



SOCIETY OF ACTUARIES

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Thinking About Buying European Goods?

by Alan J. Sheptin

In T.R. Reid's book, *The United States of Europe: the New Superpower and the End of American Supremacy*, we learn more about the European Union (EU), a 25-nation economic and political powerhouse consisting of 450 million middle-class, educated consumers, and its effect on how America and the world at large will have to conduct business and military practices in the future.

But right now, think about a typical day in your life. You start your morning with fluffy eggs, crunchy toast, and cold milk purchased from the local Stop and Shop. After your morning shower, you put on your best Brooks Brothers ensemble, get into your Chrysler LeBaron, and head off to the office, stopping for gas at the local Shell station. Once you arrive at work, you slowly imbibe your Nescafe followed by a Red Bull chaser, and then you read the blast e-mail that proudly announces that your 401(k) is now being managed by Equitable.

"I'm such a patriot, I only buy American," you proudly say to yourself.

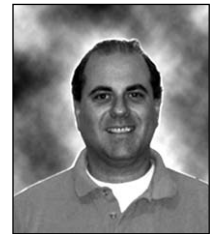
Did you really buy American today? Well, not exactly: Stop and Shop, a major northeastern supermarket chain, is owned by Royal Ahold, a Dutch grocer. Brooks Brothers was owned by Marks & Spencer, but has been acquired by Retail Brand Alliance, an Italian retailer that also owns Sunglass Hut and Watch Station. Chrysler is part of DaimlerChrysler, the German company that owns Mercedes-Benz, Shell Oil is Dutch, and Equitable is a subsidiary

of AXA, a French insurance holding group. And, by the way, Nescafe is owned by Nestle, a Swiss confectioner and Red Bull, that omnipresent beverage of choice of Generation X, is German-owned by Red Bull GmbH.

While American culture has imposed itself on Europe, with the bombardment of McDonald's, Sex and the City, Starbucks and Levis, the Europeans have been putting their stamp on America, not only with exclusive brands such as Louis Vuitton and Gucci, but also with the purchase of significant American corporations and brands. And there's a valid reason that the Jack Daniels you purchased to celebrate your last actuarial exam ever is now sold in 75 cl bottles—not in fifths.

Acquiring American companies provides an additional boon to the Europeans: whereas widespread layoffs are illegal in the EU, employment at will is U.S. standard. That said, when a European multinational is experiencing an earnings squeeze, the U.S. market is the easiest to downsize and reduce expenses, via labor costs.

What makes this story even more compelling is recalling recent European history: just 60 short years ago, World War II ended, with Germany and Italy as archenemies of Great Britain, the Netherlands, France and Belgium. Only 50 years ago, the Soviets pummeled Hungary's quest for independence. And within the past 15 years, the Iron Curtain became scrap metal. Today, formerly communist nations, such as Poland, Hungary, and the Czech Republic, and the Soviet Socialist Republics of Estonia, Latvia and Lithuania are now full-



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fledged members of the EU. Even more compelling is that Bulgaria, once known as the 16th Soviet Socialist Republic, and Romania and Albania, the most severe dictatorships in Eastern Europe, are headed toward eventual membership in the EU.

The EU further fortified just three short years ago, with the introduction of the euro, which replaced centuries-established currencies such as the mark, franc, and drachma (had Julius Caesar traveled to Athens for vacation, he'd have been using the drachma!). Among the major EU nations, only the British resisted in converting the pound. In its three years of existence, the euro has become 50 percent stronger against the U.S. dollar, making acquisition of American corporations and brands from American companies bargains.

This new United States of Europe has more power, wealth and trade clout than the United States of America. While it does not have our military strength, this Union has more votes in every international organization than does the United States, and gives away far more money in development aid to the Third World. In the United Europe, a university education is free and physicians still make house calls. It can afford such luxuries because the United States subsidizes the EU's military bills.

In time, the EU will set the course on financial and reporting standards for all corporations. We must pay particular attention to all developments in this vital market. The International Accounting Standards Association (IASA) will, in time, become the standard by which companies report results, weakening U.S. GAAP as the "gold standard" for financial companies.

Many of us presently work for European-based organizations, and in time more of us could. To wit, here is a small sampling of American insurers have been acquired by significant European holding companies:

- Equitable, MONY: AXA (French)
- Jackson National: Prudential PLC (British)
- Life Re, Lincoln Re: Swiss Re (Swiss)
- Transamerica, Diversified Investors: Aegon NV (Dutch)
- Reliastar, Security Life: ING (Dutch)
- William Penn, Banner Life: Legal & General PLC (British)
- Fidelity & Guaranty: Old Mutual PLC (British)

So, when you think of Europe as a quaint place to visit, full of old churches, foreign languages, art masterpieces and lovely town squares, remember that the United States of Europe has become a force to be reckoned with, stealthily gaining momentum against the United States of America in business and consumerism. □

