France hits out at dollar dominance in international transactions

By Michael Stothard in Aix-en-Provence

France’s political and business establishment has hit out against the hegemony of the dollar in international transactions after US authorities fined BNP Paribas $9bn for helping countries avoid sanctions.

Michel Sapin, the French finance minister, called for a “rebalancing” of the currencies used for global payments, saying the BNP Paribas case should “make us realise the necessity of using a variety of currencies”.

He said, in an interview with the Financial Times on the sidelines of a weekend economics conference: “We [Europeans] are selling to ourselves in dollars, for instance when we sell planes. Is that necessary? I don’t think so. I think a rebalancing is possible and necessary, not just regarding the euro but also for the big currencies of the emerging countries, which account for more and more of global trade.”

Christophe de Margerie, the chief executive of Total, France’s biggest company by market capitalisation, said he saw no reason for oil purchases to be made in dollars, even if the benchmark price in dollars was likely to remain.

“The price of a barrel of oil is quoted in dollars,” he said. “A refinery can take that price and using the euro-dollar exchange rate on any given day, agree to make the payment in euros.”

One chief executive of a CAC 40 industrial group said he supported Mr Sapin’s push.

“Companies like ours are in a bind because we sell a lot in dollars but we do not always want to deal with all the US rules and regulations,” he said.

The uproar over the BNP fine at the usually sedate Cercle des Economistes conference in Aix-en-Provence highlighted what has become yet another friction point in transatlantic relations.

French officials lobbied heavily on behalf of the country’s largest bank and argued that BNP broke no European rules, prompting a debate about whether it had been the victim of US judicial over-reach.

Mr Sapin said he would raise the need for a weightier alternative to the dollar with fellow eurozone finance ministers when they meet in Brussels on Monday, although he declined to go into detail about what practical steps might emerge.

More than half of cross-border loans and deposits are transacted in dollars and in the last global survey of the $5tn a day foreign exchange market, the dollar was on one side of 87 per cent of all trades. Despite efforts to diversify, many central banks say that they still see no real alternative to the safety and liquidity of the US Treasury market, and hold more than 60 per cent of their reserves in dollars.

A senior French official cast doubt on the government’s ability to stimulate the further use of the euro in international trade: “In the end it is hard to know what they can really do. The market really decides these things.”

Mr Sapin on Sunday reiterated comments made last week that the French government was willing to sell some of the €100bn of corporate shareholdings, taking more of an “active management” over its stakes.

He declined to comment on the scale or pace of the sales but said the money would be used “for reducing the debt, for helping to finance our economy, the energy transition and housing”.

When asked about the possible return to politics of former French president Nicolas Sarkozy, Mr Sapin said: “That’s his business, that’s his choice and that of his friends. What is clear to me though is that Nicolas Sarkozy has really not changed.”
His comments followed Mr Sarkozy's detention last week for questioning by an anti-corruption court, which prompted the former UMP leader to make a formal televised riposte.

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**COMMENTS (253)**

**Robert Looney**  |  Change your pseudonym

China and Russia announced a 20 year gas supply contract starting within the next 4 years (there is infrastructure to be built) in the amount of $400 billion. The number is significant since that is how gas is priced around the world. Although they might be trading in their own currencies, the Chinese Yuan pegs to the dollar -- they will pay Yuan against the dollar priced contract. The Russians will receive the Yuan and then (you can be sure) convert them to dollars since they cannot buy machinery or other input materials on the world market with Yuan, unless they will be buying piping and related products back from the Chinese, which will make this a truly losing contract for Russia. While the Chinese will be importing gas to fuel their factories and their export engine, creating jobs and growing the economy as a result, Russia will be pumping out assets from the ground, deliver them via a pipeline, and their economy as a whole will not really benefit. This whole contract being declared dollar-free was mostly a PR stunt, in light of the political mess with Ukraine and the attendant sanctions, since both countries will still need dollars to spend dollars in international supply markets. Also, let's not get ahead of ourselves, $400 billion over 20 years is $20 billion per year. This represents a miniscule transaction as far as the world commodity and raw materials markets are concerned. Again, red meat for the anti-dollar masses, but hardly a credible challenge to the dollar.

