where companies buy locally and find that this makes prices uncompetitive, companies could source internationally (within the Euro-11) in the same currency
- In conjunction with the free movement of factors of production, it is likely that companies may move to take advantage of low cost areas of production within Europe, via merger or acquisition or strategic alliance
- Working jointly with customers to simplify product assortments as Pan-European products emerge
- Increased competition and margin pressure is likely to be passed on to suppliers in the form of price reductions and forces for efficiency

## 8.17 Investment

The potential reduction of interest rates across Europe and the removal of currency risk premia should provide a positive boost for investment within the EU. Evidence exists that foreign direct investment responds positively to exchange rate stability whilst the impact of trade is weak based on econometric modelling.

The reduction in investment financing costs obtained through price stability policies of the ECB and through lowering of investment costs should result in an increase in investment within Europe as new market opportunities are sought with lower financing costs.

### *Mergers and Acquisitions*

As potential market opportunities increase with EMU, the business structure of companies should be reassessed. EMU is expected to galvanise the single European market and provide companies with increased access to a potential market of around 370 million consumers. Companies are expected to increase scale to operate in the single European market and to take advantage of the favourable investment climate.

The European economic environment is likely to provide companies with reduced uncertainty. Stated objectives of the European Central Bank are to maintain inflation at or below 2%.

The environment for M&A activity is likely to increase as a direct result of EMU due to:

- the requirement to access new markets
- lower cost of capital due to the removal of the exchange rate premium from interest rates and the outlook for reduced inflation. This will increase the acceptance of investment projects on the margin and reduce the required rate of return before an investment is accepted
- overall increased integration of the Single European Market
- removal of currency barrier to cross border trading and sourcing
- the need to be close to the “large” markets within the Euro-11
- price transparency offering the ability to trade on price on a pan-European basis from a retail and business to business perspective.

In addition, the need for increasing scale is also being boosted by a number of other significant factors such as harmonisation of food standards. As a result it is likely that increased merger and acquisition activity should be taking place in Europe in the lead up to 1 January 1999. This hypothesis is backed up by the 1997 KPMG Corporate Finance Survey which indicates that cross-border (intra and extra EU) M&A activity in Europe has reached a new high in 1997 climbing 73% to US$142.17 billion and that companies are “jockeying” for position in the lead up to EMU.

KPMG also state that “the imminent arrival of the single currency has focused international companies looking to expand in Europe. European businesses are stepping up their acquisitions throughout the region in order to strengthen their position ahead of EMU. Other companies from outside the continent are flocking there in preference to other, more volatile markets around the world."

The need for scale has long been recognised in the Irish Dairy. In 1994, Goodbody Stockbrokers argued that in order to be competitive in the future, a dairy processing company would need to have a turnover of IR£2 billion, and an annual R&D spend of IR£8 million. Avonmore Waterford Group has achieved scale of £2billion as a result of the recent merger with 1997 turnover of IR£2,369.58m. A recent Finnish and Swedish dairy company merger has created a company with a milk quota larger than the whole of Ireland. Meanwhile, the concentration of retailers is growing in Europe - in most European markets, the top five food retailers account for 75 per cent of volume sales. Irish dairy companies will face an increasing need to become pan-European suppliers and grow with their existing customers. EMU will provide an impetus to this.

## 8.18 Electronic Commerce

EMU is expected to be a catalyst for electronic commerce within Europe. Current estimates indicate that on-line internet turnover could reach US$64.4 billion by the year 2001. Electronic Commerce, in so far as it provides a platform for the rapid access of information, will facilitate instant price comparisons across the EU market. Whilst it can be argued that this information was previously available and comparisons could be made using a set of exchange rates, the use of media such as the internet provide users with the instant access to pricing. A US company called Dialogue announced recently that they are planning to provide a price comparison services for selected products across Europe, coupled with on-line ordering facilities.

EC could also provide an impetus for introduction of electronic payment systems within Europe, for example smart cards. In addition increased use of electronic payment systems should have an effect on the need to handle dual currencies in 2001.

However as many of the commodity type products are now sold over the telephone, a possibility exists that this could be automated using electronic trading. However this may not result from EMU specifically, but from other sources.

