4. Services Issues

The trade invoicing issues discussed above are clearly relevant to the services sectors, but in the absence of any data on service trade invoicing, the above analysis for merchandise trade will be assumed to carry over to services as well. Once again, the pattern of trade invoicing is likely to depend on the service and individual industry and market conditions, both world and regional. As many of the services are less dependent on location, and therefore do not incur transportation costs, it can be assumed that the market conditions for many of these services are less likely to be subject to Grassman's law, but once again it is difficult to quantify such things, as data on this topic does not exist..

In the Canadian services sector, there are various industries which will not be directly affected by the changeover as much as other industries, as these industries tend to be involved in foreign exchange transactions on a daily basis. In particular, the travel transportation industry will probably not be adversely affected by the change, and could benefit from the change, particularly as the costs of converting amounts into different currencies may fall due to the use of only one currency[4]. Specifically, the airline industry and shipping and freight industries will likely benefit from the lower costs of conversion, as European currency management can be rationalised to dealing with only one currency the euro. In other words, the analysis of conversion to a single currency presented earlier in section 3.1 will likely be also applicable to most firms in these industries - that is the one-time conversion costs will probably be more than offset by the longer-term ongoing savings from using just one European currency, as long as the company uses more than one European currency. These economies of scale effects will also likely apply to Canadian MNEs with subsidiaries in Europe that have either supply contracts with these subsidiaries or that conduct ongoing trade with their subsidiaries.

Here, though, the business services industry deserves separate attention, as this industry tends to be involved in trade on a contract by contract basis. Also, the financial services sector will clearly be affected by the changeover to the single currency and as this sector is strategically important it also deserves separate attention. For most business services companies with long-term contracts, these contracts will be converted into euros according to the "irrevocably" fixed exchange rates that will be announced at the beginning of stage three of the Maastricht process (January 1, 1999). Companies whose contracts expire before January 1, 2002, will likely retain their existing contracts denominated in national currencies, but those whose contracts expire after July 1, 1999, should be converted into the euro and re-issued if the date of expiration of the contract is after this date, as national currencies cease to be legal tender as of this date. In addition, there is provision for contracts that do not expire till after July 1, 1999, to have legal status after this date, as long as conversion takes place according to the official conversion rates.

The issue of how the rate of conversion of contracts is to handled has recently been decided by the European Council (see European Council (1997) for the legal version and vanTuyll (1996) for a more user-friendly version). Essentially the Council will decide on the conversion rates at the beginning of 1999, and then these conversion rates will immediately come into force (supposedly without any cost for conversion, although this is not stipulated in the Council's regulation). The conversion rates are to be expressed in national currencies per euro defined with six significant figures, and inverse rates will not be used (which is not the case with most exchange rates): thus conversion rates will be defined for all conversions from euros into Member State currencies by dividing or multiplying by a pre-defined conversion factor. For example, if the DM/euro rate is 1.92692 and the Italian lira/euro rate is 1935.41, then to convert DM1,000 into lira, one would divide by the DM/euro rate and then multiply by the lira/euro rate. All cross rates have to be defined in terms of euros (with not less than three decimals) so that there can be no different methods to convert currencies. In the above example, this should yield a sum of L1,004,406 for the Lira/DM conversion factor.

---

4 The European travel industry is also likely to reap significant benefits from the adoption of the euro (see Financial Times (1997b)).