Interesting how Sapin, the article and many comments try to dress this up as an extraterritorial overreach by the US. Lots of chest beating about US dominance, retaliation in the EU, unfairness etc but very little about the actual crime.

BNPP very deliberately set out to break the US law in the US. Its Geneva office objected but was overruled. Senior management directed employees to falsify, hide and erase internal and external records. Nor was this a minor incident. It went on for a decade and involved huge sums of money. Why? Because its clients (Sudan, Iran etc) wanted access to US dollar clearing. Note that France had also imposed sanctions on many of the entities via a UN resolution it supported.

This was not a political witch hunt by the US. It was a technical and relatively silent investigation that ended in a plea bargain - BNPP chose this because it knew that in curt it would lose even more. Note that US banks have been fined very large amounts for considerably less cut and dried cases. All this is quite unlike BP that suffered a highly political punishment designed to distract from the failings of US govt oversight. The relatively mild punishment for UA companies involved was clearly unfair and owed much to the need to avoid daring attention to the US govt.

This was not some overreach by the US. US laws were broken on US soil. Nor was it unreasonable to impose sanctions in this way. The US is perfectly able to bar US firms from transacting with sanctioned entities. The US has not for example pursued Europeans f ro dealing with Cuba from Europe. Was the fine unfairly large? No, given the scale of the crime. Note that the US was annoyed with the UK for letting HSBC get off so lightly on the Libor fixing scandal - all the more so since it was the US that had done most of the work in uncovering the crime and it was readying far tougher penalties for all concerned.

Is it nonetheless a bad precedent to extend sanctions to the financial system? Probably not. Governments have increasingly been trying to crack down on international money laundering and tax evasion. Clearing is a key tool in this. US banks have very strong Know Your Client rules to enforce this. Adding sanctions is not such a huge step (and the US has been careful not to pick e.g. China).

The article also overlooks the lack of action in France. In the US there would be law suits by shareholders and regulators into the willful negligence, fraud and criminality. Key governance procedures were broken. Where is the outrage?

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**Larchmont**

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**Manofiona**

His comments followed Mr Sarkozy's detention last week for questioning by an anti-corruption court, which prompted the former UMP leader to make a formal televised riposte.
The Euro will take its place alongside the dollar as a real international currency if and when there is a European government whose credit backs its currency. Mr Sapin, like all French politicians, refuses to face the reality of what Europe needs to be and the consequence that this requires the demise of the French state, along with all other existing “national” states.

In these circumstances, nobody in Washington need lose any sleep over a Euro challenge to the dollar.

Roquette

The French government should be ashamed. This is not about trading in USD but about a French bank being caught bank rolling corrupt regimes. What the minister, in effect, is saying is that we should use other currencies to trade so that we don’t get caught next time our banks are supporting corrupt regimes. The US is no shining example here, they’re still trying to recoup the cost to the government of supporting the banks through the crisis.

iCreate

@Roquette Agreed on the first point. The French ministers are simply getting in line and parroting the BNP propoganda line (since BNP is specifically barred by the plea settlement agreement from making any public statements mitigating or otherwise denying its criminality, and could lose the protections of the plea agreements altogether if they violate this). BNP has engaged several high lever PR firms aound Europe and in the US to begin repairing its image. In the US, they are conciatroy and respectful and pledging to improve their internal controls and best practices. In Europe, they are using high-profile public figures to deflect the wrongdoing, to ignite a patriotic defense response from the masses and to continue repeating that this was a matter of a violation of US embargo laws and not of French or European laws. This of course is an outright lie, but as long as French government ministers are saying it and not BNP itself, it is all perfectly legal under the plea agreement. And it is terribly effective, since so many commenters seem to be blaming the US for “overreach,” and they seem to have effectively changed the conversation away from BNP’s crimes in France and Switzerland to how the US dollar is the problem. There is a sucker born evey minute. Ah, only in France!

iCreate

@Roquette Incidentally, each of the bailout recipient banks have paid back the US Treasury in full, on-time, and with interest. This BNP matter was an enforcement action against a criminal enterprise engineered for the purpose of criminally acquiring US dollars. The US, same as Europe with euros, has the right to place rules and regulations on who can purchase its dollars when the tranactions are happening at the Fed window on US soil.

