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**Adapting European Information Systems
Euro - Y2K – Electronic commerce**

**Managing the changeover
and preparing the euro world**

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di

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CONTENTS

Introduction	
Mrs. Colette FLESCH (Director-General for Informatics, European Commission)	05
Opening Speech	
Mr. LAFITTE (Member du cabinet de Mr. DE SILGUY, European Commission)	07
Managing the Changeover	
Chaired by Mr. Fernando de ESTEBAN (Director of Informatics, European Commission)	
Euro World	
Current Status of the Changeover to the euro	
Mr. Lars BOMAN (DG II Economic and Financial Affairs, European Commission).....	17
Adapting Information Systems to the euro in Public Administrations in Spain	
Mrs. Celia TENES GARCIA (Treasury General Directorate, SPAIN)	25
Target	
Mr. Dieter BECKER (European Central Bank).....	31
Y2K	
Year 2000 National and Sectorial Actions	
Mr. Carl-Magnus LEMMEL (Director-General DG III Industry, European Commission)	37
Y2K at the European Commission	
Mr. J.-P. WEIDERT (Informatics Directorate, European Commission)	45
Challenges for SMEs	
Chaired by Mr. Lorimer MACKENZIE (Director DG XXIII Enterprise Policy Distributive Trades, Tourism and Co-operatives, European Commission)	49
SMEs Small and Medium Size Enterprises	
The Impact of Year 2000 on Business. Risk and Solutions	
Mr. Vladimir LOPEZ-BASSOLS (Administrator – Organisation for Economic Co-operation and Development).....	51
How SMEs should manage the Changeover to the euro of their Information Technologies	
Mr. Noël HEPWORTH (FEE euro Project Director – Fédération des experts comptables européens)	55
Introduction of the euro in the Leisure Industry: Problems and Opportunities	
Mr. Eduardo ANTOJA (President of Euromat - European Federation of Coin Machine Associations)	61

Electronic Commerce

Chaired by Mr. Panayotis CARVOUNIS (Director DG XXIII - Enterprise Policy Distributive Trades, Tourism and Co-operatives, European Commission) 67

Legal Directive for Electronic Commerce

Mrs. Maria MARTIN-PRAT DE ABREU
(DG XV Internal Market and Financial Services, European Commission) 69

The impact of Electronic Commerce on Direct Marketing – New ways of Doing Business

Mrs. Sophie METRO
(FEDMA Council Manager – European Federation of Direct Marketing and Mail Order) 75

Electronic Commerce and Consumers

Mrs. Ursula PACHL
(Expert e-commerce - Bureau Européen des Unions de Consommateurs) 81

Discussion and Conclusions 87

Chaired by Mr. Fernando de ESTEBAN (Director of Informatics, European Commission)

References

(Documents and Web sites) 89

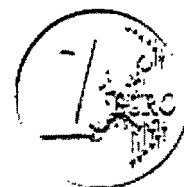
Introduction

by Mrs. C. FLESCH
Director General for informatics

Dans notre partie du monde, nous sommes évidemment confrontés en matière informatique à un double déficit: l'introduction de l'euro d'une part, le passage à l'An 2000 d'autre part. Depuis plusieurs années déjà les organisations internationales, les administrations nationales, le monde de l'industrie, de la finance et du commerce préparent cette double transition. Dans les contacts que nous avons eus avec nos interlocuteurs à travers toute l'Union européenne, en tant que service de la Commission, nous avons constaté qu'il est particulièrement important de confronter les expériences des uns et des autres, de comparer les méthodes appliquées et les mesures prises dans le secteur public ainsi que dans le secteur privé.

Le symposium d'aujourd'hui fait suite à une réunion de même nature que nous avons organisé l'année dernière et qui était consacrée exclusivement à la transition à l'euro. Cette année, pour des raisons évidentes, nous avons ajouté la transition à l'année 2000 et nous avons aussi accordé une attention particulière aux problèmes tels qu'ils sont conçus par des petites et moyennes entreprises car c'est là le genre de questions que nous avons rencontré le plus fréquemment dans les contacts avec nos interlocuteurs. Ce sont les petites et moyennes entreprises qui se font le plus de soucis quant à leur avenir. Enfin, dans la mesure où le commerce électronique est un secteur en expansion absolument spectaculaire avec des changements qui s'annoncent et qui modifieront profondément, me semble-t-il, notre vie de tous les jours, nous avons également inclut dans notre ordre du jour quelques exposés consacrés de façon plus particulière, au commerce électronique.

Je voudrais remercier les collègues des autres Directions générales de la Commission, les représentants des différentes organisations internationales présentes ici, les porte-parole des administrations nationales, qui nous ont rejoint et du monde de l'entreprises qui tous ont participé à la préparation de ce symposium et qui l'animeront au travers de leurs interventions.



Je voudrais également remercier Monsieur LAFITTE, du cabinet du Commissaire Monsieur DE SILGUY, qui est présent parmi nous ce matin. Il remplace le Commissaire retenu au dernier moment par des engagements d'une importance tout à fait primordiale. Je voudrais sans tarder passer la parole à Monsieur LAFITTE.

Opening Speech

by Mr. LAFITTE

Membre du cabinet de Monsieur DE SILGUY

J'espère que vous comprendrez l'absence de M. de Silguy retenu par des engagements relatifs à la constitution de la prochaine Commission. Je voudrais, en son nom, remercier Mme Flesch, M. de Esteban et la Direction Informatique de la Commission pour avoir pris l'initiative de ce symposium.

Depuis un peu plus de six mois maintenant, 290 millions d'Européens, sans parfois le savoir, partagent désormais la même monnaie. Voilà sans doute l'une des réalisations les plus importantes du siècle en terme monétaire et aussi sans doute l'un des défis informatiques majeur. En fait, depuis 1999, la moitié du travail ou un peu moins, a été réalisé avec le basculement des marchés financiers. En 2002 ou avant 2002, il faudra basculer à peu près tout le reste avec la mise en circulation des pièces et des billets. Avant que les spécialistes n'interviennent, je souhaite vous faire deux séries de remarques. La première sur l'exercice réalisé avec succès en 1999 et la seconde sur l'importance primordiale de préparer 2002. Je sais qu'il y a un conflit d'intérêt entre l'euro et l'an 2000 mais il est impératif de s'attaquer dès que possible au basculement informatique de l'euro.

D'abord une série de remarques sur 1999. On l'a un peu oublié, mais en février 1996 encore, la une d'un grand hebdomadaire s'interrogeait sur la réalisation du projet euro. Ce projet a vu le jour sans récession grave lié à la convergence et la réduction des déficits, au contraire. On a tout entendu et tout lu sur ce sujet et on continue d'ailleurs, d'une manière tout à fait paradoxale à l'entendre. «Si vous réduisez les déficits publics vous allez aggraver la récession en Europe, vous allez la précipiter dans la déflation». Les faits d'ores et déjà démentent ces vues crypto keynésiennes.

Nous avons eu en 1998 la plus forte année de croissance de la décennie avec une moyenne de 2,8% pour l'Union européenne. L'assainissement des finances publiques, contrairement à une vue hélas encore trop répandue en Europe, ne freine pas l'économie. En tout cas pas à un rythme normal, quand on procède à un assainissement tardif et donc trop rapide, il peut arriver qu'on ait des conséquences sur la conjoncture. Par exemple à l'arrivée de M. Clinton à la Maison Blanche en 1992, les Etats Unis avaient un déficit budgétaire très supérieur au déficit de l'Union européenne! Nous étions dans la zone des 4% à 5% du PIB à l'époque. Aujourd'hui, nous dégageons un excédent massif et dans l'intervalle, ils ont créé 40 millions d'emplois bruts et 23 millions d'emplois nets. Cette vue, hélas encore trop répandue est une vue simplement fausse.

Toujours sur la croissance. On entendait dire ces derniers temps «Oui, l'euro est arrivé mais en fait, depuis l'automne 1998, on s'aperçoit que la conjoncture ralentie de manière extrêmement marquée». Ce n'est ni complètement faux, ni complètement vrai non plus. Il est même faux de dire que l'euro soit en quelque sorte responsable de cette situation. Effectivement nous avons eu avec le début de la crise asiatique en août 1997 un fort ralentissement de la croissance mondiale, divisé par deux en 1998. Qui peu à peu à partir de l'été 1998, a induit un certain nombre de conséquences pour les exportateurs européens. A la fois parce qu'ils avaient moins de clients en Asie et parce que, évidemment, les économies asiatiques très industrialisées du type coréen, devenaient ultra compétitives sur un certain nombre de marchés tiers. Mais il est absolument évident aussi que nous sortons de ce phénomène de ralentissement. Dans les trois plus grands pays de la zone euro, qui à eux seuls font à peu près 70% de son PIB, les enquêtes de conjonctures s'améliorent de manière très significative. C'est vrai en Italie, c'est encore plus vrai en Allemagne et c'est encore plus vrai en France où il y a eu au mois de mai la plus forte embellie sur le plan des enquêtes de conjonctures depuis qu'elles existent.

Il est possible d'ores et déjà de prévoir sans risque et sauf cataclysme majeur du type crash à Wall Street, que la deuxième partie de l'année sera bien meilleure que la première. La Commission maintient à ce stade ses prévisions de 2,5% de croissance au rythme annuel au deuxième semestre 1998 contre un rythme légèrement inférieur de 2% au premier semestre. Personnellement je n'exclue pas, dès le deuxième trimestre de l'année, un certain nombre de bonnes nouvelles à savoir que la reprise n'interviendra pas entre le 2e et le 3e trimestre de l'année mais qu'elle est déjà pour une grande partie intervenue entre le 1er et le 2e. Il reste néanmoins certaines inconnues.

Les trois principales concernent la situation peu brillante en Chine. Ainsi que le coût, difficilement chiffrable aujourd'hui, de la reconstruction du Kosovo et de l'aide aux pays voisins. Cette question étant abordée très sérieusement par la DG II. Aujourd'hui encore nous n'avons pas une idée claire sur l'enveloppe globale qui devrait se situer entre 10 et 50 milliards d'euro. Troisième sujet d'inquiétude un tout petit peu moins important puisque la décision de la semaine dernière de la Federal Reserve a été très bien accueillie par le marché, il s'agit de la situation des taux d'intérêts de longs termes et des marchés financiers aux Etats Unis. Etant entendu que même si l'euro nous a permis d'obtenir une certaine indépendance monétaire, il y aura en cas de gros pépins à Wall Street un certain nombre de conséquences directes pour nous.

Troisième élément de satisfaction, après le fait que nous n'avons pas eu de récession et que la conjoncture ne va sans doute pas si mal, est le bon départ financier de l'euro. Ceci est un élément dont nous savons pertinemment, qu'il fera sourire. Comment peut-il dire cela alors que l'euro a perdu, 10%, 11% ou 12 % de sa valeur contre le Dollar depuis le début de l'année?

Nous continuons à penser à la Commission que ce qui se passe depuis le début de l'année relève d'un développement purement conjoncturel. Et nous ne sommes pas les seuls, un représentant de la Banque Centrale Européenne est parmi nous, et la Banque Centrale Européenne dit exactement la même chose. Ce n'est pas l'euro qui est faible mais le Dollar qui est fort. De la même façon qu'en septembre 1998 c'était le Dollar qui était très faible suite aux contrecoups subis par la décrépidité de la Russie et de son incapacité à faire face à ses échéances financières. Alors que d'habitude cela affectait plus le Mark que le Dollar.

Si la situation était paradoxale en septembre, elle était surprenante au mois de janvier en influant dans le sens opposé. Mais aujourd'hui, on se retrouve, l'un dans l'autre, avec un euro qui est à 2% ou 3% près au même niveau que l'ECU l'était contre le Dollar il y a un an.

Il n'y a rien d'alarmant. Et c'est d'autant plus justifié que l'économie américaine affiche performances extraordinaires sur performances extraordinaires. Après un taux de croissance annualisé de 6% au dernier trimestre de 1998, l'économie américaine a encore réussi une performance aux alentours de 4½% au premier trimestre 1999. Nul n'est capable de dire combien de temps l'économie américaine réussira à maintenir un taux de croissance non inflationniste très au-dessus de son taux de croissance naturel. Pour l'instant il n'est pas du tout aberrant d'avoir un Dollar fort. Cela changera, croyez-moi! Il y aura probablement un jour où nous regretterons le niveau actuel du Dollar.

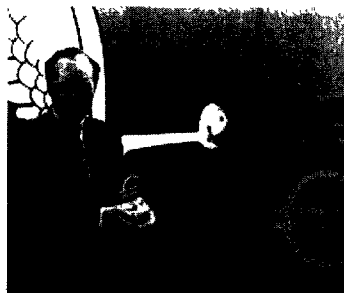
L'important pour nous se sont évidemment les changements de nature structurelle, l'évolution du taux de change que nous considérons comme un paramètre conjoncturel. Au plan structurel un certain nombre de points sont très importants, souvent inconnus des non-spécialistes, et qui se sont produits au cours des six derniers mois. Le plus important concerne la part prise de l'euro dans les nouvelles obligations, les émissions obligataires internationales. Nous avions en 1997, une part agrégée des 10 monnaies constituant la zone euro qui se situait aux alentours de 28%, 29%. Aujourd'hui avec l'euro, elle est montée à 44% ou 45%. On a gagné 15% ou 16%, en deux ans, et les Américains évidemment ont perdu à peu près autant. Nous nous retrouvons avec un euro qui fait un petit 45% du total des émissions obligataires internationales, un Dollar qui fait un petit 45% ou un gros 40% des émissions obligataires internationales et pour les autres il ne reste rien. Soyons clairs! Pour le Yen, la livre Sterling, le Franc suisse et pour les autres bonnes monnaies, il ne reste pratiquement rien. Et d'avoir aujourd'hui une monnaie qui fasse jeu égal avec le Dollar en terme de monnaie d'émission internationale, croyez-moi, c'est quelque chose qui a beaucoup de conséquences très positives. Même si nous avons du mal à comprendre exactement les mécanismes en jeu. L'une de ces conséquences est évidemment que les entreprises européennes ont maintenant un accès beaucoup plus facile aux crédits des intermédiaires d'émissions obligataires. C'est ainsi que l'économie européenne globalement se finance mieux.

Nous avons aussi évidemment acquis une certaine forme d'indépendance, même une indépendance certaine vis-à-vis du Dollar en terme des taux d'intérêts à long terme. Souvenez-vous qu'en 1994, nous étions dans un scénario où la Federal Réserve, craignant déjà la résurgence de l'inflation. Elle avait réagi fortement, peut-être même violemment, en remontant ses taux d'intérêts de court terme de 2, 5%, 250 points de base, en l'espace de 10 mois, de février à décembre 1994.

C'était une époque où les taux d'intérêts en Europe étaient non seulement modérés mais très nettement orientés à la baisse. On a dû baisser de l'ordre de 150 points de bases les taux d'intérêts à court terme en Europe à cette époque là. Et bien, malgré cela, les taux d'intérêts à long terme européens ont fortement remonté courant 1994. En ligne évidemment avec les taux d'intérêts à long terme aux Etats Unis, qui eux-mêmes avaient subi la hausse des taux d'intérêts à court terme.

En clair, nous avons payé une facture qui n'était pas la nôtre. Il n'y avait absolument aucune raison macro-économique en 1994 pour que les taux d'intérêts à long terme remontent en Europe et on a assisté dans un certain nombre de pays à des conséquences extrêmement dommageable de cette situation. Notamment par le véritable coup d'arrêt à la reprise du marché immobilier qui dessinait. Parce que bien évidemment quant au lieu de financier un appartement à 5%, vous le financez à 7,5%, au bout de 15 ans ou 20 ans d'emprunt, il vous revient à 15% ou 25% plus cher. Cela, il a bien fallu que nous l'acceptions, nous n'avions pas le choix.

Depuis le 1er janvier 1999, nous avons doublé en notre faveur l'écart des taux à long terme entre les Etats Unis et l'Europe, alors même que sur le plan du taux de change, la situation n'était pas extraordinaire. Cela à l'air technique, mais c'est d'une importance capitale pour l'économie. Nous sommes aujourd'hui à 165, 170 points de base alors qu'en 1994, nous devons être pratiquement à parité avec les Etats Unis. Depuis la naissance de l'euro le 1er janvier 1999, nous avons doublé notre niveau d'indépendance par rapport aux Etats Unis et à des niveaux jamais atteints depuis la réunification allemande. Ceci est extrêmement important. Non seulement bon en soi, mais qui permet d'espérer une protection supplémentaire en cas de difficultés sur les marchés financiers américains.



Je ne veux pas insister sur ces changements financiers de nature structurelle. Je voulais simplement indiquer qu'ils sont réels, extrêmement importants par leur ampleur et extrêmement bénéfiques. Ce n'est pas parce qu'ils ont l'air un peu technique qu'il faut les négliger, telles les sujets informatiques d'ailleurs, la plupart des gens n'y comprennent rien et pourtant ils sont absolument cruciaux.

Un dernier mot sur les questions de l'informatique avant de parler de l'avenir. Je ne suis pas un spécialiste du domaine, mais nous avons à prêter une immense attention à ces questions, et la Banque Centrale encore plus que nous. Tout heureux et un peu soulagés aussi, de voir que le changement informatique s'est bien passé le 4 janvier 1999. Seuls sont apparus de petits problèmes techniques dans le fonctionnement des systèmes de paiement temps réel et dans leur interconnexion au niveau de Target. Avec en tout et pour tout, sur les six premiers mois de l'année un incident significatif fin janvier. Tout a parfaitement fonctionné dans les banques commerciales au niveau individuel. Les opérations de refinancement de la Banque Centrale Européenne se sont toutes parfaitement passées, c'est quand même évidemment un résultat stupéfiant. Aujourd'hui je tiens à remercier et à féliciter, au nom de M. de Silguy, la communauté informatique en général, les informaticiens de la Banque Centrale et ceux de la Commission en particulier pour le travail accompli. La Commission a réussi à basculer complètement l'euro. Notamment la paie des agents, mais aussi tous les contrats au 1er janvier 1999 et ceci grâce aux talents et aux efforts d'un certain nombre de personnes aujourd'hui présentes sur l'estrade et dans la salle.

