



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.04.1999
COM(1999) 174 final

REPORT FROM THE COMMISSION TO THE COUNCIL

**DURATION
OF THE TRANSITIONAL PERIOD RELATED TO THE
INTRODUCTION OF THE EURO**

Report to the Council on the duration of the transitional period related to the introduction of the Euro

Following a proposal by the Belgian Finance Minister, the Ecofin Council of 18 January 1999 discussed the possibility of reducing the transitional period with a view to bringing forward from 1st January 2002 the date for introducing euro notes and coins.

The Council considered *"that the transition period could most likely not be shortened because of technical reasons"*. However, it invited the Commission to carry out a final review of this question.

This report has been drawn up in response to that request. It is the outcome of a number of contacts which have taken place either within official groups meeting periodically to discuss aspects of the introduction of the euro or in the context of exchanges of views or letters with representatives of the sectors concerned. The Commission has, therefore, endeavoured to highlight the technical issues which would act as a barrier to reducing the transitional period, as requested in the Council's mandate. **This report is not, therefore, exhaustive, but it emphasises the potential stumbling blocks to a political decision.**

However, the entire process leading up to the completion of the final stage of the introduction of the euro, i.e. the circulation of coins and notes, obviously assumes great political significance since it provides European citizens in the participating countries with the most tangible sign of their currency: euro notes and coins. It is, therefore, in one of these two areas - technical constraints and the adoption of the euro by the citizens - that the Commission considers a reduction in the three-year transitional period could give rise to technical problems of such severity as to jeopardise the smooth transition to the euro.

I. The technical obstacles to reducing the transitional period constitute a series of factors which militate heavily in favour of adhering to a period of three years

This part covers four technical areas in which the greatest difficulties would arise if the transitional period were reduced.

1. *The time required to produce euro coins and notes represents a substantial technical obstacle to a significant reduction in the length of the transitional period*

The President of the European Central Bank (ECB) had an opportunity to define these technical obstacles in his address to the European Parliament on 19 January 1999. The existing timetable provides for production of the 13 billion notes required to begin in February-March 1999 and be completed in September 2001. Production could, according to the ECB, be speeded up by a few months, but not more, and that would substantially increase the manufacturing costs. It would be technically impossible to reduce the period by an entire year, which would leave only two years for the production process.

The problem is even more acute in the case of coins, production of which is the responsibility of the Member States. The manufacturing processes and logistics are in fact more complicated for coins than for notes. The Working Party of Member States' Mint Directors discussed this point on 23 February 1999 and concluded that, for technical reasons, it was not possible to reduce the period scheduled for producing euro coins. Only three countries suggested that a limited reduction, of no more than two or three months, might be possible. It should be noted that the time required to produce coins had strongly influenced the choice of a three-year transitional period, which was adopted by the Madrid European Council of 15 and 16 December 1995.

The European Vending Association has made it clear that it is strongly opposed to any change in the date for introducing coins and notes. It considers the three-year period to be necessary for adapting the several million coin-operated machines existing in Europe, while traders in this sector are already exercising strong pressure to ensure that the changes are made within the time allowed.

2. Information systems would constitute a bottleneck

Of all the technical aspects which may be cited as obstacles to reducing the transitional period, information technology takes precedence. This is true, first, from the point of view of the periods required for the **design and adaptation** of information systems. Software houses indicate that, in any medium-sized or large organisation, the adaptation of computing tools will take **two years**, i.e. six months for planning, twelve months for implementation and six months for testing. These periods cannot, on the whole, be reduced.

Second, the **extent of the data-processing changes** to be carried out is impressive. The experience of the changeover of the markets and large financial institutions, but also the examples of undertakings which decided to switch their accounting systems to the euro in 1999, reveal that nearly 80% of an organisation's software has to be adapted to enable it to "read euro". It does not yet seem possible to propose a type of software that is totally compatible with the euro and ready to use without specifically examining the functioning of the organisation or undertaking concerned.

Lastly, the **millennium bug** provides a reason not to channel information technology resources towards preparing for the euro. On the one hand, it is currently obvious that much energy and many IT resources are being concentrated on the year 2000. On the other, shortening the transitional period would result in an even more critical overlap between the timeframe for coping with the millennium problem and that for adapting software to the euro. In view of the uncertainty still surrounding economic operators' state of preparation for the year 2000, common sense dictates that the present timetable should be maintained.