Mike M

Pat McGavock,

BP might have been the victim of a bit of political grandstanding, but BNP Paribas’s involved a large scale, deliberate business strategy of breaking US law, repeatedly, for eight years, in order to aid in genocides and to support the world’s largest state sponsor of terror while it works on building a nuclear weapon. To cover up these violations, they then engaged in all sorts of unlawful deception of regulators, conspiring with other companies along the way, and even taking it to the level of massive acts of wire fraud.

These aren’t little violations, here. And, the US government’s fines don’t come close to erasing the profits that they reaped from their criminal activities. All of this whining when BNPP is being left to keep the vast majority of its genocide money? The fines, if anything, are too small!

The Invisible Hand

The article and most commentators add unnecessary complexity to the simple facts:

Greedy US prosecutors extort huge fines on banks (US, Swiss, UK, French et al) whose greedy managers/directors have broken US law. Greedy bank managers/directors agree to pay these fines out of their innocent shareholders equity to avoid jail time or personal fines on themselves.

The US fisc is happy, so are the bank managers/directors. The clueless shareholders are shafted, as usual. End of story. Any notes of French bashing or anti-Americanism are a smokescreen.
@The Invisible Hand And the shareholders appoint the management. Keep it simple....

The Invisible Hand

@RiskManager @The Invisible Hand

Keep it even simpler: The shareholders appoint the BoD, relying on the reports of highly paid professional auditors and on the approval of the suitability of Board members by national regulators in the countries they operate in. This criminal activity by BNP has been going on for ten or more years and similar situations arise with other banks in the LIBOR, mortgage derivatives, tax evasion and other cases. Why has no action (for criminality or for plain incompetence) been taken against the regulators, the auditors, the managers or the directors? May I suggest that the pickings would be too slim and that directors in jail are a poor substitute for cash in the treasury paid by innocent shareholders?

Recommend | Reply

RiskManager

@The Invisible Hand @RiskManager I believe a lot of the managers have been fired, including the CEO

Recommend | Reply

Larchmont

@The Invisible Hand Greedy US prosecutors? The US rational to fines is first to recover the illegal gain and second to add a damages/deterrent component (in civil cases the damages can be multiples of the actual damage). The idea is to deter future crime. By all accounts the gains BNPP made directly and indirectly were huge.

Given how blatant the crime was and how serious it is for a bank to do this, BNPP was very lucky not to lose its license temporarily or permanently.

Recommend | Reply

The Invisible Hand

@Larchmont @The Invisible Hand

I don't know how huge the BNP profits from illegal activities were. Perhaps you can be more specific? I would go along with a fine that effectively takes from the innocent shareholders the profits earned from illicit activity, same as one should recover from good faith buyers of stolen property only the stolen property. But to seriously argue that one should add "multiple damages" as a "deterrent" to innocent shareholders, while allowing the truly guilty managers, directors, auditors, regulators to avoid all civil or criminal penalties stinks. Obviously the only object of prosecutors was financial gain for their service and not justice.

@RiskManager. If the BNP CEO and a lot of managers have been fired, it is a positive step by the BoD, but not relevant to the US justice system. Incidentally, would you know if a golden parachute was provided before they were dropped?

Recommend | Reply

iCreate

@The Invisible Hand @Larchmont It is up to the French government, headed by an anti-international finance crusader (Mr. Hollande) to take the fight to BNP. The US has shone a light on the crimes, and fined the bank for its part in violating US law. But this is only half the battle. There remain MANY unanswered questions about BNP's conduct in France and Switzerland. In addition, there should be massive shareholder suits against management for willfully engaging and approving this reckless illegality. These managers and directors alike should be held accountable -- the discovery process in the US has revealed massive deception, negligence and reckless disregard for the potential liability. the paperwork is readily available to the public, what the French prosecutors do is up to them. But by the looks of things, BNP has mounted a massive PR campaign to come of as the unwitting victim, persecuted by the mean and aggressive Americans -- and it seems to be working. French government ministers are going on TV to declare that no French laws were broken (nonsense), and to deflect attention toward the big, bad US dollar. This shameless behavior of the elites protecting the elites is exactly why France will never receive the respect on the international stage that it so desperately craves.

Recommend | Reply

The Invisible Hand
@iCreate
Shareholder suits are certainly a good idea, against crooked managers AND possibly against US justice for fining the wrong people while clearing the guilty.