Ces choses étant dites et je crois qu'elles devaient l'être, il faut aussi parler d'avenir. Nous avons, vous avez, je m'adresse à ceux qui sont informaticiens de profession, toujours un rôle absolument capital à jouer dans la réussite globale de l'Union Economique et Monétaire. Tout n'est pas fait, loin de là. Avec le changement réussi du 1er janvier 1999, le premier message que M. de Silguy voulait adresser aujourd'hui, notamment à la Direction Informatique de la Commission Européenne, c'est qu'il compte, que la Commission, que le Collège des Commissaires continuent à compter, sur son travail pour réussir un certain nombre d'autres étapes importantes. Je pense à celle qui vient immédiatement et qui est la mise en place d'un système de communication protégé au profit du Comité Economique et Financier. C'est à dire un système protégé qui permette de faire dialoguer à distance les représentants des Etats membres, les Banques Centrales, de la Banque Centrale Européenne et de la Commission. Ceci est extrêmement important.

Au sein de l'Union Economique et Monétaire il faut être encore beaucoup plus réactif qu'hier. En cas de crises, d'événements imprévus, nous ne pouvons pas nous permettre de convoquer une réunion de Comité Monétaire, comme nous l'aurions fait il y a quelques années. Il faut être capable, sans écarter le site de Bruxelles, d'avoir un premier dialogue ou d'échanger quelques éléments qui permettent aux porte-parole de la zone euro d'aller s'exprimer dans les instances internationales sans laisser exclusivement le terrain aux américains.

Il faut donc être capable de dialoguer à distance et de convoquer une téléconférence protégée en quelques dizaines de minutes. Nous ne sommes pas capables de le faire aujourd'hui et M. de Silguy espère que nous nous en donnions les moyens d'ici à la fin de l'année.

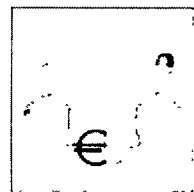
J'en viens maintenant au 1er janvier 2002, qui est la seconde grande échéance concernant l'euro. Nous avons un certain nombre de bonnes et de mauvaises nouvelles dans l'exécution de la phase de transition. Notamment un certain nombre de signaux dont il ne faut pas exagérer le caractère dramatique. Il faut néanmoins avoir conscience de leur signification. Un certain nombre de signaux en provenance des entreprises et des citoyens disent «l'euro, nous ne comprenons pas très bien ce que cela nous apporte dans la vie courante», critique pas totalement non fondée. Cette réaction est plus ennuyeuse, du côté des entreprises, qui oublient parfois un peu de s'y préparer.

J'ai eu un certain nombre de discussions récentes avec les représentants de la plupart des grandes sociétés de services informatiques européennes et américaines. Ils sont à peu près unanimes à reconnaître que sans un effort d'accélération des préparatifs engagés nous aurons quelques soucis pour que l'ensemble des entreprises respectent l'échéance du 1er janvier de 2002.

Je pourrais vous tenir un discours lignifiant et comme probablement je ne serai plus chargé du dossier euro au 1er janvier 2002, en renvoyant les problèmes vers mon successeur ou vers le successeur éventuel de M. de Silguy. Nous préférons dire les choses telles qu'elles sont et éventuellement faire prendre conscience aujourd'hui qu'il y a des difficultés ou qu'il pourrait y en avoir, plutôt qu'attendre qu'elles se matérialisent.



Pour les citoyens, évidemment, ce problème est moins critique sur le plan informatique que pour les entreprises. Mais on peut, et on doit, agir pendant la phase de transition. Je vous en parle car nous sommes tous citoyens, et tous intéressés à savoir quand nous aurons des avantages réellement perceptibles de la nouvelle monnaie. A l'exclusion des pièces et les billets qui arriveront spontanément au 1er janvier 2002, on a tous en tête l'idée de créer enfin un grand espace de paiement intégré. Aujourd'hui, quand on veut faire un virement de Maastricht à Liège, par la route il faudrait une demi-heure pour parcourir les 30 km. Par contre une opération de banque à banque pourrait prendre jusqu'à une semaine, coûter plusieurs dizaines voir plusieurs centaines



d'euro de commission. Ceci est absolument incompréhensible pour le commun des mortels. Alors qu'en fait, cette opération est faite dans la même monnaie, et qui plus est-il arrive que l'argent se perde et que l'on ait les plus grandes difficultés à le retrouver. Et cela tout simplement parce que l'on n'a pas d'interconnexion des systèmes de paiement de petits montants.

On n'a toujours pas mis en place de manière définitive l'identifiant bancaire bien codé qui permettrait de savoir exactement de qui l'on parle, dans quel

pays, quelle banque, quel client, etc. Ces problèmes ne sont pas liés simplement à la difficulté de la technique. Ils sont plus simples que ceux liés à la mise en place d'un réseau de téléphonie mobile, par exemple. Cela est parfois aussi lié à une certaine inertie. Inertie des Etats membres et aussi, il faut bien le reconnaître, à une certaine inertie de la communauté bancaire qui aura dans les prochaines années à faire face à de nombreuses restructurations et qui n'a pas envie d'ajouter encore à ses gains de productivité collectifs, ces problèmes de sureffectifs qui sont déjà des problèmes patents.

Cela ne veut pas dire que la Commission doit rester immobile. Au contraire! La Commission n'a pas à gérer les sureffectifs éventuels du système bancaire. Son problème est d'offrir à ses 290 millions de citoyens européens, qui le méritent bien, quelques avantages concrets de la monnaie unique et sans attendre le 1er janvier 2002.

Normalement, la Commission devrait adopter la semaine prochaine une communication qui vise de manière extrêmement claire à réaliser avant le 1er janvier 2002 non pas le système de paiement intégré dans tous ses aspects qui est quelque chose d'un peu ambitieux. Je ne suis pas persuadé par exemple de l'intérêt à faire un système de compensation des chèques intégré au niveau européen, le chèque est un moyen de paiement du passé. Mais réaliser un système sérieux, rapide et efficace au niveau des virements transfrontaliers classiques. Ceci est une priorité absolue de la Commission pour cette période de transition. C'est le second message que M. de Silguy voulait vous adresser.

Il reste évidemment un travail important d'accompagnement à faire dans la préparation des citoyens en ce qui concerne le double affichage, le secteur du grand commerce-s'en étant emparé avec une certaine efficacité. Concernant les campagnes d'information, il faut aussi promouvoir, même si ce n'est pas absolument crucial, l'utilisation directe et effective de l'euro. Notamment en favorisant cette utilisation au travers de la dimension ludique. Des personnes



peuvent penser que la monnaie doit être quelque chose de très sérieux, qu'il n'y a que par le sérieux que l'on inspire confiance. Oui nous inspirons confiance, mais à un nombre limité de personnes. Il faut aussi être capable, par exemple, de dire que dans les pays où les lotos et les loteries sont encore des organismes d'état, que désormais l'intégralité des prix seront remis en euro.

C'est une tendance d'ailleurs qu'on voit apparaître spontanément dans un certain nombre de pays. Il faudrait pouvoir dire aussi que dans les grandes compétitions sportives l'arbitre utilise des pièces en euro lors du tirage au sort déterminant laquelle des deux équipes aura l'avantage du terrain.

Il faut simplifier la transition pour le citoyen de base. Il ne faut pas lui dire «tu vas vers une espèce d'immense mur, d'une chose incompréhensible au 1er

janvier 2002 et là, ta vie va changer de manière absolument dramatique». Non! Il faut, au contraire, lui donner le sentiment que tout se fait naturellement. Que l'euro c'est quelque chose qu'il puisse pratiquement déjà toucher du doigt au travers des doubles affichages, d'un certain nombre de manifestations ludiques à la télévision et de campagnes d'information appropriées. Nous avons un autre souci pour cette période de transition, il concerne la bonne préparation des petites et des moyennes entreprises.

La plupart des grandes entreprises, avec un certain nombre d'excellents exemples à citer, notamment en Allemagne et en Hollande, ont fait depuis longtemps déjà l'effort de programmer leur transition vers l'euro. Elles l'ont fait parfois avant l'an 2000 parce qu'une grande partie de la programmation concerne justement les systèmes d'information. Elles ont parfois décidé, c'est le cas d'IBM pour ne pas la citer, de le faire après l'an 2000 en disant : «Nous ne voulons pas augmenter en densité l'effort de basculement ou d'adaptation de nos systèmes durant les années 1998, 1999 et donc l'euro basculera le 1er janvier 2002 ». Après tout il n'y a pas d'urgences excessives. Ceci est tout à fait respectable. Et c'était même peut-être la bonne stratégie pour ces entreprises. L'important était que cette stratégie existe et qu'elle soit effectivement suivie d'effets. C'est à peu près ce qui se passe dans la plupart des grands groupes. En tout cas c'est le sentiment que nous en avons.

Malheureusement, cela est beaucoup moins vrai de la part des petites et des moyennes entreprises. Les petits patrons s'occupent de leurs comptes exploitation, de la réforme d'un certain nombre de lois sur le droit du travail d'un certain nombre de pays. Ils sont en train de découvrir l'an 2000. Malheureusement pour certains d'entre eux il est déjà un peu tard. Mais on ne va pas leur reprocher de s'intéresser au sujet maintenant. Il est préférable de s'y intéresser aujourd'hui que dans 9 mois lorsqu'ils n'arriveront plus à faire fonctionner leurs chaînes d'approvisionnement logistiques. Leur parler d'euro honnêtement aujourd'hui c'est difficile, pour ne pas dire très difficile. Nous continuons à avoir ce message des fournisseurs des services informatiques qui est pour nous en partie déprimant et en partie un peu inquiétant. A savoir que de toute façon ils ne font pas de prosélytisme, leurs carnets de commande étant pleins jusqu'en 2003. Mais fondamentalement la proportion d'ordres passés concernant la mise en place de l'euro est faible pour les petites et les moyennes entreprises. Alors que pour les toutes petites entreprises, paradoxalement, ce n'est pas forcément un défi colossal. La plupart d'entre elles ont des applications informatiques standard. Il suffit de prendre, chez votre vendeur de logiciels, le bon logiciel compatible en l'euro et l'an 2000.

Mais cela est plus problématique pour les entreprises de taille moyenne qui pour beaucoup ont développé dans les années 70, 80 des applications logiciels^{es} spécifiques. Pour ces dernières, il y a un véritable défi dont je vous demande de bien mesurer et de bien répercuter sur vos interlocuteurs toute l'importance et toute l'urgence. Ce n'est pas à vous que je vais apprendre qu'il faut globalement 24 mois, voir 30 mois, pour analyser un problème tel que le

passage à l'an 2000 dans une application informatique compliquée, pour réaliser les adaptations de logiciels et pour les tester. Cette phase de test absolument primordiale est souvent complètement oubliée par les décideurs. Elle est un véritable défi. Les informaticiens, la communauté informatique sont au cœur de la réussite de 2002. On y trouve des dimensions psychologiques, sociologiques, humaines qui ne sont pas négligeables. Mais vous avez une grande partie de la réussite de 2002 entre vos mains.

Vous êtes assurés du soutien de M. de Silguy, et j'espère du soutien de la Commission Prodi dans vos efforts. Mais l'on ne fera jamais assez de bruit autour de ces questions. Nous comptons d'ailleurs, indépendamment de la réunion d'aujourd'hui, sensibiliser une nouvelle fois les ministres, à l'occasion de la réunion du conseil informel des ministres des finances et des banques centrales qui se tiendra à Turku en Finlande d'ici quelques semaines.

Pour terminer je citerai cette phrase d'Einstein que le Commissaire avait préparé pour vous «Nous aurons le destin que nous aurons mérité». Au delà des avantages économiques évident qu'apportera l'euro, M. de Silguy est convaincu que la création d'une monnaie européenne peut donner une forte impulsion à l'Europe dans le processus de l'unification politique dont les événements dans l'ex-Yougoslavie montrent avec beaucoup de tristesse l'impérieuse nécessité.

L'euro ce n'est pas seulement une monnaie, c'est aussi un puissant symbole d'unité et je crois qu'il faut absolument que nous en prenions tous ici dans cette salle et ailleurs conscience. Il y a encore énormément de travail à faire pour réussir complètement la phase de transition. Merci de votre attention.



Managing the Changeover

euro world

Current status of the changeover to the euro

by Mr. Lars BOMAN
DG II - Economic and Financial Affairs
European Commission

Thank you, Madame Chairman and good morning to you all ladies and gentlemen. I'm here today to talk to you a little bit about the current status of the changeover to the euro unless you will surely appreciate some other things that I will be mentioning has already been touched upon by Mr. Lafitte from the Cabinet. Anyway, I think I will have at least a few new angles to this topic for you today this morning. So I'd like to try to talk about the changeover and its current status after 6 months with the euro. I'll also have a brief look into what the legal frameworks surrounding this currency could develop into for the future. I will also say a few things about the Member States outside the euro zone and also a few words on the accession countries, the Eastern European countries who are on the road to membership in the Union. Finally, I'd like to mention some of the other things that the Commission has done outside the legal sphere, like recommendations and agreements and other initiatives, which touch upon the euro.

So, we've seen Mr. Lafitte mentioning the changeover of the financial markets from 1st January 1999. That's a very important aspect of this process, this transitional period of 3 years. I will also say a few things about the provisions of the euro regulations, the two Council regulations which form the monetary law of the euro. How these provisions have stood up over the first 6 months and what their significance has been. I will also try to cover some of the national and secondary legislation that has been introduced quite recently relating to the euro and also briefly comment on the obligation to consult the ECB for legislation relating to the euro. And of course I'll say a few things about the transitional period itself and the final end-game of this introduction, that is the introduction of euro notes and coins.

So as we heard Mr. Lafitte say the changeover weekend, both in economic and technical sense, was a great success, and I think that a lot of people, mostly IT specialists but also economists were working very intensely in the financial centres over this 4 day period from 1st January to when the markets opened on

4th January but when the markets opened there was a new financial market in place for the euro and it worked quite well from the first instance and there was no technical problems and that must mean that the preparations on the technical side had been very well carried through. Also, at the same time, not only did new bonds, new trades, being made in the new currency but also almost all of the outstanding government debt of the eleven participating countries were at this point of time converted, re-denominated into the euro. So there was a massive amount of securities on the market which you could trade immediately in the new currency. Also at the same time we saw the replacement of reference interest rates and price sources in information systems like Reuters and Telerates, and so on, and on screens all over the financial markets being replaced by references to the new currency. So, a great technical challenge but also a very well carried through.

On the economic side we've heard Mr. Lafitte talk about the bond issues in Europe now matching the bond issues carried out in Dollars. And that is of course a sign of confidence in the new currency. Also we have seen that short term interest rate differences which were there between the eleven participating countries have more or less been totally removed inside the euro zone so that we now have a uniform short term interest rate in the euro zone. And as you will see later on today as well we also had the start of the payment system Target that handles large-scale retail payment operations, in euro, in real time and it has also had a very good start.

So what about the Council regulations and the provisions in the euro regulations? Well, we had on the last day of last year a fixing of the conversion rates. That was to be a Council regulation which was to be calculated through the help of the Central Banks and the Commission starting from what the markets were giving as rates that morning and finalising with the whole Council regulation being printed by the Printing Office in Luxembourg before the day was over. So that was one of the quickest Council regulations, I think, we have ever had to put in place. And that was also quite successful and this crucial information was then transmitted to the financial markets fairly early on the last day of last year so that they could use this in their computer systems and start working immediately on the changeover.

Another important aspect of the legal surroundings is the continuity of contracts. Just because the euro replaces the national currency units, on 1st January 1999 does not mean that financial contracts or any other agreement or contract becomes in any way different at this point in time. There should be no changes to any of the clauses in contracts just because of the introduction of the euro. So, interest rate levels set in contracts or other parameters which are set in contracts, they will remain unchanged. And no party has the right to terminate any contracts because of the introduction of the euro. And following this for the first 6 months we have seen that we haven't had a single case come to our knowledge in DG II where there has been a challenge of this principle of continuity of contracts and of the stability of agreements that have been made.

So that seems to have been something that parties all over the economic sphere has taken to themselves and accepted as something given.

On the conversion between different national currency units itself and on rounding I think that we have had perhaps minor reports that there has been a few problems, a few faults have been made, and so on, I would say that they mostly have certainly not been due to technical problems or IT systems. It is mostly due to insufficient training of staff, and so on, that they have not really been aware of exactly how to move from one of their national currency units to another in the euro zone, that they would have to go via the euro and not use direct bilateral rates, and so on. And so there we have had, and still I think will have some ongoing information work to do to spread the knowledge of how to properly do this. Of course, in systems operated by banks, and so on, this double step procedure of converting from one of the currency units to the other has been long incorporated and programmed so there I don't think we have any problems.

On the final provision that I'd like to talk a little bit about is the notion of no compulsion and no provision, that means that an economic agent should be free to use the euro if they so wish and can agree with their counterparts, but nobody should be forced into the use of the euro. That is a very nice principle and I think the Commission was right in stressing it and putting it forward into the legal framework of the euro. Of course, we've seen that in the business sphere this isn't perhaps always the case. The are very large corporations, and so on, have an advantage over smaller suppliers or clients or retailers, and so on. So what the big place in the market decides, the smaller players would more or less have to follow. So to some extent it has been the case that larger players, when they have chosen to move to the euro and start using that, the smaller suppliers, and so on, have had little choice but to move to the euro at the same time. On the other hand, the Commission itself has stressed the responsibilities for the larger corporations to actually help out the smaller or medium-sized corporations that they work with in this process and that they have responsibility for them now that they are to some extent dictating the timing and the terms of the changeover to the euro for smaller businesses in some instances. And I think that has worked quite well and we haven't really heard of major problems in this respect. There are still a lot of minor businesses which do not use the euro today but we'll I think see more of that as the months move on.