Accordingly, the timescale for designing and introducing information systems, the extent of the changes to be made and the millennium issue are already causing some IT operators to become alarmed about the possibility of a bottleneck in the availability of resources in the year 2002. Recourse to external resources might not suffice to guarantee sound preparation for 2002 according to some experts. Even if these claims prove to be unfounded, **there is no doubt that a reduction in the transitional period would result in a trade-off between the millennium and the euro.**

3. The changeover to the euro by the public administrations was scheduled for the year 2002 from the outset in order to take account of the complexity and extent of the changes required in this sector

The Madrid scenario had made provision for the public administrations to switch over completely to the euro only at the end of the transitional period, in view of the extent of the adjustments to be made in this sector. The administrations' plans were thus drawn up

in accordance with these deadlines, although all the participating Member States decided to offer firms in particular the option of using the euro from 1 January 1999 in their relations with the administration.

The adjustments carried out by 1 January 1999 were, therefore, limited in extent: installation of "conversion" software to enable incoming and outgoing flows to be processed in the national currency unit or the euro, adaptation of certain financial and accounting procedures, adaptation of legislation and training of specialist staff in the financial administrations.

The bulk of the preparatory work in the public administrations has still, however, to be carried out. The administrations are responsible for some very extensive areas which will be affected by the changeover to the euro. They must, therefore, adapt their information systems and software, often by having recourse to the limited own resources of their internal IT departments. The complexities involved in adapting information systems are heightened by the very large volume of historical and statistical data that are processed by the administrations. In addition to the legal arrangements established in order to maintain the value of the euro against the old national currency units, the administrations have also, on the whole, chosen to adapt their legislation and references to monetary amounts in such a way as to ensure that citizens' understand them clearly. This substantial task is complicated by the problems of thresholds and prices which are round sums in national currencies, but are not when converted to euro. Thousands of documents must, therefore, be scrutinised by the national and local authorities. The administrations will also have a considerable effort to make in terms of staff training, particularly in the case of officials who have contact with the public. The training programmes, which involve several million people, are spread over a number of years.

Finally, the administrations must ensure that all public services, including the smallest of the authorities and local government bodies, have completed their preparations within the time allowed. There is great concern about the absence of measures on the part of the local authorities, particularly the smallest, aimed at introducing the euro.

The extent of these problems led the majority of national officials responsible for preparing the administrations for the introduction of the euro to recommend that the three-year period be maintained during the consultation which the Commission organised in this connection (meeting of the national coordinators responsible for their administrations' preparations for switching to the euro, held on 5 March 1999 in Brussels).

4. The legal implications of a "failure to fulfil expectations" must not be underestimated

The Madrid scenario resulting from a European Council decision and the Regulations establishing the legal framework for the euro, particularly Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro and Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, created substantive law situations. The European Commission and Council might expose themselves to claims for damages for failure to fulfil legitimate expectations, e.g. on the part of firms which had placed orders with their IT service suppliers for the year 2001. It is obviously impossible to assess these legal risks precisely.

A sector-by-sector analysis thus reveals the real technical difficulties stemming from a reduction. An analysis based on the operators concerned confirms that a three-year period is probably adequate.

II. The preparation of certain economic operators requires intensification

The definition of a stage-by-stage scenario culminating in the changeover to the euro of a critical mass of activities on 1 January 1999 and in the subsequent exploitation of this success in order to heighten awareness of the euro among other operators, especially small and medium-sized firms, traders and the public at large, has already been sanctioned by the success of the financial markets' transition to the euro. **This technical success must not cause one to lose sight of the fact that this phase was preceded by a very long preparatory phase, which also spanned three years (December 1995 to December 1998).**

Within even the sectors which have made the transition, the situation is not always homogeneous. A significant number of large European firms should switch their accounts to the euro in 1999, but not all will do so, mainly because they preferred to carry out first the changes required by the millennium bug. In the banking sector, the changeover of millions of personal accounts could constitute an obstacle to reducing the transitional period.

The preparation of SMEs, traders and the general public will also mean fulfilling some technical requirements, which may be on a lower level, but will be more numerous.

