EMU and the Forest Sector

Preparations for the European Monetary Union, EMU, and the single currency, EURO, are now entering the final stages. On May 1st, the EU Ministers of Finance (the so called ECOFIN Council) meet to agree on a recommendation which countries shall be allowed to participate in EUM from the start. The EU parliament neet on May 2nd to discuss and vote, and the final decision is taken by the European Council (the prime ministers of the 15 national states in EU) on May 3rd.

The final stage of EMU begns on January 1st 1999 when the exchange rates between the participating countries are irrevocably fixed. EURO notes and coins come into circulation on January 1st 2002 and co-exist with the old currencies until July 1st the same year. After that date the EURO will be the only official accepted monetary unit within the EMU-area.

It is npw generally believed that 11 countries will join EMU form the start: Germany, France, Belgium, Luxembourg, Netherlands, Spain, Portugal, Italy,Ireland, Austria and Finland.Denmark, Sweden and United Kingdom have all declared that they do not want to participate (at least not from the start) and Greece will probably not be allowed to jpin EMU, primarily because of its big budget deficit. There is still some unccertainty if Italy will be allowed to enter in the first round. Their membership meets firm resistance from, above all, the German Bundesbank, which fears that the budget situation in Italy is unstable and that Italian membership will make the EURO a weak currency. The Italians have, however, strong backing from the French prime minister, Lionel Jospin, who has declared that France and Italy shall join the EMU together or not at all.

Despite all preparations there is of course room for surprises, and EMU may fail even before it starts. A severe recession, or a financial collapse, will put enormous pressure on the fixed exchange rates during the transition phase. But supposing that EMU really goes ahead as planned, it is an important question to ask for its eventual effects on the forest sector.

One first observation is that two big European exporters of forest products, Sweden and Norway, will stay outside the EMU. This implies that their exchange rate mechanism will not be affected and that their competetive power versus US and Canada will remain the same as before. Finland, the third big exporter in Europe, will definitely join EMU from the start which means that after January 1st 1999, Finland will have a fixed exchange rate towards the big continental countries, notably Germany. This might affect the competetive power of Finland's forest industry in many ways.

The crucial point is that Finland's forest export is large relative to Finland's economy, but very small compared to the economy in the whole EMU area. A fall in forest products demand (caused for instance by an increase of US/ Canada ecport to Europe) will normally lead to a downward pressure on the Finnish Mark which in turn makes Finnish export cheaper, and vice versa if the demand increases. These price fluctuations have so far absorbed part of the quantity changes in demand.

With Finland inside EMU, these exchange rate fluctuations are no longer possible. Thus, it can be expected that the quantity adjustments of the Finnish forest export will increase, meansing that Finland will sell more in boom years and less in recession years. The reverse will be the case for the competing countries.

This is only one possible effect of EMU on the forest industry. Anopther possibility is that, due to the size of the EMU area, future trade in forest products will be priced in EURO instead of US dollars. A third possibility is that the EURO will be a weak currency versus the dollar and the yen, in which case the competetive powers of all forest industries within the area will increase.

Whatever the effects will be, EMU will have an important impact on trade and consumtion pattern and it is wise to analyse the situation before it occurs.

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