I am less certain that there is a criminal case against BNP in a European court for criminal acts that took place in the US.

As to “shameless behaviour of the elites” in France, well isn’t that what the elites do the world over?

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Pat McGavock
@Bill from ohio, True. Its just the scale of the fine. $9bn just seems like a gouging, and if you look at the targeting of non-US companies and scale of fines imposed for breaking US law (BP, BNP, UBS, etc) and compare them to the fines on US companies an asymmetric picture does emerge. Although this could be the beginning of a global war on fines.

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RiskManager
@Pat McGavock Not true, US banks have been fined larger amounts

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Bill from Ohio
I find the French assertion that BNP has been treated unfairly because they broke no French laws laughable. Can Google and Microsoft ignore the rulings of the European Courts because they have broken no US privacy or Anti-Trust laws?

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WWTTO
Like so many times before, this is classic resentment of US hegemony by the chauvinistic French and simply raw meat for domestic consumption.

This is not an “extra-territorial” extension or overreach of US law. BNP chose to set up operation in the US and use the US$ payments system there. Why? Because their clients – like so many others – demands this. The same setup would give most other countries legal jurisdiction on the same facts. The fact that the US and France/ EU don’t have perfectly identical foreign policies and therefore don’t impose the same sanctions is a red herring. BNP like any other international business must comply with the laws in all the countries in which they do business.

How exactly is France going to make the Euro replace the dollar as the world’s reserve currency or even less reliance on it? Maybe if France and the EU didn’t have a bloated socialist welfare state and were so fiscally irresponsible the Euro might have more, er, “currency” but there is a long way to go before that seems likely.

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auster
Everyone buying oil first needs to buy USD to pay for it. This means that US for the last forty years have been able to print and sell notes in exchange for global investments and import. An extremely good US business - in fact its superior military capacity would not be possible without it. It is not surprising that US strongly defends this system. Now, China and Russia is moving away from it and today official proposals from France. Oil traded in multiple currencies would create a huge loss of the US economy.

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argonaut
A jointly and severally guaranteed Eurobond might be viable alternative to US Treasuries?

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iCreate
@argonaut Um, Germany.
is it because once again the French government is under domestic pressure and needs to shift attention away from its own problems before the long summer break? with Hollande lacking almost any meaningful support and the legitimacy of the French system under pressure with Sarkozy under suspicion of corruption and the most popular politician in France is Marie La Pen. France does not look a happy country at the moment. If in doubt blame it on the Americans!

Head in the sand European minister still believes the Euro is as functional as the dollar!? Michel Sapin should not be in his current role. Frightening. The Euro remains a hotch-potch of countries that don’t fit culturally, and are unwilling to draw the proper fiscal and political ties to sustain long term Euro stability. Half of Eurozone countries remain in a state of indisputable collapse and depression. There is no politicking from some two-bit French minister that will begin to convince international financial markets that the Euro is as stable an alternative as the dollar. When will European ministers learn that you can’t tell financial markets how to behave. You need to remove the plank from your eye. And good luck with that.

@mostoflife re. the point about ‘the EU remains a hotch-potch of countries that don’t fit culturally’, I’m not so sure all the US States fit perfectly together culturally either (e.g. compare Georgia to New York), but that doesn’t stop the US from being very successful and more than the sum of its parts. I’m sure in time the EU will be more than the sum of its parts too…(I’m an optimist…)

@Richard Tromans But, the US has a basically unified fiscal policy. And, whatever cultural differences might exist among Americans, when problems arise, the country pulls together to address them. Mississippi might be a net drain on the federal government, but neither Texas nor Massachusetts have temper tantrums about it.

Plus, the US federal government is actually indispensable for Americans. It controls the military, a good chunk of the law enforcement, runs social security and several other large social programs. Even if the rest of the country would allow a state to secede, it would have a nearly impossible time doing so. If a country wanted to withdraw from the EU, it might face opposition, but it still has its own fully functioning state apparatus that it could use.

There’s just no comparing the US to the EU.

