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THE INTRODUCTION OF EURO NOTES AND COINS

**INFORMATION MEMO TO THE COMMISSION
FROM MR MARIN AND MR DE SILGUY**

**WITH A VIEW TO TRANSMISSION TO THE INFORMAL ECOFIN COUNCIL OF A
COMMISSION STAFF WORKING PAPER**

Introduction

At the informal meeting of the Ecofin Council in Dresden in April, the Commission was requested to prepare a report on the introduction of euro notes and coins for the informal Ecofin Council meeting to be held in Turku on 10-12 September.

The aims of this report are threefold:

- to implement the conclusions adopted by the European Council in Madrid in December 1995 and the provisions of Article 15(2) of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, according to which the Member States are free to determine precisely when to cancel the legal tender status of national notes and coins, within a period of not more than six months after 1 January 2002. The Commission has abided by the Member States' wish to facilitate the emergence of an agreement on common principles, while respecting their competencies.
- to take account wherever possible of the wishes expressed by representatives of business people, consumers and civil society in general.
- to focus on the exchange of notes and coins, in accordance with the brief issued by the Ecofin Council at its informal meeting in Dresden. It is, however, useful to draw attention at this stage to a number of other practical issues on which full success of the introduction of the euro will depend.

I. Despite a successful launch, the transition to the euro still reveals shortcomings that call for the information activities targeted at businesses and citizens to be stepped up rapidly.

A. A successful launch

- 1) The euro has established its position on the financial markets. The changeover of all stock market operations on 4 January 1999 went ahead smoothly and use of the euro by financial operators is developing. It is used on an equal basis with the dollar on international bond markets, with euro-denominated bond issues accounting for 45% of the world total in the first four months of the year as compared with less than 30% in 1997 for aggregate issues denominated in the participating national currencies. The size of issues, the liquidity of the secondary market and the share of corporate bond issues have all enjoyed spectacular growth in recent months. Encouraging developments can at the same time be observed on equity markets, with the gradual emergence of European products and sectoral approaches that are increasingly supplanting the traditional national approaches.
- 2) Individuals have begun to familiarise themselves with the single currency: dual displays of prices and amounts in national currency and in euros is widely practised by many businesses and traders and by public administrations. However, as of today prices are still displayed in national currencies, with counter-value in euro. The reverse dual-display stating significant prices in euro is still exceptional.

B. A number of shortcomings

- 1) Individuals are rarely making payments in euros (only 1.35% of transactions recorded by one of the leading credit card companies).
- 2) The rate at which businesses are preparing themselves for the changeover is too slow. According to recent surveys, over 35% of businesses in participating Member States already mention the euro on invoices they issue to customers and a large number of international companies have chosen to make the euro the internal accounting currency of their group. However, many large firms and most SMEs have decided to defer switching their accounts to euros during 2001. This option means that the changeover of IT systems will be concentrated in the timeframe of a few months only; IT service companies and software firms are voicing concern about the risks of bottlenecks. Some are even convinced that, if nothing is done to remedy the situation, a number of firms will be unable to meet the legal deadline of 1 January 2002. A medium-sized organisation generally needs 24 months in order to adapt its software (6 months for the analytical work, 12 months for implementation and 6 months of testing).
- 3) Generally speaking, opinion polls indicate that, while there is a majority within the euro zone in favour of the euro however, citizens and SMEs are slightly disappointed with the practical use of the euro. This is partially due to the remaining high banking costs for transborder payments and to the lack of immediate practical advantages. The introduction

of the euro has revealed costs which have in the past been hidden in fees taken by banking institutions.

The Commission draws Ministers' attention to the urgent need to:

- *set up indicators/figures for monitoring progress during the transitional phase; i.e. evaluation of preparation of economic agents, the flow of the changeover within enterprises and the use of the euro by citizens;*
- *create an integrated payments area, particularly for cross-border transfers (a "citizens' TARGET system").*
- *The necessity to encourage double display stating the significant prices in euro*

C. Alongside technical work, an urgent need to step up information activities

The Commission is convinced that the euro information campaigns need to be stepped up very quickly, at national level in particular, with two priority objectives:

- (i) helping citizens to familiarise themselves with the euro, placing emphasis on the practical aspects;
- (ii) encouraging businesses to start their changeover preparations as early as possible. Emphasis should be given to the preparation of small enterprises, retailers and tourism since they are in the best position to facilitate help to citizens regarding the euro.