Apart from the legislation on the Community level, there's, of course, national legislation and the eleven participating countries have all made national changeover plans. So in these plans you can see quite clearly what the government is willing and prepared and able to do in the euro unit with its citizens and business sector and when they think they are ready to do it. And in many countries these decisions have also taken the form of a new euro law like

the countries you see listed here. While for other countries, minor or smaller legislative changes were enough to introduce the relationship between the government and the business and private sector in their country. For ten of the member states a full euro option is given to the business sector. That means that they're allowing companies a voluntary changeover when they like to the euro, of their accounting, their reporting to authorities, their tax declarations, their tax payments, and so on. Of course, when they do decide to move to the euro, they can't move back. So this is a one-way decision. When it's been taken you move to the euro unit, then you stay in that unit. This is also given more or less in the last eleventh country, Germany, but they have some restrictions on the tax side on what they allow their companies to do at the moment but more or less a full euro option in all eleven countries.

What we've also put in place over the last couple of months is a few arrangements between the eleven participating countries, some of them and other countries and territories. So for instance, France has an exchange rate arrangement with the CFA Franc. So in Africa, a number of African countries, where they have established a fixed parity between the French Franc and their currencies, and now these fixed parities then transferred to a fixed parity with the euro and the same goes for agreements between Cap Verde and Portugal involving the Portuguese Escudo previously but now being transferred to the euro. Also, there's been monetary arrangements conducted with Monaco, San Marino, the Vatican, and some French territories like Mayotte and Saint-Pierre et Miquelon which will allow these territories to continue to use and have as their official currency the euro which was perhaps not evident before when they had used for instance the Lira or the French Franc more or less as their currency.

Also, introduced is the obligation to consult the ECB on national legislation or even on Community legislation in this area and that covers quite a broad range of issues. And as you can see from the list also payment and settlement systems and monetary and financial statistics, and so on, are covered by this. So there could be a lot of national legislation which touch upon the IT sector and which has IT systems approaches which previously was the prerogative of national governments, and so on, but now there is a need to consult the ECB on these matters as they are the ones who are best judged to see the implications on the euro on changes in these areas.

Now that the introduction of the euro was such a success on the technical side, we had a few voices being raised why then wait 3 years for the introduction of the notes and coins and ministers also raised the issue and the Commission looked into this and the answer is that there will not be any shortening of the transitional period due to a number of reasons but some of them you can see on the list. It is the logistics of producing such large amounts of coins and notes are quite huge. So for just producing enough amount, especially of coins, there is not really much room for shortening this time period. Also we know from contacts with businesses, and so on, that they have more or less already

booked IT consultancy time, and so on, and talked to their software suppliers about the change happening 1st January, the final change in the introduction of notes and coins and that these plans could not easily be moved forward. We also know from speaking to the public administrations that they need more or less 3 years to adapt fully to the new currency unit especially for their internal systems. But finally, it was viewed by ministers also that changing such a crucial date which has been given in a Council regulation previously would not be good for the perception of the legal certainty in this area and that then players might think that there could be other changes to the euro regulations and that would not be a welcomed development. So the outcome of this study is, and the ministers also took part in this and agreed, that there will be no shortening of the transitional period.

So on the introduction of euro notes and coins then on 1st January 2002 we've seen at least some ideas of harmonisation and the technical specifications have more or less now been worked out and all the interested parties in this respect have had a say in how the coins and notes will look like, and so on. Also the issue is on the table especially dealt with by the European Central Bank, but also by some co-operation from the Commission, is how to start the process of distributing these notes and coins when we get to the 1st January 2002. So front loading, giving some of the agents in this area previous access to notes and coins and starter kits, and so on, that's the question which is being looked into at the moment. Also this period of double-circulation, dual circulation, where we would have two sets of notes and coins circulating in each country, there have been some developments as well. The regulation says that this can be six months at the longest but most member states now they feel that this is far too long and costly for business sector. So they would like to see a shortening of this period. And the consensus today, as I know it, is for shortening this to around perhaps 2 months and even shorter in some countries. So that we do not have too much economic consequences of the dual circulation of notes and coins.

If there should be any changes or developments to the legal framework where would these changes come from? Well, there could be a little more of secondary legislation relating to the European Central Bank. Some of these things that the Central Bank could put forward as recommendations to the Council would be the increase of the ECB's capital or the increase of the ECB's foreign exchange reserves, the pool of reserves. Also, there could be some other proposals regarding other instruments of monetary policy from the ECB's side. Also possibly the euro regulations could need some adaptations as new member states join the euro zone and there could also be some legal developments on the issue of protection against counterfeiting of the euro.

So shortly talking about member states outside the euro zone. Well, to qualify to get into the euro zone you know that you will have to fulfil some economic criteria like a stable inflation rate, low interest rates and a budget deficit which is below 3%, and so on. And this examination of whether countries meet those

standards or not are being carried out by the Commission and the ECB in convergence reports every two years but member states could also request a report like this at any time if they feel that they fulfil these criteria. But as long as UK and Denmark are exercising their right to opt out of the single currency zone, we will not be examining them. So the next report should be made perhaps in May or September next year, depending on when reliable data is available, and so on, but that should cover Greece and Sweden. And we already know that Greece has as an official objective for joining the euro zone on 1st January 2001. So that could be the next entry into the euro zone.

If we have new member states, of course, the change of the scenario with a 3-years-transitional period does not really have to be the case for these countries and they might also differ between countries. So we could see a much shorter transitional period for late comers to the euro zone and that's because euro notes and coins could be available on very short notice for these countries and they could, of course benefit from the experience of those who came before them. Also there could already be some limited use of the euro unit in these pre-in countries. And short periods could also help to minimise the risk of speculation. So input on these issues is required for each member state who would like to join the euro zone and who fulfil the criteria but there is no decisions taken yet.

Having been involved myself in the accession process I know that for the accession countries we have completed what is called the screening of EMU acquit. That means that we have gone through with all these Eastern European countries the legal requirements for taking part in the Union and the Economic and Monetary Union and they have all more or less realised what they have to do to achieve this and also think that they can realise this in a reasonable time frame. Of course, when they enter the EU there will be no immediate adoption of the euro by these countries as they need to qualify for the euro and meet some of the convergence criteria and this could take quite a long time but at least a two years qualification period is required. In any way the continuation of contracts has been more or less confirmed also in these Eastern European countries and their legal systems have known the currency changes before and it has handled them with quite firm principles. So there should be no problems as regards euro contracts in Eastern Europe at all. Also the practical side of handling the euro with conversions and rounding, and so on, is quite well known now in Eastern Europe and there should be no problems on that side either.

Some of the other initiatives in this area: Well, we have some Commission recommendations, some voluntary agreements among parties and some other regularity initiatives from the member states themselves. The Commission has an information program that I'd like to touch upon. DG II itself has some technical guidance work carried out and we also have some ongoing efforts with other players in the market. Lets start with the recommendations. We've had Commission recommendations on banking charges, on dual display of

prices and values and on monitoring of the changeover and I guess the two first ones have been the most important ones. So banking charges was an issue. Would it be costly to change to the euro unit and use it? So in order to avoid this type of speculation there was a recommendation from the Commission about what the banks could charge for and what should be free of charge in this respect. And a number of crucial things have been agreed upon with the banking sector that should be free of charge. And for instance sending bank transfers through the payment systems, there is no extra charge for that just because the payment is in euro or so on. It is just the normal charges for a wire transfer. Also to change your account from the national currency unit to the euro unit at the end of the transitional period is carried out free of charge by the banks. There are also some recommendations on dual display of prices and values. And these recommendations have been worked out in co-operation with the consumer sectors so that we can assure that there is some standards in how you display prices and that they are easily recognisable by the consumers. In any case, if we see that these recommendations are not adhered to and that we need more firm action in this area, the Commission has reserved the right to come back to these issues with legal initiatives.

Now there is some voluntary agreement on the use of the euro as well between the consumer organisations and the retail associations on how to use the euro in commerce and when banks and shops adhere to these codes of conducts they then can display a euro logo in their window which gives consumers and clients a clear signal that in doing business with this shop or this bank and I know that standards that the Commission has set on the use of the euro is being followed.

Some other regulatory initiatives were for instance not directly linked to the euro, but still decisions by the Ministers have been taken that the 31st December this year should be a Bank Holiday and that should simplify matters when it comes to the Year 2000 problem and give more time for the systems work to be carried out at the end of the year. Also the Commission has launched a smaller investigation into the conversion charges being charged by banks and in February, as early as February, the Commission's competitive side of the services did visit a large number of banks early in the morning and ask them for information on their policies on charging, and so on, and there should be some initiatives forthcoming from the Commission on this side in relation to that investigation and also, as you heard – M. Lafitte talked about it to some length – there is a strong incentive to create also for smaller payments, retail payments, a single payment system that easily works and is cheap to administer and so there you will also see some initiatives from the Commission's side on cross border payments.

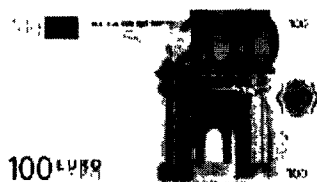
The information program from the Commission: well we have a budget of 38 million euro for this year and we spent about 1/3 of that. 2/3 are allocated to member states who sign information conventions with the Commission and they do most of the information work in terms of volume. Of course, DG II has an

active role in the communication of information regarding the euro as well and we have a series of euro papers, which is more technical documents which cover some more specific aspects of the introduction of the euro, like going through in detail the legal framework, accounting aspects, IT consequences, how the re-domination was carried out by governments and also studies on implications of the euro for non-EU countries, and so on, and links to all these reports, and so on, you can easily find them on our DG II website.

So what else do we do in the Commission? Well, we are collecting information and building a database on the use of the euro so that we will have some feeling of how much preparation will still be there when we approach the year 2002 and the final decisive moment of changing into the euro is coming close.

We are also working quite closely together with business associations, chambers of commerce, consumer groups, and so on, supporting their information efforts and keeping a constant dialogue. Of course, we also have through the help of DG 10, brochures, newsletters, guides and videos, and so on, relating to the euro and also a group of people who are trained conference speakers who can come to each members state and hold lectures on the euro.

Last but not least, of course, the information available through the Internet. This is an extremely good source of information and it is very easy to use. So for long we have been propagating our own website and it's been very well visited over the last year but also you see here a few of the other addresses that could be useful if you are looking for more information on the introduction of the euro, and with that I think I will stop.



Managing the Changeover

euro world

Current status of the changeover to the euro

by Mrs. Celia TENÉS GARCIA
Secretary of the IT Special Commission for the Changeover to the euro
Treasury General Directorate, Finance Ministry, SPAIN

Good morning. First of all I would like to thank the Directorate General for having provided us with the opportunity to be here to share our experiences with you. I would also like to thank you for your attention here this morning.

Now the co-ordination activity that was carried out within the Public Administration has been started on March 14th 1997. On that occasion we published the regulation whereby we set up the interministerial commission for the transition to the euro. The Minister for Finance chairs this interministerial commission and there are representatives of all the ministerial units, the central administration units. There are also representatives of regional administrations and local administrations and also other sectors are represented on the committee, for example, amongst the other sectors you would have the business users, and so on.

The interministerial commission which is responsible for co-ordinating all activities for introducing the euro in Spain is fully aware of the importance of IT when it comes to introducing the euro in Spain. That is why the committee decided to set up a horizontal committee and that is where I work and that is what I am representing today and that is the special committee for information systems and we are going to look at the problems related to the introduction of the euro in our country. Not just in public administration but in all social sectors across society.

The interministerial committee's main worry when setting up this committee was multi-faceted. First of all, you have to see what time is necessary to do this and what it is going to cost to update computer systems. And you have to insure that you have a sufficient transitional period in all sectors in Spain. A second worry is that we think that the changes to the IT system is absolutely essential before we can make progress in other areas, for example taxation, payment changes, and so on, and this can only be done once the computers are up and running.

Now in parallel with all that, all the autonomous communities in Spain have set up their own committees which reflect the ones I've just outlined. The autonomous authorities in Spain have a lot of power so they are in a position to take their own decisions independently of what happens at a central level. Having said that the 17 autonomous communities throughout Spain do in fact follow the same lines as those being taken at the central level.

All the autonomous regions have set up special committees for studying and co-ordinating the introduction of the euro in their own region and at the same time they have also set up special IT committees to study the impact of the changeover that they will have on their own information systems. Some of these committees have even followed the methodology proposed by the central committee and others have set up their own systems, their own guides, and their own manuals but all the work that is going on in this field is focusing on the euro.

The third major group is businesses, the local administrations, municipalities, towns, and so on. We were very worried about what would happen at the local administration level. Most of the 8500 towns in Spain have less than 5000 inhabitants. This in fact means that they really don't have their own computer departments which will be strong enough to ensure that the transition can be done smoothly.

We have created committees in the most important towns so this was a committee which co-ordinates co-operation between the towns and provinces and so on. This committee represents all towns that have presented a plan in 1998 for the changeover to the euro in all local authorities. In the plan that has been submitted to us, this will be co-ordinated at a provincial level and there is an IT centre in every province which is responsible for looking at the requirements of each population and then all these requirements will be put together and you will have the IT packages will be looked at in a uniform fashion and the plan will be implemented in all town halls. These are the IT systems which are necessary for calculating taxation, and so on. This will be done in exactly the same way in all local levels and the system then that has developed will be circulated to all towns to ensure that towns who don't have their own IT unit will be assured of good quality for the transition to the euro.

Now the biggest town halls, Madrid, Barcelona, Valencia, and so on, who do have their own IT units, which are big enough, are already, in fact, working on this, they are carrying out their own studies, they are engaging their own planning process and they are adapting their own systems. The commission that I represent here today, as I've already said, this is reflected by similar committees in the autonomous regions, and the job is to study the impact of euro adaptation process on public authorities and to look at what the impact will be on our IT systems. So the first thing we have to do is to look at what it is going to cost to change the computers over in the country and in all the public authorities.

We have a major problem at the moment in Spain because the national currency has not had any decimal points for quite a number of years. So in our computer systems you just convert all amounts in pesetas and euro but all databases, all screens, all layouts will have to be changed to make an allowance for the fact that you are going to have two decimal places after the actual currency amount. So we started working on that. We have made a list of what needs to be done – we look at that later – and we think that all Spanish administrations, national, local and regional and we feel we are talking about 10 or 11 billion Pesetas, which is about 60 Mio euro – that's the estimated cost. So based on that we then worked out an action plan and we have outlined the investment that needs to be made in the various phases or years taking us right up into 2002. We have also worked out a budget for the various activities that take place during these years.

And then another major function of ours is that we have to become really a focus point for communication and information so that we can deal with all the worries, all the requirements of all the regions and all public authorities and we have to try and tackle these problems and circulate the solutions to all the other units, so that we can have a generalised across-the-board information service outlining all the problems that we are going to come across during the transition.

The result now of the work. Well, we've drafted Annex 2 of the national plan for the changeover to the euro, especially for information systems. This transition plan is a document which the Spanish authorities published in December 1997 and in this we outline the main strategy lines and the options for the transition that the Spanish government are going to offer to all Spanish citizens. We are in the group of the 10 countries that we have heard about earlier because Spain is aligning for the full option. Spanish citizens have all possibilities since January 1999. All Spanish citizens can declare their taxes, carry out their accounts, and so on, in euro.

Annex II which is the last annex to the plan contains a study into the method for changing over the IT system to the euro. The methodology is purely a recommendation that we are making within our commission and it applies not only to the public sector but it can also be applied to the private sector. The core of the methodology really takes place when projects are being developed.

We have really stressed the whole aspect of planning. We want to have a very clear list of all the applications that might be affected by the changeover and we feel that these are all applications that work on pesetas and that are all having similar problems. So you have to look at each application, see what the best options are, what is the best way to adapt this. We need to analyse the impact and see how much this is all going to cost. After we've studied all the options, then you have to estimate the costs of the technical systems required, how much it is going to cost in manpower, and then spread the investment out over the whole period from 1999 to 2002.

So, we have asked all units to develop an action plan which will include a time table and which will outline all systems that need to be adapted. We also want them to outline the various dates for which everything has to be ready. You need your working teams in place, you need to know what the quality requirements are, you need to know what controls need to be carried out to ensure that the changes take place in time and to the right level. You also need to know how to train your staff and how users also need to be changed.



Something else we are involved in is the analysis of problems of conversion and rounding up between pesetas and the euro. There is a very important condition in adapting our system to the euro because there are changes where we allow reversibility, in other systems where you can't. Any amount which is



changed from euro to pesetas and you want to come back into euro, you have to ensure that the starting point and the ending point in euro are the same. But we don't guarantee losses of less than one peseta. So this is a thing which is fundamental in our system after 2002.

Now, the IT commission which is responsible for preparing systems in the public authorities and in co-operation with them we have drafted a clause whereby into contracts for goods and services we can include a clause which guarantees that any product purchased during the transitional period will be euro-ready. We have had analysis of all computer systems which are affected in all regional, national and local authorities.

We have drafted a certain number of articles, we have also a monthly national bulletin, which updates everybody on IT systems and also most recently we have published a technical guide and in this we outline the purely technical aspects of the euro changeover. We've also got a webpage which outlines everything that is happening in relation to the euro and in particular everything that is happening in the IT world.