Where small and medium-sized enterprises and traders are concerned, there is first of all a problem of numbers: the Community of Fifteen comprises no fewer than 18 million SMEs or one-person businesses (including traders). For these economic operators, preparation for the euro resembles that required by large firms, insofar as all functions and activities of a firm are affected. Computing, accounting or pricing adjustments will have to be carried out with far fewer resources, and often

by one person acting alone. To grant these operators a preparation period equivalent to that allowed the financial sector would appear to be the wisest solution. While it is still difficult to gather indicators regarding the state of preparation of these economic operators, all the evidence suggests that it is far from complete.

In the case of the general public, technical data are less crucial. The importance of the work already carried out in the communication sector should, however, be noted. The transition to the euro is based on a communication policy which has already succeeded in part of its task. The message that has been targeted for a number of years at the general public, small and medium-sized firms and traders consists in telling them that the transitional period is designed to allow the gradual adoption of the euro and the establishment of a changeover plan that is suited to the particular circumstances of the firm or of each individual. Communication is thus one of the great successes of the transition to the euro: it has involved an information campaign on a very vast scale which has made it possible to offer increasingly more complex messages. Changing the transitional period now would probably jeopardise the results of these decentralised communication policies and would be costly.

From the consumer's point of view, the transitional period has already produced one success, namely double display: a number of administrations in the participating Member States, large firms and a significant number of traders have adopted the practice of displaying prices in both the euro and the national currency unit. From this point of view, the transitional period provides an opportunity to learn about the new euro prices and scales of value. A reduction in this period would be contrary to the objective established when the Madrid scenario was adopted.

In addition to these technical obstacles, shortening the transitional period would undermine one of the strong points in the success of the euro, namely the confidence of economic and social operators, which has been won as a result of adhering to a strict timetable. A number of officials and managers consulted by the Commission have pointed out that the success of the euro to date has lain chiefly in the fact that the deadlines set have been respected, despite the economic situation of the participating countries.

III. The advantages of reducing the transitional period cannot be guaranteed

1. *The political argument for bringing forward the date loses its force if time involved is insignificant*

The proposal for bringing forward the date for introducing euro coins and notes was made in a specific context: in view of the popular success of the euro in the early days of 1999, it seemed desirable that the citizens should have access as quickly as possible to a tangible European means of payment.

However, the technical constraints described above show that, even by an optimistic reckoning, the transitional period could not be reduced by more than a few months. The main political advantage of this proposal thus loses some of its force: if the date for introducing coins and notes were not brought forward to a sufficient extent, the move would be of less interest to the citizen.

2. *A discussion on reducing the transitional period would reopen the debate on the optimum date for introducing coins and notes*

It was in November 1997 that the Commission held consultations on the choice of the best possible date for introducing euro coins and notes. The discussions had revealed deep divergences between the different interest groups, but also between Member States, some of which proposed dates other than 1 January 2002. This date was eventually chosen because of its strong symbolic character. If the technical constraints do not allow a significant reduction in the transitional period of at least a full year, a reduction of a few months would unquestionably open up a debate that would be difficult to settle, since no argument would lead to a definitive decision.

Conclusion

In view of the technical arguments set out in Part I, the time required by economic operators and the psychological and political uncertainties mentioned in Part II, **the Commission considers that the transitional period for the euro should not be reduced.** Adhering to three years will constitute an essential element of stability in the process of preparing economic operators and familiarising them with the euro.

However, this proposal has had the advantage of highlighting the efforts which must be made in order to ensure that the transitional period is a period of gradual familiarisation with the euro, particularly for the citizen. Development of the use of the euro in the form of scriptural money during the transitional period is essential to the success of the introduction of the single currency and the smooth transition to the euro. On 31 December 2001, citizens should be ready to use the euro, a long transitional period is only meaningful if it is used for a progressive changeover by economic agents.

Full use must also be made of the transitional period to promote the sound preparation of economic operators, thereby avoiding a rush in the final year. In this connection, emphasis must be placed on making economic operators realise the extent of the work to be carried out. As regards the sectors concerned, the Commission considers it necessary to heighten the awareness of small and medium-sized firms, consumers and public administrations, particularly local authorities.

ISSN 0254-1475

COM(1999) 174 final

DOCUMENTS

EN

09 01 17 06

Catalogue number : CB-CO-99-175-EN-C

Office for Official Publications of the European Communities

L-2985 Luxembourg