The difference is that Georgians and New Yorkers are all Americans and share certain patriotic loyalties since birth. They may be culturally different, but only in a regional sense -- similar to the difference between a Parisian and a Bordeaux farmer (though both feel loyal to France), or a person from Milan and another from Sicily (both being patriotic Italians). What patriotic similarities are there between a person from Dusseldorf and another from Lisbon or Stockholm and Thessaloniki? What patriotic loyalties do they really share to the EU? They have shown repeatedly that they are unwilling to adopt their way of thinking to meet the others demands, they consider the other a foreigner in most instances, and the will not cede enough sovereignty to really make the Euro a cohesive force. The New Yorker doesn’t complain about the Georgians arriving to flood the market for plumbers, as is a common campaign complaint in France concerning the Eastern countries. Optimism will not change reality. Europe works wonderfully as a market, but not as a unified entity. We hate and resent and are jealous of each other too much to be effective on the world stage. But as a unified market force to prevent future war and promote prosperity, it is an overall success.

When will European states, on behalf of European investors, prosecute US banks, federal loan-pushing agencies and credit-enhancement insurers for their misdeeds that created the gigantic value destruction and precipitated the debt crisis of the last few years. If BNPP violated US rules, let it be punished. But why does Europe keep on being the village idiot?
Nigel Reynolds

@InvestorBatavus Is it because Europe is the global Village Idiot? Just guessing :P

Larchmont

@InvestorBatavus The US has fined banks about $50bn to date for crash related misdeeds. Europe can't do that because the banks didn't break EU laws in Europe. And speculation is not a crime.
BNP on the other hand brook US laws in the US...You will note that Barnirr et al have tried to steer clear of this point

Nigel Reynolds

At present there are still major issues within the Eurozone and it is not clear that either the Eurozone or the Euro currency will survive the issues. Once the Euro region is stable and the currency is stable then the Euro may become the currency of choice. However it will be decided by the users of the currency rather than by a Frenchman begging for change.

As one other contributor has put it the French (and in my view the Euro Zone as a whole) need to put their own economy in order first.

maljoffre

@Nigel Reynolds Check the currency exchange rates. The euro is not only "stable," but it is one of the world's most desirable currencies and this during an "existential" crisis, high unemployment and under-performing economies, some just recovering from bailout as the ECB unsuccessfully struggles to drive the euro's value downward. What are we looking at in "good times," a five-dollar euro?

RiskManager

@maljoffre @Nigel Reynolds So you think a strong currency is, in every circumstance, a "good" thing? Really? I can understand that on a totally selfish basis if you hold Euros then a strong FX rate is good. What about Eurozone citizens who don't have many Euros like, say, the millions of Eurozone citizens who don't have a job, in no small part because their industry cannot grow with a, for them, over valued exchange rate.

The Euro is for the citizens of the Eurozone right? All of them?! And how do you think the accumulated debts of many Eurozone countries can be paid? Does a strong Euro help them repay their Euro denominated debts or make it harder, or even impossible?

Guy_Bransford

@RiskManager @maljoffre @Nigel Reynolds .

True wealth is related to producity, education and innovation etc. Devaluing a currency merely take its citizens closer to the third world in every sense.

RiskManager

@Guy_Bransford @RiskManager @maljoffre @Nigel Reynolds Even if that is true, which is debatable, don't you think its a journey with steps forward and backwards required to reach your goal? What if you kill the goose before it lays your egg? How is the Euro goose looking these days? Nice in Germany for sure, but elsewhere?
@maljoffre @Nigel Reynolds Five dollar Euro? Usually you have sensible comments. Hope this is one of your little jokes :)

Mike M
@Nigel Reynolds The issues with the Euro aren't just a result of temporary problems. A common currency has a similar impact on capital flows as a fixed exchange rate. Europe saw the Bretton Woods system implode, and then built its own Europe-only version and put it on steroids.

Vox
This is the real dream of the Euro Bunch: seigniorage as a means of global political affirmation and domestic stability: the French can keep living it up, the Germans can dominate, the Italians can keep free riding. "Très Bien, Benissimo, Sehr Gut!".

One small problem: if the Euro were to become the world's second reserve currency then the Eurozone would have to run up debt towards the rest of the world and find global subscribers for that debt. "Chiropa" competing with "Chimerica" if you will.

Too bad the EZ is run on a surplus model and China is sick of being on the subscribing end of such models (it also wants the RMB to become reserve currency with Chinese seigniorage). Basic macro math, pointed out by many a scholar, but not palatable to the Euro Bunch savants.