And a questionnaire that we sent to all units, at all Directorate General level in all ministries, autonomous regions and local authorities, so as to draw up an inventory of their IT systems. It's quite a simple inventory because we want to see the different systems which the various administrations have and we wanted to see really which problems might be around the corner and how we can tackle them. We haven't asked for very much information, we did not want to be too complex, it is very complicated to get the results into our systems. So all we have asked for is the number of lines of code they have, if they know, of course, and to find out how many of those lines need to be modified.

So you have an inventory for the central administration with a summary of the results of the questionnaire and from here you can see for example that out of

196 million lines of code, more than half, about 70%, are in the Ministry for Economics and Finance. So more than half of that in fact is related to the tax agency and they are responsible, of course, for calculating tax contributions in Spain.

So the Ministry for Employment and Development are the next most important ones. A certain number of lines are affected. It is a question of finding out how many lines need to be changed but we can't guarantee that we can have complete coverage here because there are many lines that have not yet been looked at. So the cost will depend on whether you need to change all the lines or a certain percentage of the lines. This might not be an exact criteria but that was the single most reliable criteria to allow us to compare administrations in a single document and to allow us to draw comparative conclusions and to allow us to analyse the cost of the changeover in our country.

Many units have already begun working on this and the first one was the public treasury. We've had quite some major changes already to ensure that the whole public national debt can be expressed in euro and we have to ensure that all information in the databases is all expressed in euro. The tax agency has made a major effort for the last year and a half to ensure that all VAT forms for business and for individuals, and so on, are ready for January 1st 1999. So that we now are in a position to offer the full option to all Spanish citizens.

All Spanish public authorities now allow for wages and salaries to be paid in euro or in pesetas. Anything we send to the citizens can be in euro and in pesetas and any of the answers from the citizens can be in pesetas or euro.

The other ministries, environmental, agriculture, and so on, they are currently engaged in their study to see what the impact of the changeover on them will be.

And just to conclude I'd like briefly now to show you the document that we've already spoken about which was prepared by the working group in our commission. Here we look at the more technical aspects for the changeover. What we want to do with this document, is we want to reach all technicians, all the computer people not just in the public sector, but it's a site in general, we are not analysing any specific products, we are not imposing standards or rules, what we are trying to do is publish the various options available and also propose possible solutions in each of these cases. In this document, we talk about the legal conditions, that exist in Spain and these, of course, stem from community legislation.

We also look at the mathematics of all this. We also see what the general strategies might be for the transition period and from 2002. We also look at what the problem will be on screens, on printers, you have for example a simple question of how you get the euro on the screen and how you get to print the euro symbol. We have also proposed an algorithm between the various currencies of the other Member States and the euro. We have also looked at

the various options, for example if you've separate accounts in the euro and in the national currency. For example you could also have simple screens or you can have split screens where you see two sets of information at the same time.

Another thing we've done is that we have looked at the statistical problems, programming problems. A euro is 176 pesetas. So everything has to be really restarted again in our countries to ensure that all the graphics which will appear on your screen are presented in a legible fashion.

So all this information is available on the webpage that I referred to earlier. A technical group had drafted this guide with the view to future problems by trying to present practical cases and we refer to companies which have already carried out the changeover and who can present the programmes in their programming language and showing their outward screens.

And to conclude I would just like to say the following: On all the pages we have seen previously you will see that the Spanish authorities are working feverishly to adapt the Spanish IT system. Each country is really in a different phase on this, it depends on what the requirements are. Many of the agencies are on a different level, for example the national treasury are already quite well whereas other ministries, such as the agricultural ministry are still studying and carrying out their impact studies.

During the transitional period we will be able to increase the amount of euro transactions available as time goes by during the transition period. So during the transition period, everybody is working with a eye to the final date and I'd like to conclude with a very Spanish proverb which is: Let's not get too excited in working too quickly but nonetheless let's keep going. Now we know that time is getting away from us and 2002 is catching up with us very quickly. So that's the end of my presentation.



Managing the Changeover

euro world

TARGET

by Mr. Dieter BECKER
Head of Division, Information Systems
European Central Bank

So, well I am located somewhere between the IT area and the business area. So I have to cover both aspects and in another area, I have also to cover now a changeover because to some extent I will deal with the changeover to the euro because our systems had to be ready on 4th January 1999 and the second part I will cover the changeover to Y2K. The Y2K issue.

So lets start now with the first part, with the presentation of TARGET, and the changeover, and there I want to cover functioning and structure of the TARGET system. Later on, as I already said, some methodological considerations concerning the changeover to Y2K, and in the third part, some practical considerations how we conduct the changeover process to Y2K.

What's TARGET? TARGET is a large value payments system; it links the RTGS systems – Real Time Gross Settlement systems – in the EU central banks. It's a core system for EU, it's required for two purposes mainly, one is for monetary policy purposes, this means particularly integration of money markets and secondly for risk reductions. Everyday, we process several payments beyond 1 billion euro, you can imagine that this has some implications for risk reduction in the area of payment systems.

Now, how is this TARGET system constructed? It is constructed according to the rules of correspondent banking. If, for example, a Spanish bank wants to make a payment to a bank in Brussels, it sends a payment order to the Spanish central bank, there this credit institution is debited and the Belgian central bank, an account of the Belgian central bank is credited. Afterwards, the message is sent by the SWIFT network to the Belgian Central Bank, there the payment is debited on the account of the Spanish central bank and credited on the account of the Belgian credit institution and afterwards, the message is forwarded to the Belgian bank. This processing chain takes an average of about 5 to 7 minutes. That is the scope of TARGET. Within this process, the pay order is reformatted three times. In Spain the payment is processed according national rules, then

we have rules for processing payments between central banks, and afterwards, on the Belgian side, the payment is processed according to Belgian rules. So you can imagine that this TARGET system is a relatively complex animal.

This gives you a little bit closer the impression how the system works. You have in each of the EU countries a system constructed of software on the level of credit institutions, a national network, and a national accounting system, between central banks the network, which interconnects the central banks. So this means in the end you have 16 systems composed of various communication and application components interconnected.

Well, as I already said we had to go to a changeover process before we started on 4th January 1999. So we had a phase of intensive testing in 98, in 97 we had a development phase where the software components for the system were developed. As you can see value of payments was already relatively high on day 1. On day 1 we processed more than 200 billion euro cross boarder. Now, in average we process about 350 billion euro. Including the national RTGS systems, we are every day beyond 1000 billion euro. Volume of payments cross boarder we process on an average day about 30.000 payments and as you can see we started with about 5.000 payments and after two weeks we reached already the level which is now the average level. So you can imagine that this changeover process was a very heavy task because we did not know to what extent banks will use our system and we did not know whether the changeover, the migration to the new software would work properly. But as already said in the introduction, we had only one major incident in January and up to now everything works smoothly.

Now, let's come to the changeover to the year 2000 and let's briefly think about what is the role of the European Central Bank. The core responsibility of the European Central Bank exists for the euro-system for the in-countries. The European system of central banks, meaning in-countries plus out-countries is less important from an operational point of view for TARGET because TARGET is the system for integrating money markets of the in-countries to reach a common money market.

Which tasks have to be covered by the European Central Bank. On one hand side is our operational involvement, this means the operational involvement of the central banks, they provide the RTGS systems and the European Central Bank. The European Central Bank is responsible for co-ordinating activities amongst central banks.

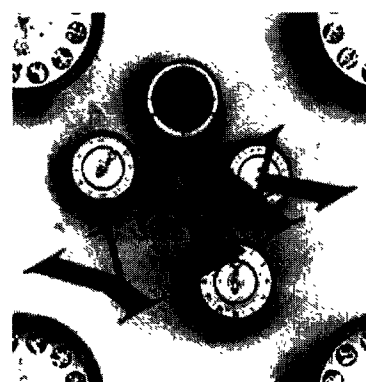
Another aspect, which has to be covered by the European Central Bank, is oversight and payment systems. But today concerning TARGET, I can disregard this task. I am dealing mainly with an operational involvement.

What else has to be distinguished? On one hand side we have to prepare for the changeover and secondly we have to conduct the changeover during the

changeover weekend and another important date is the 29th February 2000, the leap year issue.

As you can imagine, TARGET has to be a highly available system. It would be really a disaster if the system would not come up in the year 2000 and if we would face major problems. On the other hand, TARGET has to take into account the different technical platforms in each of the countries and the different development of systems in these countries and in the end, we are not allowed failure. Failure is not an option, to have major problems when the year 2000 starts.

We started our Y2K preparation by building some major headlines for our tasks. First one is prepare all systems for Y2K and as you said it starts with an inventory of systems and applications to know where you are before you start the process. The second big issue is test the whole processing chain, test all systems. This means you have to test things from the starting point to the end point. The third issue, and I guess you are also familiar with this, you need a control procedure because some of your dear friends, somewhere in Europe, they



change their systems after having tested them and then you have some major surprises when you connect them. This is, we learned it already during the changeover to the euro, a relatively difficult matter. What we learnt particularly from the changeover to the euro, there is a strong need to conduct such a changeover process as a project. We learnt that we need, even in a European context, where all the national central banks have a relatively high degree of independence, you need clear procedures, clear definitions of responsibilities, otherwise you will face major problems. And, third issue what we learned already during the changeover to the euro, you need the awareness of the top management and the way we create this awareness is a very simple one. We have a very clear and open reporting and we underline particularly what are the remaining risks of the process so that we have awareness on this level.

These are some recommendations for conducting the changeover. I guess they are self-explaining, have enough time for testing and re-testing, have enough staff resources available, have a clear decision making process and last but not least, have a clear understanding of contingency scenarios and manageable contingency solutions. So in my understanding, particularly the Americans, they panic a little bit, but on the other hand we all need a clear understanding what are the remaining risks and how to process in our case payments if a system really fails. For this we are currently in the process to make a risk analysis to see what are the remaining risks, we create an environment which is to a large extent independent from our current processing environment to process at least some payments. Some of them are indispensable for conducting the monetary policy and for settling major systems. This is our contribution to risk reduction.

Now, I would like to cover the third and last point of my presentation: practical issues of Y2K preparation. First of all I want to explain our methodological approach, secondly how we conducted our tests, and thirdly where we are in this process.

Methodological considerations. What we learned when we prepared for Y2K testing, is that you run already a Y2K risk before you start Y2K testing. If you don't have testing systems available, which are independent from your production platform, you have to change the whole infrastructure for making Y2K tests. So our first aim was to have an independent platform available for Y2K testing. In this environment you are allowed to make some accidents, in case you work in a production system it is difficult to make after another business day Y2K testing and afterwards go back to the production of the next day. Next point is there is a need to have well-tested procedures in place to move from the 99 environment to Y2K environment and afterwards backwards. There is a considerable risk that you get stuck when you move back from year 2000 to 99. And thirdly, as already said you need a clear understanding of your software and hardware release management.

How did we approach Y2K testing? We started with a layered approach, this means bottom-up. First of all, we tested the basic infrastructure, hardware, basic telecommunication software, also compilers, other operating systems and other components. So we moved bottom-up and we did it systematically. We had for this game a clear definition of exit criteria and only if systems had fulfilled all tests on an underlying level, it was allowed to move upstairs to the next level. Otherwise, testing had to go back to the underlying layer. This is a little bit in detail but our recommendation is, after our experience with Y2K testing to cover the full business functionality test. You may face surprises in each of these areas, starting with house keeping, ending up with archiving.

Following this layered approach, we had another layered approach in the sense that first of all each central bank had to test internally its systems before central banks were allowed to connect their systems. This means each central bank first had to go through basic test of hardware and software. Afterwards the central banks had to test their application software and once they got a tick mark on each of these tests, they were allowed to connect the systems with each other. We followed the same approach when we prepared for the introduction of the euro. This was the only way to reduce complexity of testing and to have the possibility to go systematically through this process.

Where are we now with our tests? We have completed the IT functionality tests in each of the central banks and of the ECB and we have completed the internal business functionality tests in each of the countries and at the ECB. We have already conducted two rounds of multi-lateral tests. This means tests between central banks where payments were processed from one central bank via this interlinking network in the middle to another central banks, and 12 out of 15 central banks have completed these tests successfully, the ECB was also

successful. We have the next round of multilateral tests in July and we expect that after these tests all central banks have completed these multilateral tests among central banks successfully.

We will have a next testing cycle in September and as I already mentioned earlier, there is a need sometimes to retest systems. This test in September is scheduled for re-testing.

Besides this, there is a need to include in this testing scheme the customer, the banks. They were already included in most of the central banks during their business functionality test but this doesn't prove that the system works properly end to end following the example I made from Spain to Belgium, we need another testing round at least to demonstrate this. We have scheduled 25th September as our date for this end-to-end testing and we know already that all major European credit institutions will participate to this test and we hope that this test will be successful. On the other hand we know that there is a risk that such a test may fail, maybe because some of our credit institutions haven't prepared their systems properly so we have already now scheduled another date for re-testing. We will use this date only in case of need.

As said in the introduction there are two steps which have to be covered. One is the preparation we are conducting at the moment and the second step is the conduct of the changeover weekend to the year 2000. TARGET will be closed on 31st December. The reason is that credit institutions should have enough time to close properly their 99 business and TARGET will open on 3rd January for business. In between again we will go through two testing steps. One on 1st January 2000 between central banks. We will test to the largest extent possible the applications and we want to prove that they really work in Y2K environment. On 3rd January we will start up our systems already before the official opening time to exchange some test payments. This approach has the advantage that in case of an error, which we detect late, we still have some time for repairing this error. We will follow similar approach on 29th February where we have to go through the leap year this year issue.

Finally, I would like to say that particularly the Americans make a lot of noise about Y2K and their preparedness for Y2K. Our major headline was always if you manage the process efficiently you will be successful but do not underestimate the task. My feeling is there is no need to panic but you should prepare properly.



Managing the Changeover

Y2K

Year 2000 National and Sectorial Actions

by Mr. Magnus LEMMEL
Director-General DG III - Industry
European Commission

180 days. This is the time left before we can all celebrate the new millennium. This is also the time left before knowing what the Y2K bug will have done to us and to our economy.

THE ISSUES

We all know the origin of the problem: the shortage of memories in the early ages of computer technology and the bright idea of software developers to truncate the year data to 2 digits. Treating simultaneously dates belonging to different centuries of course is an ambiguous thing and computers do not treat well ambiguous data. Subsequently, a new motto has emerged to qualify those technologies, which will correctly handle the dates in the coming millennium: Y2K compliance.

The extent of the Y2K problem depends on both hardware and software technologies used. Unfortunately, we have to acknowledge that no Y2K compliant products have been delivered until 1998. Therefore, one must conclude that most computer systems could be affected by the problem.

For the systems affected, the severity of the problem depends on the use made of date handling. If dates are only used to sort and list data, the result will be annoying but not damaging. If dates are treated to take decisions or actions, the result can be anything including system crash and erratic behaviour. Such results have already been reported, as for instance the rejection of credit cards having their expiry date in the years 2000.

Regarding the Y2K bug, the main concern of the public sector, besides their own computer systems, is its possible effect on the safety of people and the proper functioning of the economy. Therefore, authorities focus on the essential areas of infrastructure in various sectors such as the energy sector, the telecommunications, the transport, the water supply, the finance sector, the food and pharmaceutical supply, and the civil protection.

However, the impact of infrastructure failures in these sectors will greatly depend on other factors such as the weather conditions, social events, and the behaviour of both individuals and companies.

As New Year happens in Europe in the middle of the winter season, the availability of heating systems will be essential, especially for the northern areas. Most heating systems depend on electricity and fuel.

Of course economic activities over New Year this time will be minimal for 48 hours but in the entertainment sector. Indeed, very large celebrations of the new millennium are foreseen in different places. They all need electricity, transport, telecommunication, water and food.

As New Year approaches, people will become more and more aware of the potential risk induced by the Y2K bug and some persons will most probably take preventive measures such as stock piling food, water, fuel, cash and pharmaceuticals, and/or move to more clement places. Companies could do the same. The consequence could be a significant disturbance of the supply chains.

THE ROLE OF THE COMMISSION

The actions needed to solve the Y2K problems or to mitigate their impact depend on many different actors. The IT suppliers need to provide the appropriate Y2K compliant updates. The individuals and the organisations need to identify their risks, to test their systems and to take preventive measures. The authorities need to make sure that all safety issues will be duly covered, and that the essential parts of infrastructures will remain available.

The compliance work is basically a responsibility for the private sector and the individual Member State. The Commission has basically a role of co-ordination and awareness raising.

In that context, the Commission gathers information and publishes it on the Internet. It also facilitates the exchange of information between the Member States and industry. It organises regular meetings with Member States representatives and conducts workshops on topics of particular interests.

The next one is a workshop scheduled on the 22nd of this month on the electrical grids of Europe, including those covering the Central and Eastern European Countries and the New independent States (NIS). It will be followed by a two days workshop in September dedicated to key European infrastructures.

THE EUROPEAN INFRASTRUCTURES

Before considering specific sectoral issues, I should stress that one of the major conclusions coming out of the different analyses done so far is the strong interdependency of key infrastructures. This becomes more and more obvious as the contingency plans develop in the different sector. Cross-sectoral co-operation is therefore essential.

On the other hand, we do not intent to make a direct comparison of the situation and of the preventive measures taken in different countries. Indeed, the situation varies so much within Europe, or even within a given country, that such a comparison would not be very relevant. Furthermore, the cultural differences in the approaches to the problem also play a role.

Let us now consider the present situation in some key sectors. Considering the timeframe of this symposium, I will only mention the most crucial ones.

Electricity

Electricity is the backbone of all essential services. The quality of supply cannot be reduced and there can be no compromise to safety.