# Chapter 9

# EMU as a Project

# EMU as a project

## 9.1 Introduction

This chapter outlines the issues involved in establishing an EMU project team, key success factors for an EMU project and key dates from 1 January 1999 onwards.

Whilst the awareness levels are rising as evidence in the recent IBEC survey, many companies appear to be focusing on the short term operational impacts of EMU without necessarily striving for the longer term advantages to be gained from EMU.

PwC outline three strategic options for companies for an EMU project , the choice of which will depend upon the company's own situation and the time left to 1 Jaunary 1999:

- Market leader - aiming to gain competitive advantages from EMU changes and to capture new business
- Best in class - seeking to identify operational areas in which better value can be offered to customers or costs can be reduced
- Minimalist - concentrating on minimising the costs of migration to the euro and otherwise passive.

The success or otherwise of the EMU project depends on a number of factors:

- Strong leadership
- A clear decision on which strategy to adopt - i.e. market leader, best in class or minimalist
- As with any other change program, senior management commitment is a key success factor. This could begin with Board sponsorship and Director responsibility or other senior management appointment
- Use of cross-function teams to address the cross-functional business issues that arise, e.g. the effect of packaging alterations on marketing and production

- Devolution of responsibility of EMU to individual business units
- The creation of an adequately resourced EMU project team to fulfil an advising, coordinating and monitoring role in support of business units
- Sound project management
- Comprehensive communication both inside and with parties outside the company. For example customer requirements will dictate to a certain extent pricing and packaging alterations.

Coopers & Lybrand have identified a number of key success factors for an EMU project:

- Recognition of the need to take some very tough business decisions
- Board sponsorship
- Recognition of the strategic opportunities
- Clear vision
- Gaining and retaining commitment
- Prioritisation
- Effective programme management
- Effective linkages to related projects.

PwC argue that a leadership strategy can extend a firm's options. These include:

- *"Winning market share through an integrated pricing and marketing strategy - if a company is leading the market, it has a chance to shape that market with new as well as existing products and services*
- *Enhancing brand and corporate image as a leading European company*
- *Winning and retaining customers both through credible and careful communications and a considered response to the business changes triggered by the advent of EMU*
- *Negotiating advantageous deals with suppliers, which could result in lower prices and operating costs*
- *Winning the favour of governments that have made a clear political commitment to EMU*

- *Reassuring other interested groups, such as shareholders, regulators and the media, that the company is efficient, forward thinking and ready to make the most of the opportunities that EMU offers".*

## 9.2 Deadlines

The strategic implications of EMU may provide more medium to long term implications due to their nature and significance - the operational implications cannot be ignored. There are a number of important dates involved, some of which are immovable whilst others are indeterminate:

| | |
|---|---|
| 31 December 1998 | Publication of official exchange lock in rates |
| 1 January 1999 | Official date for irrevocable locking of exchange rates. |
| 4 January 1999 | First working day |
| Unknown | Date of rapid take up of euro for trade within industry |
| 31 December 2001 | Immovable deadline for Euro introduction - all companies must be "Euro compliant" by that date |
| Unknown | When will national currencies be withdrawn ? |
| 1 July 2002 | At the latest - national notes and coins removed from circulation |
| Unknown | Entry of UK into EMU. According to Deutsche Bank, markets are attaching 75% probability that the UK will join in 2003 |

# Chapter 10

# Operational Implications

# Operational Implications

## 10.1 Introduction

EMU will effect most, if not all, areas of a company. The intention of this thesis is not to explore in detail the operational implications arising from EMU. However, the remainder of this chapter provides an overview of operational implications for legal, human resource and information technology.

## 10.2 Legal Implications of EMU

EMU is legally based in the European Union Treaties, Regulations and Directives. The legal framework for the Euro is based on the Treaty of Rome (and as amended at Maastricht in 1992) and at the time of writing comprises two Council Regulations which take effect at a European level:

- Regulation 1103/97 "The introduction of the Euro"
- Regulation 96/0250 "Some provisions relating to the introduction of the Euro"

Regulation 1103/97 deals with some of the conversion and rounding issues and provides for continuity of contract. Features of the regulation include:

- 1:1 conversion between the Euro and the ECU
- continuity of legal instruments
- use of six significant figures for conversion calculations and triangulation
- rounding protocol for NCU and Euro conversions.