To avoid any scattering of efforts and confusion in the messages put across, the Commission advocates strengthening the existing cooperation between the different public protagonists concerned: the Member States, the Commission, the European Central Bank and the National Central Banks. This co-ordination will become crucially important when the arrangements for the exchange of notes and coins are known.

II. Questions to be settled with regard to the introduction of euro notes and coins

Four main questions need to be settled by means of early decisions:

- the duration of the period of dual circulation starting on 1 January 2002;
- the distribution of euro notes and coins to economic operators before 1 January 2002;
- the need to facilitate recognition of the new notes and coins by citizens and retailers;
- logistic difficulties.

A. Duration of the period of dual circulation

- 1) There is no consensus, at the European level or within the Member States, in favour of a "big bang" scenario for the introduction of euro notes and coins, i.e. an approach whereby it would be impossible in practice to use notes and coins denominated in national currency after 1 January 2002. This option would create problems for many sectors that handle

notes and coins, for example operators of slot machines, who will have to modify several million devices in any case. This option is in any case not favoured by any of the Member States.

- 2) A consensus is emerging in favour of shortening the period of dual circulation considerably in relation to the maximum of six months decided by the European Council in Madrid. None of the euro zone countries have yet stated their position officially, but discussions in the national forums reveal convergence towards a dual circulation period lasting on average between six weeks and two months. Four Member States diverge somewhat from this trend: two of them are considering a period of around three months, while not ruling out the possibility of shortening it further. One Member State has decided to withdraw legal tender status from its national notes and coins as early as 1 January 2002, but this legal "big bang" is accompanied by a commitment on the part of the different sectors concerned to accept national notes and coins up to 28 February 2002. A fourth Member State is moving towards a period of four weeks and is considering the possibility of shortening it further

Several Member States are also working on a scenario in which a "critical mass" of euro notes and coins would be introduced in the space of a few days, enabling the bulk of cash transactions to be performed in euros. After that period, all traders would still be legally required to accept payments in the national currency until it was no longer legal tender. This scenario involves retailers systematically giving change in euros from 1 January 2002.

The Commission wishes to draw the attention of the Ministers and Central Bank Governors to the urgency of the decisions to be taken. Excessive disparities between national approaches could give rise to confusion, particularly in frontier areas. The goal of working towards closer intentions among Member States on the length of the dual circulation period is then desirable.

The current findings of the most advanced work in the Member States show that it is possible to introduce in the space of a few days a critical mass of notes and coins enabling the bulk of cash transactions to be carried out in euros. The Commission therefore urges the Member States to base their decisions on such work. It also takes the view that keeping too large a volume of national notes and coins in circulation while the euro is being introduced would be a source of confusion. It therefore considers it desirable, in line with work carried out in the Member States, that the circulation of national notes and coins be brought to an end after a period of one to three months. With that end in view, the solution supported by a vast majority of economic agents, stating that change should be given back only in euro as from 1 January 2002, would facilitate a smooth changeover in this last stage of the introduction process.

B. Advance distribution of euros to economic operators

1. Regulation No 974/98 stipulates that euro notes and coins must be put into circulation as of 1 January 2002. A very broad consensus exists among the authorities and the sectors involved that the effect of an advance distribution of notes or coins to certain economic operators during the final days of 2001 would, among other things, make it easier to solve the logistic difficulties involved in distributing some 55 billion coins in euros.

Nevertheless, if it were organised without proper precautions being taken, advance distribution would not be without risk. It could give rise to confusion or even swindles. From the outset, the success of EMU and citizens' confidence in the euro have rested on adherence to a precise timetable announced long in advance.

