

SPECIAL REPORT

EUROPE:

Risks and Opportunities After the Paris Attacks

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The November 13 terrorist attacks that left 130 dead and many wounded in Paris have reopened old wounds and prompted fresh questions about the viability and vitality of a 28-member bloc of half a billion people with open internal borders sitting next to some of the most unstable places on Earth.

There are five main questions:

- Will the reaction to ISIS terror close the internal borders that have been the engine of EU prosperity?
- Can the EU survive and thrive in present form under pressure from middle Eastern refugees?
- If Greece exits the common currency and Britain leaves the union itself, what happens then?
- How will alienated and under-served home-grown citizens of North African and middle-Eastern origin be better integrated into society?
- Does any of this make Europe a more-difficult place in which to do business?

With all eyes understandably still on the horrific attacks in Paris and the resulting debate over security, ISIS, Islam, Syrian immigrants and Russia's intentions in Ukraine and elsewhere along the Eastern borders, business cannot afford to ignore longer-term and continuing trends in Europe that will directly affect the bottom line and the future.

It wasn't long ago that the major concerns were a weak euro, anemic GDP growth and the possibility that Greece would leave or be thrown out of the common currency (Grexit) and Great Britain would quit the European Union (Brexit). All of those issues remain unresolved, aren't going away, and may be further complicated by the newly-ignited security worries.

That's mainly because Europe's growth path is dependent on a large, vibrant, open market at home taking advantage of technology and communications that is also open to the U.S., China, and its traditional energy suppliers and trading partners in the Middle East and North Africa. Let's unpack that a bit.

From the post-World War II coal and steel community has grown an economy, measured by gross domestic product, a little bigger than that of the U.S. It encompasses a vast swath of the former Soviet bloc, and grants free movement of people across its internal borders. The euro is used by 19 of these countries, and has emerged as a reserve currency alongside the dollar and yen. In general, this has transformed a region difficult for companies to fully exploit into a world powerhouse. And it has made traveling for business or pleasure much easier. American and Chinese companies flooded in, able to sell everything from Cheerios to iPhones from Helsinki to Athens and Lisbon to Bucharest without crippling internal customs duties.

Nonetheless, long before ISIS's export of terrorism, strains were evident in this young political and economic union.

The euro is currently below the level at which it launched in 1999, and may be headed for parity with the U.S. dollar. The European Central Bank has been battling deflation, sluggish growth and high unemployment while struggling with political leaders to keep Greece in the currency despite its massive public debt. The ECB recently cut interest rates to stimulate growth, just as the U.S. Federal Reserve is thinking of raising U.S. rates for the first time since 2008 in the face of a growing economy.

The Schengen area, composed of most EU countries plus Norway, Switzerland, Iceland and Lichtenstein, has made blocking or even tracking the movement of terrorists and other bad actors nearly impossible. After a terrorist from Morocco managed to carry an assault rifle across borders on a train, attacking passengers, there were calls to strengthen border checks. As hundreds of thousands of refugees from Syria, Iraq and elsewhere flooded to Europe, Hungary, Germany, Austria and Sweden closed borders or imposed stricter entry rules.

Following the deadly November 13 Paris attacks, France and Belgium reinstated some temporary checks, which if made permanent and extended would all but kill Schengen, threatening the free movement of goods and peoples and making Europe-wide growth more difficult.

Political leaders favoring European integration have faced a difficult political climate making their case, despite French President Francois Hollande's pledge to take 30,000 Syrian immigrants even after the Bataclan attack.

Meanwhile, anti-immigrant parties are gaining support in Europe. The National Front led by Marine Le Pen in France had their best-ever electoral success in regional elections held December 6. The leader of Italy's Northern League has called for suspending Schengen.

Even before the attacks, British Prime Minister David Cameron faced a tough battle to keep his citizens from voting to leave the EU in a referendum he's promised by 2017. Right now, even with universal support for the French and the singing of La Marseillaise at concerts and football matches across the continent, the tide is rising against many of the underpinnings of the union.

All this comes against the background of decades of neglect and economic inequality for immigrants in Europe. Only fairly recently have Britons of Pakistani origin escaped stereotyped roles of running restaurants or driving cabs. The same for Portuguese housemaids in France. The inner suburbs of Paris and parts of London remain slums comprised largely of failed 1960s-style housing projects that breed discontent.

Unemployment in France reached 10.2%, the highest since 1997, according to INSEE, the national statistics bureau. Youth unemployment is a staggering 24.6%. While Muslims account for between 7% and 8% of France's population, they make up 70% of the prison population.

IMPLICATIONS FOR BUSINESS: What should anyone doing business or traveling in Europe do?

First, listen to your employees' and customers' security concerns. They're real. Reassure them of the security measures you have in place. It's safe to travel in Europe, and even in Paris the cafes and restaurants are defiantly full. Be patient—progress will be made, bad guys stopped, and things will return to more or less normal. Even the Bataclan concert venue devastated by the November 13 attack has pledged to reopen in 2016. Above all, pay attention. Nothing these days is really foreign.

Decades ago, when the EU was 12 members, the Soviet bloc still existed and the euro was a distant dream, concertgoers in Brussels rose as one to the strains of Beethoven's Ode to Joy, treated as sort of an informal European trans-national anthem. Nobody did this in London, Athens or Rome, but the spirit in the EU's home did create a union beyond the hopes of many of its original founders. Can Schiller's hope that "all men shall become brothers" win the day under the pressure of events threatening Europe?

Odds are that it will. Make sure your company is ready.