The international associations, UNIPEDA, EURELECTRIC, and UCTE (the Union for the Co-ordination of the Transmission of Electricity) have a commitment that the new millennium will be "business as usual" in the European Union. Completion of Y2K projects is scheduled during the 3rd quarter 1999. Existing contingency plans are being reviewed and reinforced.

The industry is committed to ensuring and interconnected European network in operation as usual. However the cross-border transfers will be limited to avoid propagating possible grid disturbances.

As far as nuclear safety is concerned, Y2K represents a potential risk, arising from three potential sources. There is a need to check that safety systems are not affected, although in general such systems make little or no use of computer logic. There are also concerns that multiple failures in systems that are not essential to safety, although not unsafe in themselves, could unduly overload nuclear power plants and cause operators to take unsafe actions.

Although operators of nuclear facilities in the European Union report that they have taken actions to address the Y2K problem, there are concerns that certain Central and Eastern European Countries may not be so well prepared. These concerns come mainly from the fact that there is a lack of sufficient information to assess the genuine level of risk. The International Atomic Energy Agency (IAEA) programme to address

safety issues in nuclear power plants in these countries requires further support and the Commission is working on this issue with western expert organisations.

Gas

Eurogas gathers the European Association for the Gas Industry. The members of this association started working on the Y2K problem in 1997, with comprehensive programmes including co-ordination with upstream suppliers, between utilities, and with customers.

In terms of progress, corrective action of both IT and non-IT systems is generally complete. Member State governments have been involved in the discussion and acceptance of prioritisation schemes. Local emergency power supplies will be in standby operation.

Although it seems unlikely that something goes wrong here, contingency plans are being put in place. Normally remote-controlled stations can be operated manually and the availability of stand-by personnel is being reinforced. Alternative back-up telecommunication lines and private radio networks are being established and there is an advance agreement with partners to maintain supply and to provide mutual assistance between gas companies.

Telecommunications

An important difference between the telecommunications sector and other sectors is that while some will be looking forward to lower the normal demands, the telecommunications sector will be probably be simply overloaded by people calling to wish each other a happy millennium or just to check if the telephone works. No telephone system can cope with such load even under normal conditions.

Like electricity, telecommunications is a real time service, which cannot be stored. Unlike electricity, spare capacity in one place cannot necessarily be transferred to assist if there is congestion elsewhere.

The message of the telecommunication sector is basically optimistic. Indeed, basic transmission is not date dependent. Testing has been done in a variety of environments, including international environments. Therefore, basic telephony is felt to be secure. Work has progressed from the inventory stage to the production of contingency plans. The Internet standards have been reviewed for date-change problems, and leaving aside local implementation problems, the situation is felt to be satisfactory also here.

Aviation

This sector in particular is one in which safety will always be the primary concern, and that it also why it is one of the most regulated sectors.

We observe that all the parties involved in this sector – airlines, Air Traffic Control (ATC) providers, airports, national regulators and certification bodies – have reached and advanced stage in their preparations to ensure Y2K compliance. In particular, safety and security systems are being upgraded and tested in accordance with well-defined management plans.

Contingency plans in Europe regarding navigability will be based largely on standard operational procedures. The air transport sector, being such a heavily regulated and safety-based industry, relies on well-established operational safety procedures, which are being reviewed to ensure that they are appropriate to address Y2K issues. However, some capacity constraints could occur during the immediate period following the changeover. And efforts for cross sector co-operation, carried out at local and national level need to be reinforced.

The overall preparations by Western European industry appear to be well advanced, but the risks associated with cross-border interactions with neighbouring regions to the European Union remain to be fully assessed. Information on the weaker components of the air transport chain, including the activities of certain national regulators, is not yet forthcoming but the International Civil Aviation Organisation (ICAO) is working on it.

Maritime

In the maritime sector, there is widespread awareness of the nature of the problems that could arise with Y2K in the European Union. The general approach is to test and verify systems in sufficient details to ensure compliance. For safety critical areas, contingency plans have been drawn up and given wide circulation.

A 'code of good practice' has been drawn up for ship owners. In relation to port services, port operators have adopted similar practices to ship owners. Back-up facilities in ports for critical functions are also planned.

Doubts remain about certain functions and certain ship owners, particularly those with 'flags of convenience'. There is a need to reach agreement on the question of how to handle suspected substandard ships during the changeover period. The alternative is to keep them at sea or lock them in the ports. Some basic rules still need to be developed here.

Civil Protection

The civil protection services are essential to take care of any major hazard. New Year is traditionally for these services the most demanding period of the year. The celebrations of the new millennium will simply increase that demand and will require more resources.

There is a general consensus within the European Union on a "business as usual" approach. Furthermore, contingency planning is progressing in all countries. Some services mentioned that they are so much used to flooding, earthquakes, volcano eruptions and the neighbourhood of war zones that they feel very well prepared for the possible consequences of the Y2K bug.

Nevertheless, the continuous availability of electric power is the most critical factor and the availability of heating will be essential. Establishing priority systems for emergency cases during this period of extra high saturation may be a problem to resolve for telephone companies.

Europe could also benefit from the experience of the first countries changing of millennium. Indeed, New Zealand will enjoy the year 2000 date change eleven hours before Finland and Greece, the first Member States having to face it. It would be appropriate to set-up an "early warning" system to exchange clear and accurate information during the critical period with third countries and within the EU.

CONCLUSION

The risk of major disturbances is considered to be limited thanks to the efforts made in critical sectors. Nevertheless, "business as usual" cannot be guaranteed. Therefore, the priority today remains on contingency planning. Another aspect is the need to provide well-balanced information to the public in order to promote reasonable behaviour and to avoid panics.

In that purpose, the exchange of information between countries and sectors is vital. The Commission will continue to issue regular reports on the preparedness in Member States and to facilitate this exchange through further workshops covering particularly cross-border aspects of infrastructures.

At the request of the European Council held in Cologne in June, the Commission has also convened a high-level working party, which can put forward proposals for strategic decisions as may be required within the European Union. Its first meeting will take place in Brussels on the 13th on this month. The high level Working Party consists of the responsible Y2K persons in the Member States' administrations.

There is now not much time left and those who have not yet started their compliance work will have little chance to succeed. But instead of sitting down and wishing for nothing to happen, my best advise would be to go straight on with anticipating possible problems and with establishing robust contingency plans.



Managing the Changeover

Y2K

Y2K at the European Commission

by Mr. Jean-Pierre WEIDERT
Informatics Directorate
European Commission

I will try to keep it short to leave you enough time for the questions and answers session. Besides the EU-wide concerns handled by DG III which Mr. Lemmel explained just before, the Commission has also internal concerns, bringing order in our own house, making our informatics systems Year 2000 compliant. And I think that is not different for us than for any other organisation except for the scale and the size of the organisation.

So we tackle the Y2K aspects from two sides: bottom-up that is mainly IT-related issues and top-down that is management issues.

IT issues have been handled since the second half of 1996 by a working group created by the Informatics directorate and the informatics teams of the different General Directorates. This working group reports to the IT management boards.

Management issues have only be considered since the beginning of this year and they are handled by an interservice group of high levelled officials of all General Directorates of the Commission headed by the Deputy Secretary General.

Let me first speak about the IT issues. As I said before we started in the second half of '96 raising awareness to explain the problem and invite the General Directors also to foresee in their master plans the necessary actions. In '97 we started with complete inventory of hardware and software information systems and also to include in the master plan the budget aspects required to solve the issues. '98 we made mainly first corrective actions and this goes on this year, especially also with tests that we have conducted. Around Easter, for example we have made the first end-to-end test in different areas for financial procedures, personnel applications and office applications to see if the whole chain of applications functions well. We did discover some problems but most of them not related to Y2K but to other aspects. And then we have also started doing tests with external partners mainly for information systems that are linked to Member States administrations like for example in the customs area. And

then, of course, as has been explained already several times before, one of the main points to be handled also before the end of the year is the set-up of contingency plans.

The scope within the Commission, but it's also the challenge for us, as I said, that is the size, so it's over 25000 PCs that have to be brought Y2K compliant. The problem was that the status of the operating systems we used changed in May so we had to take corrective actions to be compliant to what the supplier said was compliant. And due to the number of PCs, that, of course, is a challenging exercise.

On the servers, we have contracts with our suppliers to bring them up to Y2K compliance and most of this is already done. And the number of information systems is also very high, over nearly 600 information systems. Not all of them are critical. A lot of them are very important for the functioning of the services and these have been tackled into directions either to make them Y2K compliant. Just by modifying the code or in several areas by replacing the information systems where either very old ones run on non-compatible infrastructure or where in the meantime regulations have changed and it was also time then to re-write the applications. So it has been tackled on both axes. What is in this the role of the Informatics Directorate?



Because we have a decentralised informatics, the Informatics Directorate itself is a central service. It handles all the infrastructure aspects, hardware and software and a certain number of services, like data centre, the web services, network, email, telephony and videoconferences but also contracts and acquisitions and our work mainly concentrated on making all this Y2K compliant. As what the hardware/software corrections that we identified concerns, it is up to the General Directorates to implement them and also to correct the information systems that are under their responsibility. So it is a shared effort with a lot of co-ordination. So, I think the IT issues are all well identified and well planned. Therefore, I come to the next topics that at this at this point of time the most important, that is all the management issues.

These issues are how can we guarantee the continuity of the central services. Not from the technical point of view but from the operational point of view. So it is the co-ordination of contingency planning, setting-up of a crisis cell with exact action guidelines. It is all the aspects concerning legal questions, so the liability issues that could appear and this concerns contracts, but also for example services we supply.

We supply information, statistical information. A lot of information on our website and also their might be liability issues that could appear and this is handled together with the legal service of the Commission.

Then, there are the questions of the general infrastructure, security of buildings and personnel, guarantee of the supplies. The suppliers are very optimistic, as Mr. Lemmel said, so it is business as usual but we have to foresee also what has to be done if certain supplies like electricity would not be there. And then, of course, an important point is also information campaigns for the internal personnel. It is mainly a campaign of informing what we are doing to reassure the persons and to the external world it is mainly in the form of a readiness statement. To inform our partners about what we have done and about what the status is. There is a number of other management aspects that have also to be covered, e.g. to make a co-ordination of service shutdown and re-opening schedules through all the services of the Commission. Like, for example, we can already say now that a certain number of services, if not all, will be closed on December 31st and that it will be hopefully business as usual from January 3rd on.

Then, questions of availability of personnel, also on 31st December, 1st and 2nd January, to close everything down and re-open it in a reordered way. Availability of contractors also where needed. And then questions what guidelines we should give the people for travels and missions that go over the critical date. Should we stop recruiting personnel in January 2000, should we reduce the number of meetings not to force people to travel during critical times and also another point that is what should we recommend to the Commission delegations?

So we have delegations in all third countries and some of them are in third world countries where perhaps there are high risks of something happening wrong. What should we do? Normally they should always be able to communicate with Brussels, with the Commission. Should we perhaps provide alternate communication means, should we perhaps reduce the number of people in those delegations at that time? So there are all sorts of questions of that type.

The contingency plan, as it was already outlined before, has a number of steps that we follow as others are doing:

- Identify what are the business critical services in a top-down approach,
- Identify the risks and the impact of the problems,
- Define risk mitigation actions, what can we do before the end of the year to reduce the possible risks,
- Define alternative scenarios so what if this happens or that happens together with the responsibility for starting a crisis scenario, running it and returning it to normal operation afterwards.

This simply shows that everything is interlinked. There are interdependencies. If

we take the business aspect, that is more the management side, all the operational processes that the Commission requires to be able to do its job depend on application or information systems which are the responsibilities of the General Directorates and on the environment for which the Informatics Directorate itself is responsible.

So, a close co-ordination between all these partners is essential and also set up so that everything is co-ordinated in the best possible manner. Besides, our internal co-operation, we have also co-operations with other European institutions and agencies to share best practice and learn from each other. With DG III as infrastructure provider we are co-ordinating to see also where possible problem areas could be and also, of course through conferences and seminars like this one we try to share our knowledge with you and learn from others in this sector.



Challenges for SMEs

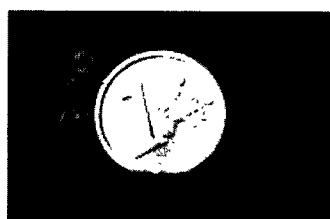
SMEs Small and Medium Size Enterprises

Chaired by Mr .Lorimer MACKENZIE
(Director DG XXIII Enterprise Policy Distributive Trades, Tourism and Co-operatives,
European Commission)

We are talking about the year 2000 and the euro and you have dealt with considerable parts of that this morning.

What we are trying to do this afternoon is to look at some of the practical consequences of what is going on. The impact of the Y2K on business, the way that enterprises have to tackle the problem of the changeover to the euro and the introduction of the euro into various industries. Particularly in the first session this afternoon we are going to talk about the leisure industry. Then after the coffee break we are going to talk about electronic commerce. A fascinating and inexhaustible subject.

But we begin this afternoon session with a presentation by mister Lopez Bassols, who is an Administrator in the OECD's directorate for science, technology and industry working in the information, computer and communications policy division on electronic commerce and other issues. And he has already made a report. He is co-author of the OECD 98 report, "The Year 2000 problem - Impacts and Actions", which was presented at the Ottawa ministerial conference. And he is going to talk to us this afternoon about the impact of the Year 2000 on business, risks and solutions.



Challenges for SMEs

SMEs Small and Medium Size Enterprises

The Impact of Year 2000 on Business: Risk and Solutions

by Mr. Vladimir LOPEZ-BASSOLS

Administrator - Organisation for Economical Co-operation and Development

First of all, I'd like to thank the European Commission for inviting the OECD to present some of its work in the area of Y2K in small and medium-sized enterprises. In particular this publication which we published in February "The Year 2000 problem - risk and solutions". My presentation will first deal with the background of this manual: why did the OECD produce such a manual? Second a brief description of the content of the manual and finally I describe some of the areas in which the OECD is currently involved related to Y2K.

So as a background, the reason for this report was a response to a request of the 1998 OECD council meeting at a ministerial level asking that the OECD promote global awareness of the Y2K problem and its potential economic impacts. We were also asked to report back to the Ottawa ministerial conference on electronic commerce in October last year. The report that we produced covered two main areas. First of all, the economy-wide effects and secondly the role and actions for governments. One of the main messages that came out of this report was that SME's (Small and Medium Enterprises) are a particularly vulnerable group with the respect to the turnover to the new millennium. In order to complement this report we sent out a questionnaire to gather the most specific information related to SMEs and how they were handling Y2K. So this manual which we published in February builds on the finding of the questionnaire and it was published with the support of the French Ministry of Economics, Finance and Industry in both English and French.

The manual itself.

The first focus of this manual was to provide assistance to SME's and identify information gateways such as websites and printed sources and how to deal with the problem. Secondly, the manual intends to help small firms in accessing tool kits of information, once they have identified specific problems such as liability issues and then finding certain specific diagnostic tools. Finally, the

manual provides a simple checklist that SME's can follow when dealing with the Y2K problem that should help them both in internal and external linkers.

The question "Why an OECD manual?", of course. We felt that this manual was important, it is based on quite extensive research including the questionnaire that I mentioned before. We feel that it was useful to have international coverage although many of the individual sources and information are in the English language. The manual intends to bring together some of the tools and the solutions that have been used in various OECD countries and compare these across geographical areas and different business contexts. It also aims to develop some sort of international good practice by presenting information in a timely and pragmatic way. Finally, it is structured around the need for SME's to take prompt remedial action and to widen the range of available information sources. This manual also tends to highlight the serious nature of the issue and to dispel some common misconceptions regarding the effect of the Year 2000 on business such as: «there is no problem» or «the problem will not affect my company» or «large firms or the governments will take care of it».

Some of the responses. The first part of the manual highlights what governments are already doing. We found out that many governments have already developed comprehensive strategies to help small business in this issue and over all their intent is, of course to minimise the damage to the economy and in particular to small businesses. We looked at different types of policies. In general there are quite a few that aimed to raise the general level of awareness such as media campaigns, workshops, websites but it was quickly seen that we need to go beyond simple information and to take more pro-active stands. So we highlighted some of the issues that some countries have been with such as offering technical support and training, access to technical staff or some more pro-active policies in some countries such as revising tax legislation in order to make software purchases tax-deductible. We also found that although the issues relating to legal liabilities are quite difficulties to solve. Most of OECD countries had begun by encouraging manufacturers through exchange of their information with the consumers on part of compliance and particularly in time-dependent devices in high-risk areas such as transport, safety or health.

So I refer you to the OECD report «Impacts and actions», which is available on our website and was published in October last year. This report contains a more detailed overview of some of the actions that had been undertaken by governments and provides also information on government websites. The OECD itself maintains a website, which we continuously update providing links to national and international initiatives. The next part of the manual is what we call «the basic toolkit».

Of course, these toolkits can be found on many government sites, so we are just pointing towards different sources. These toolkits tried to identify quite a few areas for attention and to SME's in locating sources of help. The aim of this

toolkit is also to assist throughout the whole process from the diagnosis and risk analysis to managing risk and planning for contingencies. Some areas that are included are links to industrial and professional associations, partnering and mentoring, case studies and good practice, human resource and issues to product warranty.

The next part of the manual is what we call the checklist. Of course, checklists can be used to develop external and internal inventories in order to assist the most vulnerable areas for firms. The internal inventory involves listing all equipment, mapping information flows in order to identify the compliance of different systems, to examine the scale of the problem itself. Some of these might not be critical and finally to assess priorities for firms and estimate costs. Firms can then examine different areas of their operations which is accounting, purchasing, credit control, manufacturing, distribution and assess how complex and costly the tests will be for these different activities. The second part of the checklist refers to external links. This should help firms to examine how they fit in the supply chain and how information flows between SMEs and other organisations work. According to many analysts this is probably one of the most critical areas. We also feel that the external inventory can be complemented with an internal flowchart, which helps for instance highlight key areas of interface and vulnerability.

