London-Frankfurt Stock Exchange alliance escalates war for global investment

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The London Stock Exchange and its German counterpart Deutsche Börse have announced a 'strategic alliance'. Initially, the joint operation will trade Europe's top 300 shares. It is planned to start from January 1999 to coincide with European Monetary Union and the introduction of the euro alongside the national currency of the 11 participating countries, which excludes Britain. By 2002 the euro will become the sole currency operating on the Continent.

The alliance was hailed by the leading British and German finance dailies. The *Financial Times* wrote, 'It marks a giant step towards the creation of a single European stock market.... National stock exchanges, with their protected markets and high dealing and clearing costs, have come to seem anachronistic in an age of global investment banking and electronic trading systems'. *Das Handelsblatt* commented that the alliance created the 'kernel for building a unified European stock market.'

Both papers agreed that the alliance 'ends a war' between the two exchanges for supremacy in Europe's rapidly converging financial markets. The London Stock Exchange (LSE) is almost twice as big as Frankfurt and hosts 107 of Europe's top 300 stocks, compared to 37 in Germany. Its decision to accept the German exchange as an equal partner is motivated by fear that, outside the euro area, London may be left behind as investment goes to its rivals dealing in a single currency across the European market. There are already warnings being sounded that the decision will eventually benefit Frankfurt more that the LSE.

The truce struck between the British and German exchanges in reality heralds a war against the smaller European bourses and the major international trading centres, above all New York.

The French daily *Liberation* complains that Paris risks 'nothing less than to be marginalised in the euro area' by the London-Frankfurt deal. The combined capitalisation of London and Frankfurt will be nearly four times greater than the Paris Bourse.

The French exchange had been engaged in negotiations with Frankfurt about linking their operations. Michel Freyche, president of the French bankers' association AFB, denounced the 'clandestine and divisive' nature of the negotiations, and attacked the alliance as 'a bad blow for the euro'. He was particularly critical of Frankfurt's role in striking the agreement to merge trading with the London exchange. Noting that the new European Central Bank is located in Frankfurt, he warned that Germany was defending its own interests against those of France: 'If the capital of the euro is not scrupulous in observing its duties and transparency ... we have every right to feel we have been cheated.'

The broader aim of these changes is to enable European capital to compete effectively against America. The market capitalisation of the combined London-Frankfurt exchange (£2.03 trillion) makes it second only in the world to the New York Stock Exchange (£6.05 trillion) and almost twice as big as Tokyo (£1.22 trillion). It will become increasingly more difficult for the 30 smaller European exchanges to resist joining if their members are to compete against the might of Wall Street and the combined London-Frankfurt exchange.

Ralf Conen, head of research of German private bank Sal. Oppenheim said, 'it's a major step towards a pan-European stock exchange.' He warned that London had been 'in danger of losing out. London had to be aware of how the markets were moving in euroland.'

John Kemp-Welch, chairman of the London Stock Exchange called it, 'the first step towards the creation of a single European market for leading stocks.' Werner Seifert, chief executive of the Deutsche Börse, said the merger was, 'a logical answer to the marginalisation of national and local finance centres.'

The main factor driving this 'marginalisation' of the national stock markets is the increasing mobility of capital. As commodity production has become globalised, operating across continents and time zones, the same process can be seen in the various stocks, futures and capital markets.

A whole series of international tie-ins, creating new stock indexes geared up for the global investor have already taken place: Deutsche Börse has linked up with the French and Swiss exchanges and the Dow Jones to create the *Eurostoxx* index. This competes with the FTSE International *Eurotop* indices launched by the *Financial Times*, the LSE and the Amsterdam exchange.

Michael Marks, chairman of Merrill Lynch Europe, Middle East and Africa and a LSE board member said, 'clients want a pan-European market.' Marks noted that, 'technology has made it much easier for the traditional services of the Stock Exchange to be provided elsewhere. If it wasn't somewhere in Europe, it would have been in New York or on the internet.'

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