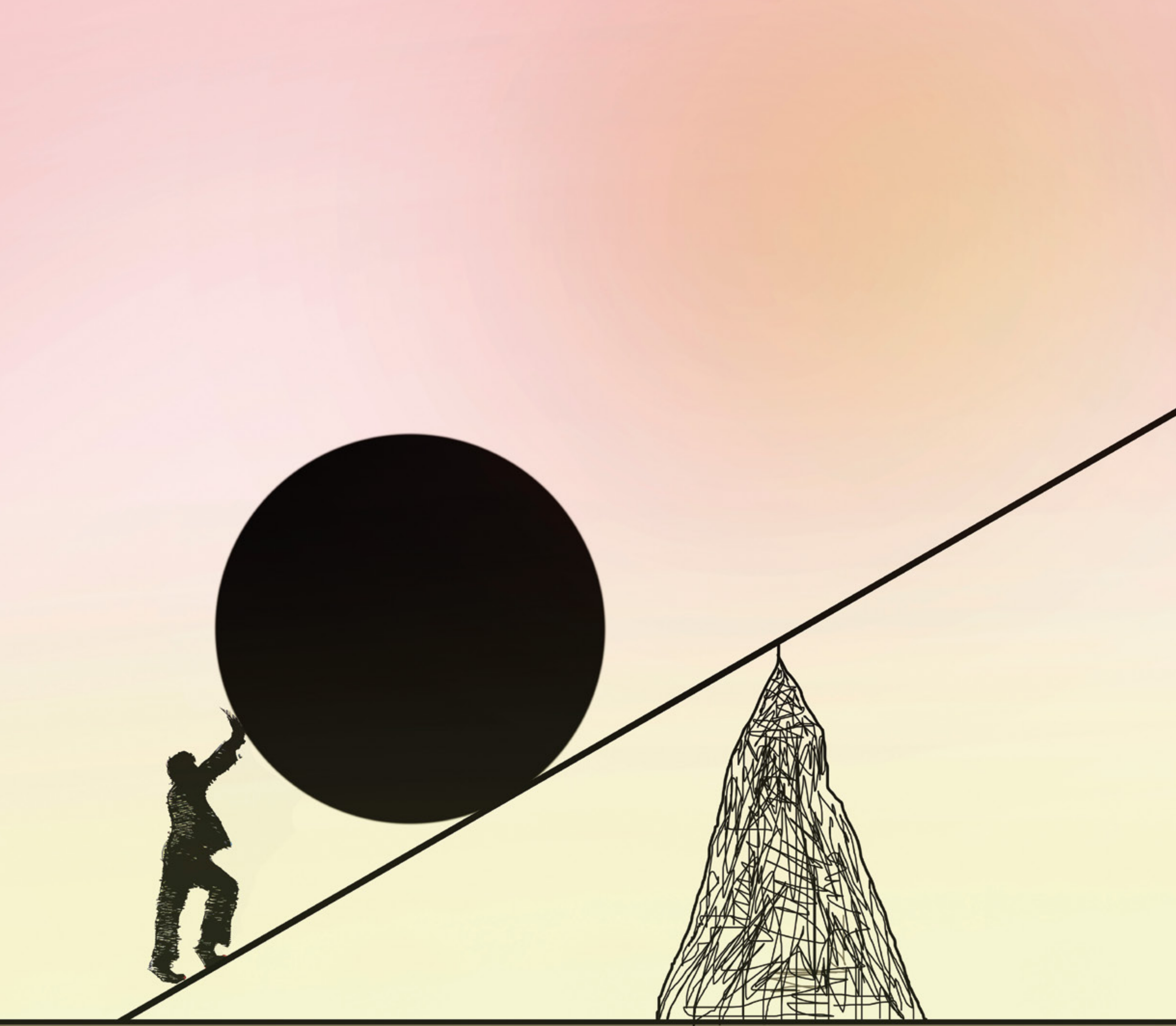
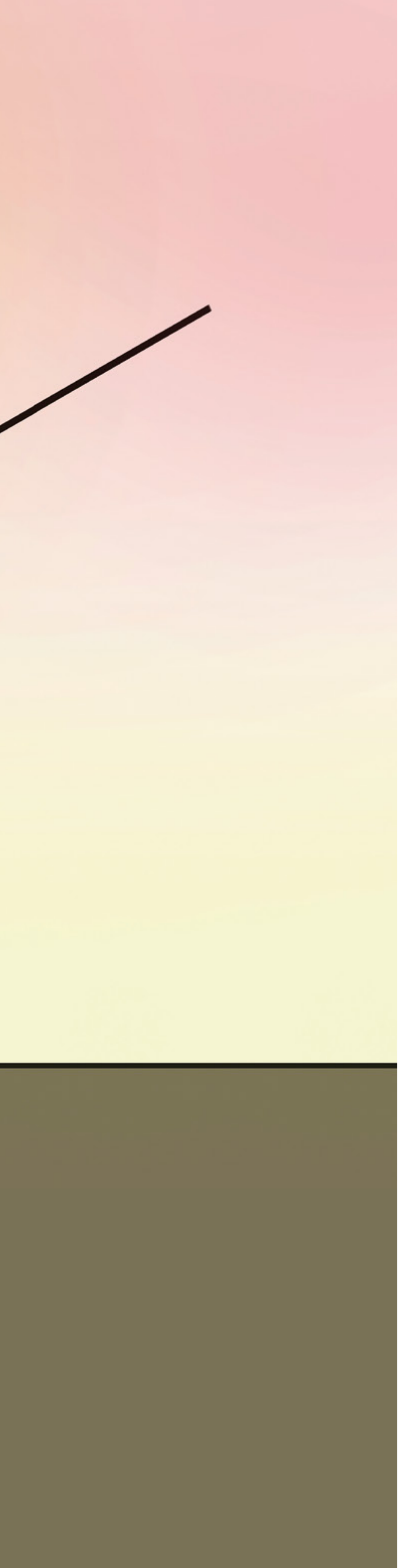