This risk has led to differences of opinion between the Member States as to who should receive euros in advance.

2. Positions of different parties

All the Member States intend to distribute euros in advance to the commercial banks and many of them also intend to supply some or all retailers and cash transportation firms.

On the other hand, the majority of the participating Member States do not intend to distribute euros in advance to the general public. So far, only one Member State has announced its intention of offering individuals, a few days ahead of 1 January 2002, the opportunity of purchasing starter kits containing euro coins. It considers this arrangement essential to the success of the changeover. Another Member State has stated that it could consider advance distribution to members of the public provided that the legal framework was complied with.

Most of the Member States regard the issue of advance distribution, its timetable and arrangements related to that as a matter of common interest.

For their part, most of the European trade federations (retailers, small and medium-sized enterprises, public transport undertakings, travel agents) are advocating the advance distribution of euro notes and coins to retailers, which appears to be necessary for a smooth introduction.

Equally, most European interest groups are in favour of an advance distribution of coins and possibly small-denomination notes to the public, on practical and logistic grounds. The consumer associations are also strongly in favour and the banking federations are not opposed to the idea. According to these interest groups, advance distribution to the general public would alleviate the burden on traders, who would otherwise have to carry considerably larger floats than usual. It would also make it possible to spread the workload for cash transportation firms. According to surveys carried out in one Member State, when euro notes and coins are introduced, newsagents and tobacconists would require floats more than ten times larger than usual if euros were not distributed in advance to members of the public. Advance distribution of euros to the general public would also help individuals to familiarise themselves with the new notes and coins, thereby avoiding the queues that could build up after 1 January 2002 at shop check-outs if members of the public were only then to handle the new notes and coins for the first time.

3. Uncertainties as to the feasibility of advance distribution

The legal framework for the euro poses problems for advance distribution, to the general public in particular.

Advance distribution also raises a number of technical questions. For example, the central banks are currently working on the contractual terms to be applied to those receiving advance supplies of euros, with special reference to value dates. Likewise, the production of starter

kits for members of the public, or of floats in euros for traders, takes time. The retail trade furthermore takes the view that advance distribution to the general public should not take place until the very end of 2001, in order to prevent hoarding (30% of turnover in the retail trade is generated at that time of year) and uncontrolled circulation of euros. According to retailers, Christmas could serve as a reference date. Consumers, on the other hand, wish to see advance distribution taking place in early December 2001.

Lastly, the advance distribution of notes to members of the public appears to be not as necessary as for coins : all the studies conducted by the Member States show that 70% of banknotes are introduced into the economy by automatic teller machines (ATMs). The central banks should, however, recommend solutions for distributing the €5 and €10 denominations, the value of which does not correspond to that of the notes currently distributed by ATMs.

The Commission notes that there are differences of opinion between the Member States on the question of the desirability of advance distribution of euro coins to the general public. It points out the legal and technical difficulties of such an advance distribution. It also notes that nearly all of the different interest groups represented at European level are in favour of advance distribution to the general public, at least a few days ahead of 1 January 2002, in order to take account of logistic problems and ensure that a minimum number of euro coins are circulating in the early days of 2002. The advance distribution of notes in euros to members of the public appears not so necessary, provided that satisfactory solutions are found for introducing the €5 and €10 denominations. Lastly, economic operators need decisions to be taken quickly so that advance distribution can be prepared effectively.

The Commission therefore recommends that the Member States continue discussing this matter with a view to arriving at a solution on the basis of consensus before the end of the year.

C. Familiarising citizens and professionals with the new euro notes and coins.

1. Information plans on notes and coins during the transitional phase.

The introduction of new notes and coins requires a general information campaign to familiarise citizens with the new currency, in order to prevent counterfeiting. The ECB is now preparing such a campaign and the main goals are stated below:

- to educate the general public and, more specifically, the different target groups on how to recognise genuine euro banknotes and coins (information about the security features);
- to show shop and bank cashiers how to examine the euro banknotes in a fast and efficient manner in order to detect possible counterfeits;
- to ensure that the euro banknotes and coins are favourably received; and
- to gradually prepare the general public for the introduction of the euro banknotes and coins by repeatedly drawing attention to their designs.