Priorities for action.

The manual then concludes by highlighting three main steps for action. Firstly the creation of a plan and inventory. Secondly deciding on priorities according to the level of importance and the cost for the firm. Both the cost of repairs and the potential cost of non-compliance. And finally developing a precise schedule as well as safety nets in case of unexpected failures. One other important feature of this manual is that we wanted to highlight:

- its an educational tool that should serve also to warn SMEs
- in many cases Y2K issues might not be critical for all of their activities
- in some cases can be solved with minimal hardware or software upgrades.

To conclude I just highlight some of the current activities that OECD is undertaking with respect to Y2K.

First of all, the manual itself can be freely downloaded from our website. It was put on this website in February and between February and May it has been downloaded about 4000 times in French and about 7000 times in English. This report was distributed to all OECD member countries through the delegates on our working party to SMEs . We also felt that it was important to distribute this report to non-member countries through various networks including the OECD zone and developing assistance committee and the development centre. It was

also included as a background document for ministers at this year's OECD ministerial conference to highlight the critical nature of the issue and although the OECD has not done follow-up work on specifically SME's. It has continued to work in the area of the Year 2000, particularly the updated website that we have.

Secondly, through our working group on chemical accidents which is part of our environment directorate. This group has established now an international network and clearing house for information exchange regarding chemical emergencies and has issued a statement at the intergovernmental forum on chemical safety recently held in Japan. Another sister agency of the OECD is the nuclear energy agency which has also set up an electronic mailbox connecting the nuclear reactor agencies of 60 OECD countries and has organised a workshop in February this year in Canada about nuclear safety in the Year 2000.

Finally the international energy agency has been organising a series of regional seminars to address the problem in the international oil industry and support infrastructure. Up to date it has held seminars in America, the Asia-Pacific region and the Middle-East and the next seminar is scheduled to take place during the month of July in Russia.



Challenges for SMEs

SMEs Small and Medium Size Enterprises

How SMEs should manage the changeover to the euro of their information technologies

by Noël HEPWORTH
FEE Euro Project Director
Fédération des Experts Comptables Européennes

What I am proposing to do is to go over these points that I listed on this particular slide what I regard is the real euro timetable. Then a brief word about the findings from the latest FEE survey about SME preparations and then say a little bit more about the advice that we are proposing to give to SMEs about the practical changeover arrangements.

So, first of all what we would regard as the real euro timetable. Of course the critical date for SMEs is the end of 2001. And after that, if they are not able to operate in the euro they are not able to remain going concerns. And the equivalent in the public sector like small local authorities we were talking about this morning, they would not be able to continue to fulfil their statutory obligations. We would also advice that if a local authority or an SME were changing their software not to wait until the last possible date. Later on in this presentation I will talk about some of the risks that they face if they do. Therefore they ought to be looking at the installation of their software about a year before which would mean that it's operational from January 1st 2001. If they are going to do that then they ought to be installing their software about June 2000. So they can practice that software, make sure that it works as they would wish and converting their data in the period between June and December 2000. If we go back a little bit further, they've got to order their software which means that they should be ordering it between January and March 2000. Of course, if you are going to choose the right software you have to research what it is you wish to do and if you are going to research properly what you wish to do you should start about now. So, in fact, if you think about that in that kind of way, then time has largely run out for SMEs and indeed all organisations. Yet we continue to talk about the Year 2000 and as I shall say later on we should be concerned about the way we keep projecting forward to 2002.

In terms of looking at some of the findings of the FEE's euro survey, I have only selected a number of relevant statistics for this presentation. But you see from

this survey which was conducted across the whole of the European Union, that of the number of those organisations, the proportion of small organisations that has taken steps to prepare, is pretty low. We looked to see what they have done, we asked them questions about some detailed points. We did not just say «are you preparing», we went into detail about what the word «preparation» actually meant and the smaller the organisation the less has actually been done.

Perhaps more importantly, when we look at what actions are going to be taken by 31st December 2001 then we see that for most of these small organisations on the whole they are not expecting to complete the work that they should have been doing if they are to remain as going concerns by December 31st 2001. Quite high proportions are looking to the changeover in the first quarter of 2002, when it is too late. But my guess would be that for most of them that is wishful thinking and there is an expectation that the estimated finish date will drift forward well into 2002 and we should all be very concerned about that.

Also as part of the survey we asked SMEs what they thought about the quality of the euro software that they had bought or were buying. That is for those who did actually something about it. And we were rather shocked to find these relatively high ratings on «poor» and «very poor» in terms of commentary on the software that they had bought or were thinking of buying. That seemed to us to suggest that perhaps particularly in the smaller software houses the quality of the work that was being done was not so great. In the larger software organisations there were monitoring arrangements and trade associations like buster who are making sure that the quality of work that should be done is of a relatively high standard. But I think we should bear in mind this finding about the quality of some of the software which is being produced.

We also asked them about the most difficult areas on the changeover and perhaps not unexpectedly, the most difficult area for SMEs was that they feel that they are doing too many things of which the most important other thing is preparing for the year 2000. So there is a considerable distraction for SMEs when they think about preparations for the euro, which they see as rather further off than the Year 2000 and yet, as I tried to say to you earlier, in fact the problems are really coming in sight. So the main conclusions from our survey were that the deadline about the 31st December 2001 needs reinforcing. Too many SMEs are looking to continue their preparations after that date and that is very dangerous for them as going concerns.

Our survey also showed that there is a high need for details, practical information and IT support. As I have just shown, there is concern about the quality of the software which is being supplied to SMEs and other parts of the economy and as part of that, too. We should also be ensuring that we are trying to be encouraging SMEs to prepare using every channel that is available. So far, as practical preparations are concerned, then perhaps it is a fairly obvious statement, we should aim all the time to keep it simple and that is perhaps a

slogan that we should use. And in terms of keeping it simple, although there is no necessary requirement to change at the financial year-end, our view would be that it is sensible to change at the financial year and that it makes life easier for the company. Also, although there is considerable advantages in being able to look back at historic information in a currency that you can simply recognise, it seems to us that if it causes a problem then don't bother converting historic data unless the software that you bought will do it for you. When it comes to looking at software it is probably in most cases easier and maybe cheaper to buy your new software rather than converting your existing software but we do have to recognise that many companies will probably cede to reuse their existing software. And we therefore see two possible scenarios for the future.

The first one is that companies will buy new software. If they think about it beforehand and prepare and plan carefully, then they will think about their requirements and as part of that they will look at the software they need to have for the future. If their financial year ends on December 31st, then it is important that they install the new euro software by the end of the year 2000 so that it is operational from 1st January 2001. If their year-end is later than the calendar year end, then we would say that they should make sure that they install that new euro software by not later than the end of June 2001. So if their year end is the 30th June or 1st July then they should be installing that software by 1st July 2000 rather than 1st July 2001.

The second scenario and this is the one that may be the most commonly adopted by default by SMEs is that they don't do any planning in advance and that they then say «we got a problem, what do we do? We try and reuse our existing software». And if they try to use their existing software, inevitably they are going to be pushed to 31st December 2001. Although we would strongly urge because of the desirability of changing it to the financial year-end that they should change their existing software at the financial year-end which falls before 31st December 2001. And of course they could change at any time but our advice is to change at the financial year-end. Not because it is a legal requirement but because it happens to be simpler and our objective is to keep it simple.

As far as managing the changeover is concerned in terms of buying software again it may probably be much more sensible to go to your existing software supplier rather than research the market. It would be easier. Probably you could retain your existing files, you'd have less difficulty on the conversion of the data. If in fact you have built your own software in the past or you have used a great deal of adaptation, it would be sensible to see if you can convert from bespoke software to another package and allow the software house to have done most of the work for your.

And thirdly an important other message is that at this time when there is a great deal of pressure on you, it is important not to try to do too many things at once. So convert, but don't upgrade to some more sophisticated system.

In terms of the changeover process, I would repeat some of the points that were made earlier this morning. It is important to plan carefully but it is equally important to practice the changeover and this may be an ideal, but ideally to test what you are doing on a separate machine so that there is less risk of corrupting your present information systems. As I have said install the euro software for the operation from the start of the financial year 2001 and decide whether to make a separate decision about whether or not to have the operational currency operative from the start of 2001 or 2002. So you could move over your ready-type software from 2001 but you don't have to make the euro your operational currency from 2001. That could wait until 2002. And if you are using new software, then it is important to retain the old software for order and tax purposes so you can't dispense with it.

In terms of that sort of advice that you should get it is important to talk to the software supplier. It would equally be important to talk to your accountant or auditor. If you have got a rather more complicated system then it is important to seek specialist's advice. We would say that if you are running four or five relatively straightforward systems like accounting, invoicing, payroll and costing and possibly manufacturing systems – provided they are relatively simple - you might rather do it yourself. But if you are in reality running more complex systems then you should think about seeking advice.

As far as the risks are concerned, it seems to us that these are the risks if you delay 31st December 2001 and these risks are particularly acute if you are changing your software from the existing one to a new one. The new software is almost certainly going to need some form of adaptation and of course, you always run the risk that the new software will not run with your existing hardware. Therefore you need time to think about these issues and if you wait until 31st December, you haven't got too much time.

You also need to convert data from the old to the new system and if you spend a lot of time doing that and other administrative matters, then of course, your cashflow may suffer because you are not able to levy invoices or collect money in. It may also, of course, be difficult to pay creditors and to pay your stuff and you may well find that you have got too much to do because you also have to manage the actual changeover of currency from national currency units to the euro. The evidence that is now accumulating is that the dual running period will be very short and therefore there will be an awful lot to do in a relatively short period of time. You will also need to train your staff to be able to deal with the new issues that are emerging. You may well have to reprice your products at the same time and you may also need to be changing your manufacturing and packaging arrangements as well as undertaking all the



software and the IT changes that are necessary. And if you are going to leave everything to the last minute, then, of course, you could run into higher costs.

So, some companies will probably wish to reuse their existing software and that may become the only option available to them by default. But we do think that it is important to make clear that there are a number of issues that they should consider if they are thinking of reusing their existing software. Obviously there is the issue of the Y2K-compatibility. That is essential. It is important that the software can operate in decimals. It is important that it is equally possible to copy the software without any other material in it to avoid making sure that nothing gets into the software which has not been properly changed. If the software is more than 5 years old it is probably not worth doing it and it probably is dangerous to do if you have very complex computer records. If you are prepared not to accept the historical data in the same currency as the current data, then you can use your old software too. And you can close down your financial accounts in the year 2001 and also run the new copy on your machine, so that you can start with the new accounts in 2002. But equally you can close down your accounts for the year 2001 and then do nothing for 2002 until you have completely finished your accounts with 2001.

If you got a relatively small business you may be able to do that and that creates another opportunity for you to use your existing software. And then, of course, you have to convert all your balances manually from national currency units to euro as of 31st December 2001. If you can do that, that too make it possible to reuse your existing software. And again, if you can insert into your existing software the appropriate euro currency symbols. So, reusing your existing software is a possibility. It seems to us that because SMEs are not preparing, then it becomes the default possibility. But when SMEs are going to use that default possibility, then there are a number of risks with it and those risks are largely set out on the slide or rather the conditions which must be fulfilled are set out on this slide. But there are some others too about the nature of the business that is being operated.

So if the business is relatively straight forward, then reusing your existing software remains a possibility and I have put in here some numbers which are to some extent guesswork and if people disagree with these numbers I would be certainly interested. But in terms of complexity, if you had less than 200 customers and less than 50 employees, if you did not have a large number of euro transactions after 1st January 2001 and you did not have more than 5 terminals using that software then probably it is acceptable to reuse your existing software. Only SMEs should bear in mind that if they'd really thought about the issue then probably it would have been cheaper and more effective to exchange their software.

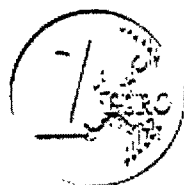
So about the timetable. I think that we would say that there are real concerns about this timetable that exists because of the distraction of the Y2K problem. There is no pressure on SMEs to use the euro. There's been less usage of the

euro in commercial transactions, I think, than we originally anticipated. And therefore they are not seeing it in the market place and therefore no pressure to changeover. And the emphasis is on 2002 and that seems to be an awful long time of. So, we would certainly argue that the policy towards the promotion of the euro and the timetable ought to change. 2002 is seen as too far away. The real euro timetable is about now and we have to find a way of encouraging SMEs and small public sector organisations, like small or local authorities in particular, to start preparing now and to recognise that they actually have very little time that is left.

As far as FEE is concerned, what it is trying to do. It will be issuing IT advice in workbook formats. It is arranging with IBM and others to give training to accountants and auditors to help their clients with the changeover to the euro and is also, as part of that, developing a diagnostic tool, which will be available on the website. We are doing our utmost to encourage the accounting bodies throughout Europe to encourage their members intern who are notably auditors and accountants to prepare and to encourage their clients to prepare.

Certainly as far as FEE is concerned we are most anxious to co-operate with other groups like the Chambers of Commerce and the euro info centres to try to get across these messages about the timetable, and the risks that are being run, and the importance of the going concern issue. So, to summarise, there really is no time for delay. To think about 2002 puts the question too far of and it is important for preparations to be done now. It is quite clear from the survey that we have carried out and others have carried out too, that there are not enough businesses to be expected to be ready by the deadline of 31st December 2001.

So we should rethink our approach to timing. The signals that are going out are inappropriate now. We would say that if you switch your software after 31st December 2000 and you stay to the end of the year 2001 on your existing systems you are taking very great risks and it is inadvisable to take these risks. So you should install your new software by the end of 2000 so that it is operational by the beginning of 2001. Where a business is proposing to use its existing software, then we should be very clear and identify the circumstances in which existing software can be reused. But all the time our emphasis should be on keeping the whole range of exchangements as simply as possible. It is now rather late to do anything more complex and that therefore means taking ... decisions like not converting historic information, like changing at the end of the financial year, like doing this simple as possible type of conversion.



Challenges for SMEs

SMEs Small and Medium Size Enterprises

Introduction of the euro in the Leisure Industry: Problems and Opportunities

by Mr. Eduardo ANTOJA

President of EUROMAT – European Federation of Coin Machine and Associations

ACTIVE AND PASSIVE LEISURE

The leisure industry comprises a very large spectrum of different activities citizens perform when not dedicated to their physical survival or wealth increase, in the broadest sense of both terms.

An initial distinction can be made between the Passive and the Active leisure activities. Essentially, in the passive leisure, the subject is not asked to modify the course of action in any way. Watching a TV show a theatre play or a basketball match, are examples of such activities. Active leisure means that the subject can modify the course of action. Riding a bike - for pleasure, not for transportation! -, playing an amusement machine, sailing a boat, are examples of active leisure.

THE COINOP AMUSEMENT INDUSTRY

COINOP is short for “coin operated”, the machines that need to be fed with coins – or bank notes, sometimes – to provide you with some fun. Additionally, you can be rewarded with a modest prize, too.

In the EU, the coinop industry is a heavily regulated and taxed activity, the national legal frameworks being very diverse.

There are many forms of coin operated active leisure. Kiddie rides, mini bowling alleys, cranes, fruit machines, video games, air hockey tables, are all different forms of coin operated machines. They are usually classified into three different categories.

The first category is for the so-called table or “sports machines”, which simulate or replicate sports games. Table soccer, basketball machines, mini bowling

alleys, electronic darts, all fit into this category. There not less than 600,000 of such games in the EU.

The second category is the “amusement games”, where players spend their money just for the fun of playing the machine, either alone or in competition with other players. No cash pay out is given to the player. In some cases, the machine gives away a small prize, either in the form of low priced goods, replay tokens or redeemable tickets. The total number of games in the UE is nearly 700,000.

The third category is the AWP or “Amusement With Prize” machines. These are coin-in, coin-out, low pay out machines, easily found in the UK pubs, Spanish cafeterias and German arcades. These machines provide fun and limited cash prizes – up to 100€, approximately – to the lucky players. Not less than 1,000,000 units are installed and operating in the EU.

Some estimates of the total number of coinop machines in the EU say that there are between 1.8 and 2 million units in operation. I personally believe that there are some more, close to 2.3 million, in different categories.

Casino machines are not covered in this presentation, as the total number of machines in the EU is quite limited compared to the above, and they don't fit into *the playing just for fun* concept.

COINS, TOKENS, BANK NOTES, CARDS

Most coinop equipment accepts legal tender coins. In addition, some do accept tokens, especially those operated in specific areas (amusement arcades, family entertainment centres). Some accept bank notes, as well. The magnetic or, lately, chip card, is only used in large centres with a wide variety of games. The Law requires in most jurisdictions that the AWP's pay out in cash only. Thus, coins area irreplaceable, at least short term, in the AWP category, as the pay out machines are mostly operated in “single sites”, where only one, two, or a maximum of three machines can be played unattended.

How will the advent of the euro physical currency impact this industry?

THE TRANSITION TO THE EURO

First thing to decide is to *translating or adapting?*

By translation, I mean just making the conversion of the monetary values in and out of the machines. In some cases, it is possible, in most cases it is not. Especially since the highest value in euro will be the 2€ coin and this is less than 5 DEM, 20 FRF or 500 ESP. Most amusement machines accept these coins now, so there is a step back in the transition.

If adaptation is required, then the existing regulations have to be modified not an easy and short task, in most cases, in a heavily regulated industry. The national bodies representing the industry interests have to make a proposal in each case, trying to answer these questions:

- Which coins will be the more frequent in the consumers' pockets?
- Are the legal and politic aspects of the proposal acceptable?
- Is the technology likely to be available?
- Will the associated logistics have a predictable and affordable cost?
- Is there a good balance between the final situation and the transition?
- Last but not least, will the consumers' reaction be positive?