“Whatever it takes”

Policymakers in Brussels and within European parliaments still face turbulence as they endeavour to encourage growth and restore unity. Treasurers are more sanguine, but likewise treading carefully. Ian Fraser reports



Back in July 2012, after a turbulent period when the euro's very survival seemed to be at stake following rolling sovereign debt crises that nearly saw Greece quit the EU, European Central Bank (ECB) president Mario Draghi pledged to do "whatever it takes" to save the single currency. Together with other ECB initiatives, including quantitative easing (QE), that was enough to put a floor under the euro and marked a turning point for Europe.

Four years on, the existential threat to the euro has arguably passed, but large parts of the 28-member economic bloc have yet to fully recover, suffering stagnant growth, high unemployment, low interest rates, below-target inflation and a refugee crisis that is causing fractiousness and disunity. Speaking at the World Economic Forum in Davos two months ago, Draghi admitted that Europe's economy was probably in need of another shot in the arm – possibly including further QE – as inflation remains stubbornly low.

The Italian-born central banker says the ECB has "plenty of instruments" at its disposal to rectify the situation and push inflation back up towards the central bank's 2% target. "We have the determination, the willingness and the capacity to act and deploy those instruments," Draghi told an audience in the Swiss ski resort.

That same week, French president François Hollande was forced to declare what he called a "state of economic emergency" in France, as he unveiled a €2bn job-creation plan aimed at reducing France's stubbornly high 10.2% unemployment and boosting the country's meagre 1% growth – as well as giving himself a chance of being re-elected as president. Hollande was galvanised into action after a package of liberalising reforms, spearheaded by economy minister Emmanuel Macron, failed to make any meaningful dent in unemployment. The declaration came hard on the heels of the national state of emergency Hollande declared after terrorist attacks in Paris and Saint-Denis killed 130 people on 13 November. Unemployment rates in other EU countries, such as the UK and Germany, are half those of France – but they are even higher in Italy and Spain.