The changeover from national currencies to the euro will for many members of the public constitute a break with the past the scale of which should not be underestimated (“feel” for prices, monetary reference points, the language of money and the symbolic value of the currency). A successful transition therefore involves psychological as well as technical adjustments and requires the needs of the more vulnerable sections of the population to be taken into account at an early stage. This is also true for groups who will not be able to be reached through usual means of communication.

These more vulnerable members of the public fall into a number of categories: blind and partially sighted people, the deaf and impaired of hearing, persons suffering from a mental handicap, the illiterate, the elderly either socially or geographically isolated, and people experiencing social and economic difficulties. Inadequate preparation of any of these sections of the population could have serious consequences: a greater sense of exclusion, swindles, inappropriate spending patterns (either excessive spending or non-consumption). To avoid these risks considerable training is needed, both for the above groups of people themselves and for some of those who deal with them (bank clerks, traders, check-out assistants, craftsmen, household assistants and welfare workers in particular).

2. Building on existing skills

Banknotes and coins constitute a whole currency system for the citizens. Therefore, the Member States, the Commission and the ESCB will co-ordinate in order not to separate the information on euro coins from that on the euro banknotes. Co-ordination is also necessary to ensure complementarity and consistency of the messages disseminated in the euro area. Moreover, joint actions between the Member States, the Commission and the ECB should be considered in order to reduce the costs.

The Member States have lengthy experience in cooperating with national associations representing the vulnerable groups of society, particularly in the context of the introduction of new series of banknotes. The national central banks and the mints will play a key role in this process. But action will also need to be taken at grass-roots level through local networks, whether institutional or voluntary. The Commission is conducting with a few local communities a number of projects entitled “the euro made easy” with a view to producing a set of information and training tools and setting in place a network of mentors. The results of this work will be available to Member States and local authorities.

The Commission draws the attention of the Ministers and Central Bank Governors to the importance and urgency of these issues, in particular the necessity of taking into account the specific needs of people who have handicaps (like blind and partially sighted people). One of the possible answers could envisage making available to them, at the earliest opportunity, training kits of notes and coins that are sufficiently realistic but cannot be used for legitimate or fraudulent transactions. In any case, the responsibility of taking or implementing such decisions in this area is devolved to national or local authorities.

D. Other logistic problems

Work carried out in the Member States has demonstrated the importance of questions to do with the availability of sufficient secure capacity for transporting notes and coins. The cash transportation industry should quickly be provided with the information it needs for planning

its work; it also wishes to have assurances regarding security. The same applies to the storage of notes and coins in national currency and in euros. Retailers and SMEs are subject to the same conditions.

The withdrawal of national notes and coins involves even greater logistic difficulties than the introduction of euros. Several Member States plan to organise during 2001, in conjunction with charities, campaigns for collecting small coins. Involvement of the public authorities should give a higher profile to campaigns of this type and make a large number of collection points available to members of the public. The Commission is prepared to give its assistance to operations of this kind.

III. Points for discussion

- 1. Do the Ministers and Central Bank Governors agree to step up the euro information campaign along the lines indicated by the Commission in section I?*
- 2. Will the Ministers and Central Bank Governors commit themselves to taking and communicating their decisions on the duration of the period of dual circulation of euro and national notes and coins before the end of 1999?*
- 3. Do the Ministers and Central Bank Governors agree to see to it that a critical mass of notes and coins in euros is introduced as quickly as possible after 1 January 2002, irrespective of the date when legal tender status is withdrawn from national notes and coins?*
- 4. Do the Ministers and Central Bank Governors wish a forthcoming Ecofin Council meeting, to be held before the end of 1999, to settle the question of the advance distribution of euros to members of the public?*
- 5. Do the Ministers and Central Bank Governors agree to take account of the specific needs of sensitive population groups in their work and to use the transitional phase to provide practical responses.*