Harry Haller
You have your priorities wrong, start by fixing the French economy first, then complain about whatever else you like. Pathetic.

gilesrm
Does Mr Sapin imply that a move towards the Euro would allow the financing of rogue regimes such as that of Sudan and its genocidal actions with total impunity, without regard to United Nations Security Council voted by France itself? As US Deputy Attorney General James M Cole has stated, BNP Paribas had become the de facto central bank of Sudan. Facilitating Sudanese oil sales at the time allowed Sudan to purchase the weapons it needed to continue the genocide in Darfur. But as in the French oil-for-food case where all including those who had confessed were acquitted (and allowed to keep the bribe money), the French government says UN SC resolutions were non-operational in France because they were not incorporated into French law. Then may I ask what is the value of a French vote in the Security Council?

Tim Young
Ironically, I think that it is French trepidation about a strong euro that is holding the euro back. If France stopped trying to undermine German efforts to rule out monetary bailouts, removed any prospect of a significant break-up of the euro (as opposed to a break off by a peripheral country like Greece) by committing to stick with Germany, and accepted the inevitably strong euro that would come with supplanting the dollar as the main reserve currency, I believe that the euro could begin to take over the dollar’s role as the main currency for international transactions.

iCreate
@Tim Young Never going to happen. The French will never stop pushing for greater debt and greater social spending, since they are altogether incapable of reforming. France will never stop being France, the annoying country in the middle that is not the top-dog, but thinks it is, and simply complains louder than the others. If they were willing to derail negotiations on the Trans-Atlantic Trade Agreement over their precious "cultural exception" in order to protect their stage actors and money-losing film industry subsidies, and to enforce quota limits on US films and TV shows, then they do not care about broader Europe’s well-being. The moment the French people exercise their god-given right to strike, the government trembles and retreats on badly needed reforms. The French will come out in the streets not to demand reform, but to demand the status quo! Have fun getting the Germans to understand that and agree to it. The French are too resentful of the Germans, as they have shown repeatedly throughout the 20th century, and they will not join EU initiatives that do not directly benefit them and their cheese farmers. German politicians roll their eyes when they listen to French politicians, whose France-first vision always seems in opposition to the greater good of the EU. This is how the world sees Europe, especially after the GE-Alstom-Montebourg debacle and the markets have voted for the US dollar.
Riverine

So the French Government wants cover for its banks’ support of the world’s nastiest regimes (cf BNP and Sudan)?

iloveeft

I think it’s easier for companies and individuals to switch out of USD and start invoicing their trade/transaction in EUR, RMB, or other currencies, especially if there are synergies involved. But knocking the USD out of its first-rank reserve currency status is going to be a little bit harder. However, thanks to the (self-made) disastrous US policies, the USD share in the world’s reserve currency mix has been dropping slowly albeit surely since the new millenium began, from roughly 70% to roughly 60% now. Change may be glacial but it is happening, and I am quite sure it won’t be long before France gets what it wants.

Arsene Holmes

Two Points.
- BNP was guilty, fine. But then all the big US companies are dealing with Iran indirectly through Dubai or other countries and know exactly where the goods sold are delivered. Talk about hypocrisy
- Until individuals are actually jailed, the problem won’t go away. Only when the CEO and top management know they will go to jail if their underlings misbehave will we have better behaviour. Until then, the shareholders will be the one paying.

And the Pandora’s box has been open as from now on people are going to become more and wary of doing transactions in dollars

Graham Cox

In 40 years as an international economist, the only aspect that doesn’t seem to have changed in all that time is the French complaining about the dominance of the dollar.

FT88

Its only the Euro that can be a counterweight to the dollar for now. No harm trying to use more Euros, Yen or Yuan whenever possible.

Jack Armstrong

When things are not looking all that good for the government (France), invoke some nationalism to take peoples’ minds off things.

RiskManager

@Jack Armstrong Quite. What can possibly go wrong with that then? (History has the answer)

maljoffre

@Jack Armstrong Guess they learned that from Washington, minus the "- and invade another country," part, of course.

RiskManager

@maljoffre @Jack Armstrong Ha ha. You are truly a European.
France hits out at dollar dominance in international transactions

Larchmont

@maljoffre @Jack Armstrong love it. But this time Hollande has tried the military intervention trick too.