Economic growth forecasts

In early February, the European Commission updated its forecasts for EU economic growth, saying it expected the bloc to grow at 1.9% in 2016, down from its earlier estimate of 2%. For the eurozone, it said growth would be a marginally slower 1.7%. Economic consultancy the Centre for Economics and Business Research (CEBR) said: "The trifecta of low inflation, accommodative monetary policies and a weak euro seem to be boosting the region for now."

Corporate treasurers are concerned that Europe's economy could once again go into reverse gear and are taking steps to ensure their firms are ready should conditions turn ugly. The treasurer of a large pan-European energy company, who asked to remain anonymous, says: "The euro crisis could raise its head again, and a lot of pain is still being felt in countries like Greece and Spain. I don't think it would take much."

Corporate treasurers are concerned that Europe's economy could once again go into reverse gear

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Paul Wilkinson, head of corporate finance and treasury at serviced office provider Regus, says: "We'll see some market turbulence, with the possibility of another economic downturn. There are a lot of uncertainties out there, so flexibility is key." Regus, he says, continues to pursue growth, but only "discretionary" growth – which can be turned off quickly. "We are looking very, very carefully at any marginal new investments, preferring not to give them the benefit of the doubt."

Emile Raymakers, group treasurer at Dutch animal feed giant Nutreco, says the company, which was last year acquired by privately held Dutch conglomerate SHV, is well placed to ride out shocks to EU economies. "Nutreco is quite spread out across the world, and our most important markets are Canada, Norway and Spain. We're also in a sector that's less vulnerable to economic downturns – in 2008 we were only marginally affected by the crisis."

What if the UK were to vote to leave the EU in the event of a referendum on the subject? French prime minister Manuel Valls paints an apocalyptic picture. He warned delegates at Davos that European civilisation itself would be under threat were the UK to go it alone. "It would be a tragedy," says Valls. "Europe could lose its historical footing and the project could die quickly. Things could fall apart within months."

In its latest forecast, CEBR says: "A Brexit is still very much a real risk and while the long-term implications of this are debatable, the short-term ones are clearly going to be very negative."

What impact would a Brexit have?

Treasurers appear less agitated by the risk of Brexit, and it's either because they simply don't see it happening, or else because they don't reckon on a major impact for their business. "We're not scenario planning around Brexit," says Raymakers. "I am not aware of it being on the board's agenda."

Sridhar Ramamurthy, group treasurer at Unilever, says he is not the right person to ask about the possibility of either Schengen being scrapped or Britain leaving the EU. "We operate across the world. Yes, Europe is important, but it is only about 25% of our business. The more important thing is to ensure that Unilever, as a company, is prepared to respond in an agile and flexible manner," he says. "Producing thousands of pages of scenario planning will keep the intellectual juices flowing, but it makes more sense just to prepare the organisation to be agile."

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To be sure, there are specific policy-driven headaches for treasurers. Energy multinationals, for example, are concerned about the lack of a level playing field in subsidies for renewable energy across Europe, especially since UK energy secretary Amber Rudd announced a 65% cut in such subsidies in December, and since Germany decided to close down all its nuclear power stations. Some countries like Spain have "pretty much turned off that tap" [of subsidies] as a result of post-crisis, austerity-driven cuts, says the group treasury of a utility giant, whereas in Germany renewable subsidies from feed-in tariffs are expected to remain at about €25bn a year or €600 per German household. The source says: "It's blowing around a bit, so you can't make long-term decisions."

"Producing thousands of pages of scenario planning will keep the intellectual juices flowing, but it makes more sense just to prepare the organisation to be agile"

Priorities for treasurers

Volatility in commodity markets, the oil price, FX rates and continuing uncertainty about when non-US interest rates will rise remain front-of-mind issues for treasurers, especially after an

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extremely volatile start to the year when financial markets gyrated as a result of crude oil slumping to a low $27 per barrel, and the 16 December decision of Janet Yellen's US Federal Reserve to raise US interest rates for the first time in nine years. The changes hammered home the message that a major unexpected shock may be lurking around the corner at any moment.