Let's analyse each of the above, starting with the last one. But, first, a practical problem.

THE GERMAN CONVERSION PROBLEM OR "TRAP"

The European and national Laws in the conversion process forbid rounding off. But, in some industries, I'm afraid it's inevitable.

Germany, with a conversion factor of 1.955830 DEM to the euro, or nearly 2, makes the mental calculation very easy. The same is true for Italy, with a factor of 1936.27, or nearly 2,000 LIT. On the other extreme is Austria, at 13.76030 ATS, with no easy to remember rule. With in between lye countries like Spain, at 166.386 ESP to the euro. Looks difficult, but you can remember that 1,000 ESP are nearly 6€.



But, beware! As easy as it can be, the German industry has been faced with a big problem. Let's try to explain it.

Imagine an AWP machine that currently plays at 0.40 DEM per play. With a 2 DEM coin you pay thus for 5 games. After converting it to the euro currency applying the full conversion factor, as the Law requires, the machine would take 1.02 €. But, for practical purposes, it must take just one 1€ coin or equivalent. A 2% of value has been lost in the conversion process. Multiply this loss by 200,000 machines and, as an average, 300,000 games played per machine per annum. As 20% of this figure goes into the cash box, there is a total loss for the industry totalling nearly 53 millions euro.

If we take also into consideration the amusement only machines, the German coinop industry may be facing a loss in excess of 50 millions euro. This loss can only be avoided modifying the regulation.

Some more countries face similar problems, while other can take advantage of the transition to obtain improvements in the regulations that will reduce or eliminate the translation losses.

CONSUMER HABITS. CONVERSION FACTORS.

How much is 1€ worth? The question is not how easily it *translates* into the local currency, but how the perception of *value* is maintained.

Although the younger population will quickly understand that a 2€ newspaper is too expensive, or 50,000€ for a house may be too cheap. It will take years until the vast majority of citizens cease translating the euro values into the local currency before they have a perception of *how much is how much*.

In the leisure industry, will this “loss of perceived value” mean a reduction or an increase in customer expenditure? Nobody knows. Some say that only spare money is spent in leisure, while other say that it helps to spend in non-essential goods and services. Airport duty frees are a typical example of the second alternative.

COINS IN THE CONSUMERS' POCKETS

Only Germany, Holland and Spain have published details on the euro coin quantities that will be produced until January 2002. Of them, only Germany and Spain have disclosed the detailed the coins currently circulating.



It's interesting to see that Germany and Holland really bet for the higher denominations, while Spain is trying to replace the most common coin today, 100 ESP, with the 0.50€ coin, perhaps because it is the closer in value.

TECHNOLOGY ISSUES

The theory:

In the case of the amusement only machines, the conversion will consist on re-programming the electronic coin acceptors, while the pay out machines will require readjusting the coin hoppers. Bank note acceptors will have to be reprogrammed or fitted).

But the reality will be much worse.

First, most machines are accepting today coins of a value in excess of 2€. A fraction of those machines will have to be fitted with bank note acceptors, at a unit cost above 100€ each.

Reprogramming the coin mechanisms will not be so easy. According to the British company Innovative Technology Ltd., which made a presentation to the EUROMAT General Assembly meeting last 28 May, the main problem is not only the technical definition of the new coins, but the lack of large production quantities to test the acceptors on time. A coin acceptor is at the same time a coin rejecter. If the acceptance bandwidth is too narrow, it will reject too many good coins. If it is set too wide, it will not reject many bad – fake? – coins. This is always a compromise, and fine-tuning can only be achieved by statistical tests over thousands of coins from different mints and different “coinages” or years. But the euro coins will not be made available in quantities until too late to start reprogramming the acceptors for dual acceptance, local currency and euro. Therefore, it's likely that the coin mechanisms will have to be reprogrammed twice. This means two service calls at every location. Or, a cost nearly 75% of that of a new device, which is approximately of 80€.

Most old amusement only machines and practically all kiddie rides use mechanical coin acceptors. These will require a readjustment, as well.

Bank note acceptors will have to be fitted in more machines, at a considerable cost. But it may happen that some operators prefer to invest in a “tokenisation” of their operations, where the Law permits – essentially in amusement only arcades – as it is already the case in some countries.

Bank note acceptance and rejection may become a real problem at European scale. Coins do not travel much, but bank notes do. If the bank notes *look* all the same for the same denomination, they can be seen as different by the acceptors if they come from different print shops. The specifications are not very well known, for the sake of security, but it is a fact that the different security features included in the notes are not always identical. In practical terms, this can mean that, for a given denomination, the acceptor will have to be programmed differently depending on its origin. The minimum cost of a new acceptor for so many different “notes” will not be below 150€.

Hoppers will need mechanical adjustment, but far less critical than the coin and note acceptors. And most AWP machines will require fitting glasses with the new prize tables.

Thus, the total conversion cost for an AWP machine will be not less than 300€, and approximately 60€ for the other categories. As a summary, a quick calculation of the technical adaptation cost for the European leisure industry amounts to nearly 600 million euro.

LOGISTICS

This is the most uncertain of all aspects of the euro conversion process.

The logistics associated with a leisure operation are not as easy as one could imagine. Coins don't travel one way, from the players' pockets to the operators' bank accounts. There is a continuous flow of coins and notes both ways.

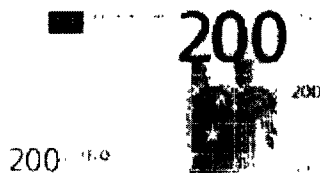
Now, in all countries, operators know quite well how often the site has to be visited for collections, refills and change provisions. With the euro currency, there are big question marks, and a trial and error process will be required. At a cost, of course.

From the very same 1st of January 2002, everyone will have to accept euro. But, who will be able to give euro back, either as prizes or change? Nobody knows. For some time - months, perhaps weeks desirably only for a few days – both euro and the old currency will have to be accepted. Planning this process ahead is not possible with the existing information, at least today. We hope that the financial institutions will help us, their customers, to overcome the problems.

CONCLUSIONS

The leisure industry not only handles coins: it is based on the coins. There are still several question marks on the practical aspects of the transition to the euro. But the conversion costs may - will - be huge. New regulations, a fresh supply of euro coins in sufficient quantities, and the help of the financial institutions will be required to alleviate them.

The many uncertainties are there. The consumers' habits are both the utmost problem and opportunity. The advent of electronic money could apparently be a blessing for this industry, but it raises new questions, especially on the customer acceptance and the logistic processes. Most systems, though, are only intended to *pay* for goods and services, not to *receive* money back. We have created within EUROMAT a working group to specifically address this issue, and have started to work together with the main industry players and suppliers to ensure a better future.



Challenges for SMEs

Electronic Commerce

Chaired by Mr. Panayotis CARVOUNIS

(Director DG XXIII Enterprise Policy Distributive Trades, Tourism and Co-operatives – European Commission)

During the last five years or so, electronic commerce has evolved from other sophisticated ways of business exclusive for big companies and technology aware firms. In days where you know the spread of the internet as mass media phenomenon, the opening of international commerce and the rapid modernisation of information and communication structures in the western world has drawn electronic commerce at the reach for most enterprises in the European Union.

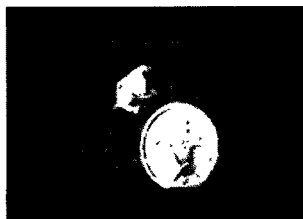
Generally speaking the emergence of electronic commerce as a mass market does no longer depend on the availability of technology equipment or infrastructure. The barriers are now placed on the market side, while the material means are the economic rationales for enterprises and especially SMEs to jump into e-commerce is still to be developed. A number of obstacles remain in the way of enterprises to e-commerce such as high telecom tariffs, poor knowledge of the new means, legal barriers, lack of customer confidence, etc. In parallel we must stress that e-commerce is a multi-dimensional reality. It combines new technologies with new organisational models, innovative market access systems and promising networking facilities for SMEs. Any approach to e-commerce that does not take into account its pervasive character is doomed to failure. Public initiatives, be it regulatory or market oriented, must take into account the very special characteristics of this new market. A number of well established traditional concepts like customer definition, commercial transaction, brand name credibility, liability, etc. have to be reconsidered in the light of a new reality.

Face to this new phenomenon one can wonder whether these traditional concepts and rules are fully applicable to e-commerce. As enterprises are massively incorporating into one or the other form of e-commerce, they become simultaneously clients and suppliers. With more of 80% of e-commerce being business to business the traditional definition of consumers becomes a blurring concept in the electronic commerce context. Should the consumer concept be extended to companies in the context of electronic commerce and what are the implications of these de facto changes on consumer protection? As customers travel across the net, the issue of localisation of the customers vis-à-vis the

provider premises, the website, becomes subject of discussion too. The concept of place where the transaction takes place can be subject of discussion. Can a user surfing the net be considered as a traveller virtually visiting a commercial facility located in another country despite the fact that he or she remains physically in the same place? Many other questions, some of them controversial, could be raised on taxation, liability, contract procedures, arbitration, applicable law, etc.

The objective of this debate and this session is to pinpoint the major issues at stake on making of an electronic market appealing both for suppliers and consumers no matter what the status or size could be. To open this session, I would like to ask to the first speaker to intervene, but before this, I would like to indicate the names of the three speakers during this session.

So the first speaker will be Mrs Maria Martin-Prat de Abreu who works in DG XV, in the European Commission and she will discuss the issue of the Legal Directive for Electronic Commerce. The speaker following is Mrs Sophie Metro, who is a membership director of the European Federation of Direct Marketing and she will deal with the Impact of Electronic Commerce on direct marketing – New ways of doing business. And the third and last speaker of this session will be Mrs Ursula Pachi, and she is legal advisor in the Bureau Européen des Unions de Consommateurs and her topic will be electronic commerce and consumers.



Challenges for SMEs

Electronic Commerce

Legal Directive for Electronic Commerce

by Mrs. Maria MARTIN-PRAT de ABREU
Administrator DG XV - Internal Market and Financial Services
European Commission

I am going to try briefly to give you an overview of a proposal for a directive that was adopted as a proposal in November last year by the European Commission and that is currently under discussion in the European Parliament and in the Council of Ministers. This is, as you see, the proposal for the directive on certain legal aspects of electronic commerce in the internal market.

Let's see first of all what the background of this directive is. Already in 1997, the Commission set up its general strategy for the development of electronic commerce in Europe in a communication that probably you are familiar with, which was a communication "A European Initiative on Electronic Commerce". This communication dealt with a number of issues including the need for a single market legal framework for the development of electronic commerce within the European Community. One of the objectives set up there was the establishment by the year 2000 of such a legal framework in order to boost the development of electronic commerce within the European Community. This initiative and this approach suggested by the Commission was fully backed by the European Parliament in the resolution that it adopted following the adoption of the Commission's communication, and at least one of the results of this communication is the directive that we are talking about today.

There is something very clear. The directive is an internal market directive. Its objective is very very clear: it is to assure that electronic commerce can profit from the internal market, from the area without borders, to provide free provision of services, free movement of goods, free movement of capitals, free movement of persons. This is particularly important when you look at electronic commerce.

What is electronic commerce? It is basically cross-border services. Cross-border services for the first time open to companies that in the past were not even considering such a possibility because of their size, because of their possibilities, or because of serving to a small niche markets. Precisely, thanks to electronic commerce, disregarding the size and disregarding the location of

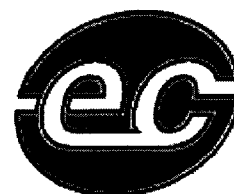
companies, they are going to be able to engage into cross-border transactions and precisely to ensure the free provision of such transactions, is what the Community has been trying to do now for a number of years when establishing a single market. Obviously at the same time that we tried to ensure that free provision of services is ensured within the Community, we also want to create legal certainty as regards the conditions under which the operators can provide their services and also the rules that they are going to apply in order to enhance the consumer trust and confidence in this new form of trading.

Now, what is the idea of this directive? After more than 30 years with an internal market, you have a considerable degree of legal integration within Europe. We have an important number of directives in areas such as data protection, protection of copyright and label rights, trademarks and others, consumer protection issues, financial services, deregulated professions, all these measures apply online as much as they apply offline. That is fairly clear, I believe, for everyone. And what this directives has tried to do is building on what is already there and what is applicable online, provide for the rules that were missing, either because they were dealing with issues that are needed for the online environment or because they needed to be established to clarify some of the specifically legal issues, as I say, they tried to compliment the existing legal framework to assure that we can provide now for the principle of the free provision of services. The building on one is already there, the complementing with its directives and other directives that are being negotiated at the moment, we believe that we can, with some exceptions, assure that a provider established within one Member State can offer its services throughout the Community without having to face 14 other legal regimes applicable to its activities. And this is a very basic internal market principle that is reflected already in article 49, ex 59, of the treaty that has been developed by the case law of the Court of Justice and which has been adopted in a number of other internal market directives. We try to really deal with those issues that are strictly necessary, we try to find and follow a lighter, flexible approach in particular in view of the matter which is evolving at a very, very fast speed. We try to determine rules which are as little technology specific as possible in order for them to survive for a number of years. We try as well to put a lot of emphasis on the issue of enforcement. One of the problems you find in the online environment is not so much the lack of rights or the lack of rules but that the difficulties to enforce such rights, to enforce such rules. And there is also a great emphasis, as we will see when I go through the directive quickly, in promoting the role of interested parties and in particular of surf regulation.

The scope of application of the directive is information society services. The words we use in the title is "electronic commerce" but those are, if you want, the kind of political words that used to identify the subject. But the legal concept, the directive is based on is information society service. This is not a new concept at community level, it has been already established in two other community directives and it has therefore been discussed for a long time with Member States. We are basically covering services which are provided at a

distance, over electronic means, and at the request of the recipient. We are basically covering all online services, we are not covering non-interactive services such as the traditional services from broadcasting. You will see that in the definition we use the word services normally provided for remuneration. These words are there because you find them in the old article 60 of the EU treaty. I must admit I don't know the new number now after the Amsterdam Treaty but in the old article 60 you had services provided normally against remuneration as those services which fall under this scope of application of the EC rules. Having said that these words have been interpreted in a very large manner by the Court of Justice already since 40 years ago and it is clear that services which had paid in a different money than by the recipient of the service, for instance services which are paid thanks to finance, thanks to publicity, are covered by this scope of definition "services which constitute an economic activity" even if there is not a clear payment on the part of the recipient that will be covered, for instance, when you use a search engine online, even if you are not paying anything for the use of such a service, you are using an information society service.

As I said the core of the proposal is its internal market approach and internal market clause that you find reflected in article three. Again this is not new. This is not a new approach that has been chosen by the Commission. This is the approach that has been used to ensure in particular the free circulation of services within the European Community.



It basically has a two-fold approach. On the one hand, you assure that the service provider complies with the rules of the country where it is established; the rules of the country of origin as we have referred to. On the other hand, you assure as well that all the Member States try not to double-check, to control again, the activities of that service provider. Member States are prevented from putting an obstacle to the free provision of services which are lawfully provided from another Member State. That's the way you assure the free provision of services. And you can do so when you have acquired at Community level a sufficient level of legal integration. That doesn't mean the exact same legal level of protection for all general interest objectives, it means an equivalent level playing field and on the basis of the existent directives, as I was saying, whether it is scenarios of financial services, deregulate professions, consumer protection, copyright and others, the assessment was that other for the issues that have been excluded from the country foreign rules there is already sufficient grounds to issue out the free provision of services. As I say, because this country of origin clause in article 3 applies very widely, there are a number of derogations which you will find in article 22 of the directive.

The directive has some specifications which had not been dealt with neither in other directives because very often they were not addressed at the time because the problem had not arised. The first set of issues that we have there are issues relating to the establishment of the information service provider. First of all what we have done is to identify what is the place of establishment of the

service provider. This is very important because if you are going to apply the country of origin rule, if you are going to apply in the country of establishment, first of all you have to know where the country of establishment is. For this, again, we have not invented any criteria, we have simply followed the criteria that have been developed by the Court of Justice over the years and you find in article 2c of the directive a definition of established service provider for a provider who effectively pursues an economic activity using a fixed establishment following determined duration.

It is also said that the presence and use of technical means and technologies required to provide the service do not constitute an establishment of the provider. Again, these criteria are not new. They follow the Court of Justice. Criteria are developed sometimes in very tricky situations. Other than that we have also established some basic rules. First of all we intend to request the Member States to refrain from establishing any prior authorisation regimes for online services. We want to avoid any prior authorisation regimes so that it will be a directive to an activity just because the activity takes place online. It is clear that we are not trying to get rid of prior authorisation regimes that exist and apply as much to online as to offline activities for instance, authorisation regimes to banking activities or travel agencies' activities and some of them are in our Member States. In fact, what we would like to avoid is our Member States saying just because you go online you are going to have to follow a particular prior authorisation. That is what some Member States for activities such as "video on demand" were considering a few months ago and that we believe is not justified. We have also established a number of transparency requirements in order to enhance really the knowledge of the consumer or of the other enterprises trading online as to who they are trading in. We believe that one of the big problems that you find online and that indeed creates a lot of problems for the protection of consumers but also for the firmness of transactions on the part of other companies is the lack of transparency. You don't know who you are dealing with, you want to know where that person is established, you don't know if that person follows a set of professional rules or if it is inscribed in a particular trade register. This kind of things we want to request for providers of services to give online. Providing information online is something that is not particularly expensive or difficult but we believe it is very important in order to enhance trust and confidence in these activities.

