to use the "hardest" domestic currency chosen as a potential EMU participant. Why? First, if there is any possibility of EMU not succeeding, then as exchange rates are "irrevocably" fixed, there is no real incentive to change over to the euro, as the costs of doing so, in terms of drawing up new contracts, and the problems of reconciling accounts in different currencies, will dictate that leaving the changeover until the last minute will be most advantageous for companies that do not engage in a large volume of intra-EU Member State trade. Second, if there is a chance that EMU might fail, then unless the exporters currency is the perceived hardest currency in the EU, there is, in fact, an incentive to use (or convert contracts into) the strongest currency in the EU or to use an extra-EU currency, rather than leave them in current currency terms. In that case, as Crowley (1996b) points out, in the event of a speculative attack on the "irrevocably" fixed rates, currency losses would be eliminated and the probability of currency gains would be maximised.

Third, the results assume that exporters choose the denomination that is currently used for trade. If, for instance, export financing can only be made available in certain currencies that are preferred by financial institutions, then it is not certain that the euro will take the place of the national currencies that are chosen to participate in the final stage of EMU.

Fourth, these results do depend on several strong assumptions, such as full credibility of the new European monetary authorities at the outset, complete and tacit agreement by importers to be billed in euros or the implicit conversion written into the trade contract. For example, importers outside the EU may simply not wish to trade with the euro as they are unfamiliar with it, and request that trade take place in US dollars instead.

In terms of the effects of trade invoicing effects on Canada, there are a several possible approaches that can be taken - each one is presented in turn below.

The first approach is to use the Hartmann (1996) approach given a disaggregation of Canadian imports by country, using very broad assumptions relating to the invoicing practices of EU exporters and the nature of the types of goods being exported. This approach also depends on the Member States that are chosen to proceed to the final stage of EMU, as this will determine the volumes of Canadian imports and exports that might be denominated in euros. Because there is limited data on individual Member States available in the CANSIM database, essentially the data from table 2.9 is used to derive invoicing proportions coupled with the assumptions given in table 3.3 for imports with additional data from Ilkovitz (1994). The results for individual Member States are then weighted and pro-rated across the totals for EU exports from, and imports into Canada. Table 3.4a below summarises the results of this exercise for exports and table 3.4b repeats the exercise for imports.