Regulation 96/0250 comes into effect from 1 January 1999 and provides more detailed legal information surrounding the transition period.

Legal issues arise in all areas of the business. An example of how EMU effects loan documentation includes continuity of contracts, permitted currencies, cost of borrowing, rate references (e.g. LIBOR) are key legal issues for loan documentation.

### 10.3 Human Resources

Given the current state of industrial relations in Ireland, in particular the pressures of Partnership 2000 and the Garda pay dispute, the HRM impact of EMU will require careful managing and sensitivity to ensure a smooth transition that meets the needs of both the company and the workforce. Issues that arise include:

- Impact on terms and conditions of employment, staff loans, salary and pensions
- Impact of wage transparency across Europe on:
  - the movement of labour to higher paying member states
  - wage demands from trade unions to reduce wage differentials
  - productivity agreements as wage transparency will also highlight lower productivity
- Rounding of salary packages (e.g. to the nearest 000 Euro's) and the associated impact on wage levels
- Potential lowering of wage demands as trade unions inflation expectations are reduced
- Training and education of staff in EMU and its impact on the company
- Potential harmonisation of HRM policies across Europe
- Introduction of the universally established Business Day convention will require staff in areas such as corporate treasury to work differing hours and potentially on current Irish bank holidays
- Company pay strategy during the transition period. The "no compulsion, no prohibition" principle means that it is likely that two salary systems may need to be developed to cater for employees that wish to be paid in Euro or punts
- Valuation of staff pension schemes may be effected due to lower interest rates.

## 10.4 Information Technology

The majority of IT systems will need to be amended to cope with EMU requirements. However an examination of the IT impacts should occur after a business impact assessment has been made - i.e. business requirements should precede IT changes. Finding resources to make changes can be time consuming and expensive given the shortage of IT personnel due to Year 2000 projects.

Whatever business process changes are required, as a result of Council Regulations 1103/97 and 974/98, as a minimum systems should be able to cater for the following rules relating to conversion and rounding:

- Conversions rates are to be stated as one Euro expressed in terms of each of the national currencies of the Euro-11 states. Inverse rates are not to be used for calculations
- Conversions rates are to be stated as 6 significant figures and not rounded or truncated when making conversions
- Triangulation : conversions from one national currency unit to another are to be first converted to Euro rates. The Euro amount can then be rounded to no less than 3 decimals and converted into the other national currency unit
- After conversion into the Euro, amounts are rounded up or down to the nearest cent
- In the case of conversion from pounds to Euro, rounding will occur to the nearest sub-unit of the national currency - i.e. penny
- Rounding up is allowed for amounts half way
- Intermediate results are not to be rounded to less than 3 decimal places.

# Chapter 11

# Conclusions

# Conclusions

## 11.1 Introduction

This thesis has outlined the economic effects of EMU and provided a menu of potential strategic implications for businesses. EMU also has operational implications, provides a company with an opportunity to rethink corporate strategies and provides an external impetus to drive change throughout organisations.

## 11.2 Economics

EMU represents a fundamental change in the European economic environment and will influence the behaviour of firms through four main channels of influence - exchange rates, interest rates, transaction and hedging costs and overall business confidence. It is expected to make a significant contribution to European GDP.

Ireland is a small open economy in the context of Europe. It represents around 0.9 per cent of Euro-11 GDP. The loss of national monetary policy and constraints placed on national fiscal policy via the Stability Pact, clearly restrict the ability of national governments to deal with asymmetric shocks. Measures to restore national competitiveness need to be considered as a contingency against such a shock by both the government and individual companies.

## 11.3 Strategy

The research question that was posed was that EMU will galvanise the Single European Market. To summarise how EMU will achieve this, the supply and demand impacts of Stage 3 of EMU are summarised below:

### *Demand side*

- Price transparency across the Euro-11 member states will increase competition across borders at a retail and input sourcing level thereby reducing prices across Europe
- Converging consumer prices across the EU, in particular for tradable goods such as PCs;
- European GDP and hence incomes are forecast to rise as a result of EMU
- Removal of exchange rate barriers to trade

### *Supply side*

- Increased cross border trading;
- Relocation of industries to take advantage of scale and favourable local conditions
- Removal of transaction costs and exchange rate uncertainty will increase investment across Europe as companies take advantage of regional factors such as lower wages, access to raw materials, and increase scale
- Merger, acquisition and strategic alliance activity should increase as a method of gaining rapid access to new markets.