All the more important then that treasury functions have fit-for-purpose systems that create maximum visibility. Developing real-time or near real-time treasury management systems is the "Holy Grail" for treasurers, says Regus's Wilkinson, and a key plank in their defences against such shocks. Ramamurthy says: "One of our treasury priorities at Unilever is to ensure our IT systems are fully leveraged. We are aiming for real-time information about liquidity and the FX exposures that are arising in different parts of our business, so the central treasury team can apply the right hedging strategy or the right liquidity management strategy."

Nutreco's Raymakers says: "One of the immediate challenges we face is to achieve real-time insight into the development of cash, either from bank accounts or accounting systems, but also in the development of FX exposure." He added that: "luckily, we have quite stringent discipline where FX exposure is concerned. The businesses alert us to their FX exposures on a daily basis, and we hedge them for them."

European corporate treasurers also say keeping track of their banking partners has become more of a top priority, in view of the fact that some banks are shrinking – withdrawing from geographies and lines of business – potentially leaving clients in the lurch as they retrench back to their home markets in response to the stresses and strains, and balkanisation of regulation that followed the 2008 financial crisis.

Assume that volatility is here to stay

Some treasurers say they were caught off-guard when the Royal Bank of Scotland closed its global transaction services arm last year. At its peak, the unit provided 7,000 large corporates with cash management services, including overdraft facilities and trade finance products, but when RBS informed clients it was axing global transaction services in February 2015, the corporates were obliged to find alternative banking partners at short notice. Raymakers says Nutreco has already found alternative banks in affected markets. Ramamurthy says Unilever now keeps international banking partners under constant review, to ensure they're appropriate for the future.

Unilever's Ramamurthy says that treasurers should treat volatility like sea captains treat the weather. Volatility, within exchange rates, commodity prices or other moving parts of the global economy, is a fact of life that underpins everything Unilever's 25-strong central treasury team does. "Anyone in treasury should assume that the volatility is here to stay. To assume that things will normalise and stabilise would be the wrong thing to do."

JURY OUT ON TAX REFORMS

Where tax is concerned, major changes are in the pipeline. The EU has, for some time, been targeting multinationals because of their ability to minimise corporation tax through the use of clever, but labyrinthine, corporate structures that often rely on 'captive' companies based in tax havens, and is seeking to claw back taxes from US technology giants like Apple. On 28 January, the bloc launched an ambitious package of measures aimed at clamping down on such behaviour. Building on the Base Erosion and Profit Shifting (BEPS) agreement hammered out by the Organisation for Economic Co-operation and Development and finalised last year, the measures include an anti-tax avoidance directive that is scheduled for sign-off by June.

Unveiling the European proposals, EU economic affairs commissioner Pierre Moscovici explained that the package aims to level the playing field between SMEs and large corporates. "The days are numbered for companies who avoid paying tax at the expense of others," he said.

Some corporate treasurers welcome the proposals, saying they will give businesses greater certainty by reducing disputes over the application of international tax rules. Others predict massive structural and behavioural change among corporates. The treasurer of one large European energy company says: "This will change how large European corporates structure themselves, fund themselves, pay cross-border interest and run their businesses across Europe, perhaps using more equity in certain positions as opposed to debt."

Regus's Wilkinson believes the proposals are going to be transformative. "BEPS changes both treasury and the thinking about how we do business," he says. He is also concerned that the EU proposals will cause some firms to pay "double tax" and significantly higher tax. "One of the frightening things about BEPS is the extreme transparency it potentially gives to tax authorities in different countries, enabling them to make comparisons and making it easier for them to challenge you."

Others are more relaxed about the EU's planned tax reforms. Raymakers says: "Nutreco's tax department, of course, is highly involved [with BEPS and the EU proposals]. There might also be some impact on treasury." Unilever's Ramamurthy says the proposals would have little impact on the workload of the consumer goods giant's treasury department.

Ian Fraser is an award-winning financial journalist and author