EMU comes at a time of increasing strategic complexity for European companies and as a result, the specific actions of companies to deal with EMU will be harder to isolate as they are intertwined with other business issues. Adopting a wait and see strategy can create a window of opportunity for competitors. Those companies choosing this approach should do so in the knowledge that they are fully aware of EMU and have contingency plans in place to be able to react in the required time frame.

For the dairy industry, the start of EMU comes at a time of many complex issues for the industry which include CAP and GATT reform, pressure for rationalisation, increasing retailer consolidation, increased regulation, introduction of the minimum wage, pressure on Partnership 2000, the Asian and Russian crises and the proposed enlargement of the EU via Agenda 2000. As a result, the specific economic and strategic effects of EMU are more difficult to isolate as they are only part of an increasingly complex business environment. However, operational implications are by their nature more concrete and due to the timeframe of EMU are more likely to be tackled pre-EMU.

Issues arising for the dairy industry are summarised below:

- Pricing pressure : issues such as price transparency, redefining psychological price points, margin erosion, reduction in value differentials between own brand and branded products, increased competition; increasing power of retailers are all increasing downward pressure on prices

- Food is one of the most variable products as measured with a standard variation of 14.7 for the euro-11 and 19 for the EU-15. It is expected that a degree of price convergence will result as cost pressures increase and discriminatory pricing is readily highlighted

- Responses to downward price pressure include increasing focus towards higher value added products which offer higher margins or alterations to pack sizes and product content

- Pressure to maintain gross margin and market share

- Increasing research requirements and careful monitoring of the external environment by Treasury functions

- Increasing Pan-European branding to establish product that can withstand fierce price competition
- Reviewing capital structure to take advantage to lower interest rates and a homogeneous capital market
- Increased conflict between suppliers (farmers) and dairy processors as price reductions are passed up the supply chain
- Impetus for rationalisation and M&A activity as European scale is sought and new markets penetrated, and companies follow Pan-European expansion of major customers. Eastern Europe may provide opportunities
- Working with retailers to minimise consumer confusion
- Increasing competitiveness to deal with increased Pan-European competition and asymmetric shocks that Ireland may face. For example considering profit sharing arrangements

Awareness is the first stage of dealing with uncertainty. Gathering information and research on EMU is a necessary starting point. At this stage, companies must be in a position to ensure operational requirements are ready from 1 January 1999, however strategies should be cognisant of the potential wide ranging impact of EMU over the medium to long term.

In conclusion:

***EMU has the potential to galvanise the Single European Market***

# Chapter 12

# People Interviewed

# People Interviewed

## 12.1 Face to face interviews

| | |
|---|---|
| **ABN-AMRO** | Joe Gill, Food Industry Analyst |
| **AIB** | Michael Barry, Manager, Food & Agribusiness |
| **Bank of Ireland** | Geraldine Hannon, Corporate Banking |
| **AWG** | Eugene Norton, Group EMU Co-ordinator and Financial Controller, Food Ingredients |
| **European Insight Group** | Alan Taylor, Chief Executive |
| **ICOS** | Martin Varley, Director of Policy Development |
| | Mary Kennedy |
| **Irish Dairy Board** | Nicholas Simms, General Manager, Corporate Planning |
| **Irish Exporters Association** | Colum McDonnell, Chief Executive |
| **Kepak** | Barry McChesney |
| **PricewaterhouseCoopers** | Ray Gray, Partner |
| **UCD** | Joe Durkan, Department of Economics |
| | Dr Frank W Roche, Business Policy |

## 12.2 Telephone discussions

| | |
|---|---|
| **An Bord Bia** | John McGrath, European Director |
| | Sean Quinn |
| **Irish Farmers Association** | Con Lucey, Chief Economist |
| **Forbairt** | Kevin Lynch, Dairy analyst |
| **Goodbody Stockbrokers** | Liam Igoe, Investment Analyst |
| **Lakeland Dairies** | Denise Walshe, Financial Accountant |

# Chapter 13

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The above list does not include the many web-sites that I used in producing the thesis which included:

- http://www.euro-emu.co.uk
- http://www.emuaware.forfas.ie
- http://www.euro.fee.be