Another set of issues that we have dealt with are commercial communications. By commercial communications we understand other types of sponsorships, sales promotions. You find a number of difficult questions in this area; at the same time it is a fundamental area for development of electronic commerce. At the time we had a measurement indicating that over 70% of revenues of activities online precede from commercial communications' activities. This is a year and a half ago figures. I still believe that to a large extent, activities online are being financed thanks to commercial communications. We have tried to assure that there are a number of requirements fulfilled in particular again transparency requirements. This is very important in an environment where it is

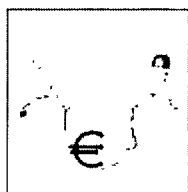
very often difficult to distinguish between what constitutes an independent advice and what is advertising. Who is behind a website, whether this is a sponsorship. There is financing in a website, for instance, that advises you to take a particular drug or follow a particular treatment. We want this type of communication, advertising and others, to be clearly identifiable by the consumer. This includes as well unsolicited commercial communication by email. We have also tackled the question of the possibility for the deregulated professions to engage into commercial communications. This is a very specific problem but very important one. Deregulated professions being understood as lawyers, health related professions such as doctors, have a big potential in the net, in particular for giving some types of advice. And in some of our Member States, not in all, there are very strict rules that will prevent them effectively from engaging into online activities and we have tried to ensure that at least they can engage into commercial communications online. This you will find as well in the chapter on commercial communications.

The next issue that we have dealt with is online contracts. There are already some very important Community directives that deal with the issue of contracts at a distance, in particular in a distance-selling directive and there will be in the future we will soon have distance selling for financial services. Still there were some issues that have not been tackled in those directives. And that needed to be clarified. And they have been dealt with in these directives that will apply cumulatively with the other ones. Those are in particular the legal validity of online contracts which in some of our Member States is not clear when there are requirements for paper based formats, hand written signatures or others. There is also a number of requirements as regards the information that has to be provided for the consumer in particular when they engage into online contracting following very automatic procedures. And finally we have also made an attempt to clarify the moment at which a contract is concluded online. This is important as well for a number of rights provided to the consumer that start running as for the moment on the conclusion of the contract and this moment of conclusion has never been addressed or clarified at community level.

The fourth set of issues is the liability of intermediaries. Intermediaries are understood as people that transmit or store third party information like telecommunication companies, internet access providers, hosting service providers, people that provide you with the capacity in their service to host your website or to host your homepage. The liability of these people when the content transmitted towards is legal has been put into question by the Courts in our Member States and some Member States have started an act of legislation on that matter. And it is a particularly important issue if you think that in the end it is thanks to these people that electronic commerce is going to be able to take place, people that transmit and store the information. Therefore we have tried to clarify their potential liability whether they act as mere conduit for information or when they are engaged also in the activities of caching of information or storing of information, it's always a third part information.

And finally we have devoted a large chapter of the directive to the implementation of the enforcement of rights provided for in this directive and in other directives. First of all, we have tried to encourage codes of conduct. But we also want to facilitate alternatively dispute resolution. In particular when you consider that for the majority of online transactions business to consumer taking place at the moment in view of the value, the consumer will never engage into going to court procedures because it will be just too costly for what the transaction is. We believe that the alternative to dispute resolutions are a very good way that will never replace court actions but then as an alternative to them can help ensuring that in many cases there is effective redress for the consumer. We also want to request Member States to provide for real effective redress and this includes the possibility of having proceedings and entry measures that can be taken in a very short span of time. Otherwise, when you think of the rapidity and the geographical scope of damages having in the net when they happened, you realise that if a Member State takes not only two months, not only two weeks or two days to provide for interim measures, this sometimes is far too late. Finally we try to improve the administrative co-operation with the Member States in order again to ensure the enforcement of rights.

As I say, the proposal was adopted in November last year. The European Parliament adopted its first reading on 6th May this year, where there were a number of amendments that basically I think it is important to stress that the European Parliament unanimously back the internal market approach of the Commission and this backing of the internal market approach on the country of origin rule was done by all the competent committees that were looking at the directive including the consumer first committee of the European Parliament. In the Council working group we are progressing with the work. The Finnish Presidency will like to get a common position by December this year, by the end of its Presidency, the Commission as well, and we have to see how things will develop since then. And it is important to say that in the last European summit in Cologne, just three weeks ago, the European leaders when referring to the electronic commerce stressed the commitment to having a clear legal framework established in Europe as a matter of urgency and stressed the need to have this directory adopted.



Challenges for SMEs

Electronic Commerce

The impact of electronic commerce on direct marketing – New ways of doing business

by Mrs. Sophie METRO, FEDMA Council Manager
European Federation of Direct Marketing and Mail Order

So first of all I would like to thank the European Commission for inviting me at this very interesting workshop. I will tell you about the impact of e-commerce on the direct marketing, new ways of doing business. I will start with the definition of direct marketing. So Maria Prat already gave you a definition of e-commerce or information society services. I will not do that again but I will rather tell you what is direct marketing.

Direct marketing is a collection of methodologies for communicating a message to individuals with a view to obtain a measurable, cost effective response. It is important to stress its collection of methodologies because it does not describe only one communication technique but a range of communication techniques. The website and the e-commerce is part of it. Then, individuals, that means that direct marketing communicates one to one, even if it can be a mass scale. Then a measure board, it has to see that the direct marketing actions elicit a quantifiable reaction, which gives objectivity of the evaluation of the results. Then cost-effective which is better to be profitable because this direct marketing can also effect a non-commercial objective like fund rising or charitable fund rising.

What is the link to direct marketing between Internet to a direct marketing strategy? First of all, interactivity, direct response and exchange of information. The customer using the website is entering some personal data on himself and is also reacting to the messages, which makes this very interactive. He has the opportunity to give direct response to it. It is the switch from a product based information, product based strategy to information and customer based marketing strategy.

The third point is that service quality is a source for competitive advantage. From there we will refer to a study which has been done by a professor Levy who is teaching in France. He is making the differentiation on the impact of e-commerce on the marketing policy and the offer policy on the full region. The

first possibility on the impact is the substitution, the second one is automation, the third one is valorisation and the fourth one is diversification, innovation.

Product substitution means that there is the possibility to replace the present offer by its digital equivalent. The book sector is very interesting for that. You can see now companies that instead of selling books now sell the content of the books in the form of CD-ROM through their service online. In that part we can say that Internet becomes part of the design and product phase of a productory service.

The second point is automation. Automation means that there will be supplementary services, which are going to be provided through the Internet or by computers. For example, it is extremely used in the banking industry where you have home banking or it is also the case for airline travels. There is a use of online database today at the customer service through the Internet. It is a very helpful tool for the enterprises.

Concerning valorisation, the difference between valorisation and automation is that in that case it is not traditional services that you are providing via e-commerce but there are new supplementary services which are offered to the customers. It provides an added value to the customers of services, which did not exist before the emergence of the Internet. A simple example again: the websites of traditional newspapers. You have now the possibility to search for articles, the information is going to be personalised. In that case, Internet is also used as an additional marketing tool. It can also be used as an additional marketing distribution channel. You are not going to only provide your services again via the shop but you are going to provide them via the Internet.

So diversification and innovation, the fourth points. In that case, it is even more new and innovative that you are going to provide new services, which were not possible to be offered before the digital revolution. There are some websites with access on the videos, online games, navigation devices for transportation in vehicles, for example. So what are the opportunities for SMEs?

The first opportunity is the cost advantage. This is very much linked to the sector of the industry and it also very much depends on everything that is done and linked and how much companies are prepared to use the Internet. The second thing is the increased perceived value by the customer. It means that you will develop new value for your customers, which increase the satisfaction of the customer. The third point is differentiation through the development of new offers and new markets through new supplementary services and personalised services.

Then you have a market share growth. You can target much more customers than you are used to because it is a new distribution channel. You cannot only target people in your country but you have much easier access to every potential customer in the world and then customisation. I will take an example,

for instance you have a website which is marketing some chocolates. So here this is called a sweet. What have they done? They have built a very rich customer data base and then according to the previous purchases of the customer, so on the screen there are some different data appearances. You have the possibility to see directly the product that you are interested in. There are some special products displays online or order facilities. There are also magazines that contains information on the shop. Also if you want to purchase in a different way. There is history on the chocolate recipes, all kind of things. Now what is also interesting is the threats and also some solutions.

So first threat is new costs. We have seen that there are few SMEs who start directly to use the Internet either to convert to subsidise their products or to develop new, complimentary services and which run into trouble. The very important thing is the preparation of the companies and the link before it starts doing e-commerce. There is a way for doing business plan and training and to start also to communicate not only via the web but also use other kind of one-to-one communication with the client outside the website.

Second obstacle is the technological obstacle, which affects both the companies and the customers. As for the customers I will refer to some statistics which have been published by DG XIII about the very slow penetration of computers in homes, about 8% in Europe. There are still a lot of customers who will not want to use those new technologies and that potential client in the first step. It is also a problem for companies, which sometimes have a problem to use this new technological tool. Even if now there are more and more toolkits which are developed and which are conceived to be as easy to use as possible.

The third obstacle might be, I described it before as an opportunity but it can also be a threat, it's a decreased perceived value by the customer. There must be a trade off between cost and benefit for the customers. I will give an example of decreased perceived value. That is all the human aspects. If you are going to buy a newspaper in a shop, you can speak with the shopkeeper and comment perhaps on the politics. You have all this personal aspects, which are reduced via the Internet. Even if you can have some chats on your own but you don't know these people you are speaking with and there is anonymity. You might have to make new segmentation of the customers based on the perceived value of tangible versus digital services. You can actually more or less change the profile of your customers while offering that in a different way. E-commerce users have also to take into account the increase of the customers expectation. The customers want speed, convenience, selection, quality, information, price and personalisation. You have to be even more performing, more than you used to be before if you want to keep your customer. There are also a lot of concerns about the quality. What if I don't like the product and I have already ordered it. Can I return it? And also privacy data and security.



The fourth one is the lack of trust, which has already been mentioned before. It is a very big threat for the companies. It is a lack of trust for financial security again, the quality of their products offered. In case it is some thing that is manageable if the company is well prepared. The design of the website is extremely important to influence the perception of trust among the web users. The way you are organising your information, which has to be quickly accessible. There is a process to reveal positive expectations with relevant navigation tools, to be able to provide some guarantees on the web, policy statement, labellisation, and feedback. There are a lot of transparency as mentioned before about the place where the company is located and this kind of things. But the website is very important to create this trust.

The last thing, which has also been very well described before, is the problem of legal issues. Actually the problem of security is also a concern not only for the consumers but also for the companies regarding data privacy. FEDMA is very much supporting this draft directive which has been presented before for the establishment of clear obligations for information service providers to respect the law of the country where they are physically established. We think that this is very important to have the consumer rights to be respected. This solution is the only way to ensure adequate consumer protection and also to enable the unrestricted development of e-commerce. Most of this has already been explained during the presentation. The importance of training, of web design, trade-off between cost and benefits and self-regulation. Regarding self-regulation, I will tell you what the FEDMA tried to do to find out solutions to make it easier.

The first thing is to promote the action of good practice among the users of the commerce. That is the educational aspect. We organise seminars to be able to make links to all the information available like the websites Ipsos provided by the European Commission and a lot of others and where to find the toolkits for SMEs.

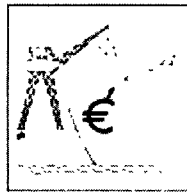
The second mission of FEDMA is to play a leading role for effective self-regulation in the e-commerce industry. As you might know or not, FEDMA is representing the direct marketing industry at the European level and among all members we have the entire national direct marketing associations. So one of the roles of FEDMA via those direct marketing associations is to encourage the development of an email preference service in Europe. The second thing is to set up online marketing guidelines and seal a trust mark. A project has now been presented to the European Commission to set up these online guidelines, so it should start at the end of July and the conference should be in June 2000.

These projects include:

- elaboration of the European code of conduct which is extremely important,
- European guarantee issue,

- system of enforcement, like online complaints, resolution systems and sanctions,
- monitoring and surveillance systems. Recommendations on the use of specific software tools, privacy, security of transactions, digital signatures, featuring mechanism,
- direct marketing association services, there are some existing already,
- an awareness campaign.

It is very important to communicate as much as possible to reach as many SMEs as possible to be able to make self-regulation a good habit.



Challenges for SMEs

Electronic Commerce

Electronic Commerce and Consumers

by Mrs. Ursula Pachl, Expert e-commerce
Bureau Européen des Unions de Consommateurs

Thank you very much to the Commission for inviting me to this conference and for giving the possibility to be here for the BEUC, the European Consumer's Organisation, to present you the aspects of consumers in relation to electronic commerce.

It is very difficult at this stage to know how many consumers will embrace electronic commerce with enthusiasm. But we all know that the number of consumers using internet services is increasing from day to day and consumer organisations throughout Europe believe that electronic commerce has a big potential to bring benefits to consumers in terms of increased competition and consumer choice. However, there are some concerns and problems that remain and that we are concerned about, if we look into the development and the possible regulation of electronic commerce. And some of those concerns I would like to address here today.

I will start by explaining our concerns in relation to the draft directive on electronic commerce, which has been presented by Mrs Martin-Prat. Then I will very briefly also comment on some other issues which are not dealt with by the electronic commerce directive but which are of importance for consumers as well, such as intellectual property rights or data protection. Finally I would like to give you some figures coming out from a study that our sister organisation «consumers international» has carried out recently on Internet shopping.

So let me start by saying that many voices in the discussion on electronic commerce say that electronic commerce should not be regulated at all and that regulation would stifle its growth and therefore its benefits also for consumers. In saying so it is very often argued that the need for consumers' confidence will have a sufficient regulating effect. It is said that because electronic commerce will not take off unless there is consumer confidence and industry will by itself develop sufficient standards. This argument is not something that I think is a correct argumentation because it implies that there should never be any need for any direct regulation of any market. We consider that the consumer confidence issue will be a factor in the development of electronic commerce but

that there are limits to its efficacy. And I will come back to this issue later when I will talk about the industry's self-regulation.

If we talk about the regulation of e-commerce I would like to mention two initiatives because actually the subject matter electronic commerce in consumers is currently discussed in several forums. Not only on EU level but also in the OECD there is an initiative to create recommendations as regards consumer protection and electronic commerce and we hope that these recommendations will be adopted next October at the next OECD conference. There is another initiative that I would like to mention. It is the TACD or TAC-D (Transatlantic Consumer Dialogue) as the American call it, which is an initiative bringing together several consumer organisations from both sides of the Atlantic and one of the working groups of this consumer dialogue deals with electronic commerce. They have already issued several recommendations which are dealing with issues such as the information requirements for service providers, with data protection, with marketing addressed to children, with unfair contracts, etc. If you are interested in these recommendations and the work of the OECD, BEUC, my organisation, is member of the OECD. You can find these recommendations on the website. The address is www.tacd.org.

I will now come back to the electronic commerce directive and there I would like to emphasise three points which are fundamentally important to us and which also focus our criticism as regards this directive. We think that this directive is lacking coherence. We have seen in the presentation of Mrs Martin Prat that it consists of a number of separate initiatives. But these initiatives are not linked together within an overall strategic framework and this is what is our main point of criticism because we think that with this framework that the directive proposes, a consumer protection is not sufficiently dealt with. So we think that there should be a new strategic approach and with this approach the benefits of the increased competition and consumer choice should be maintained and on the other hand this should also ensure promoting high standards of marketing and commercial practice for consumers.

This new approach must be multi-dimensional and as sophisticated as the technology itself. It should include both, countries-of-origin law and country-of-destination law in certain cases. I don't know if you are familiar with this big discussion as regards the country-of-origin law principle, which means that only the rules of the country where the service provider is established have to be respected by this service provider. If he provides services across border or in certain cases, also the country-of-destination rules should also be respected. And I would not like to be misinterpreted because it has been said that the consumer organisation asks for a radical country-of-destination approach. This is not what we ask for. But we do not agree on the principle that the directive implies which foresees that services delivered into 15 member states should exclusively fall under the control of one Member State. This is not what we think is a solution for all cases in all areas and I will explain this later on.

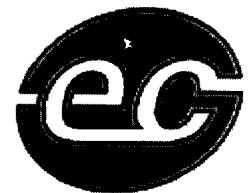
Second point is that we should be aware of the huge changes in marketing methods made possible by new technology which electronic commerce will bring, especially as regards advertising and other promotional activity. Commercial communications will often be carefully targeted to specific markets and specific groups of consumers and we think that we need a framework that has the flexibility to respond to the new development and the new challenges in this fast moving area. Another very important point is the point of redress.

All these questions are of course of main importance and I will come back to the issue of enforcement and redress later on. And finally another point, which is of course very important also for consumers, is the question of industry self-regulation and the question which role codes of conduct can play in electronic commerce. Since we are here to speak to a forum which has a big interest in SMEs I will also come back to this issue later.

As regards the country-of-origin principle versus the country-of-destination, we have heard that the draft directive proposes that within the European Union the marketing law will be that of the country of origin. Now, this raises several questions, for example. Are member states ready to enforce their own laws for operators selling to consumers in another member state, for example if operators sell only into other member states but do not sell in their own country? This would be interesting to see.

Another question is, will the necessary machinery be in place to advise consumers in other member states of the provisions of the law of the country of origin. For example what can they expect from this law and how can they complain and what are their rights because they would have to deal with services which are only controlled by the rules of another country? Now the Commission says, and we have heard this today again, that there is sufficient harmonisation and integration in place to impose the freedom to provide services as an overall principle in all these areas. But I think that particularly in the field of commercial communications, national situations still differ essentially. And I think this is not only the consumers' opinion but also the view of commerce.

We have seen the huge problem which has been faced by this expert group on commercial communication which the Commission has established one year ago and which had as a task to come to agreements based on mutual recognition as regards commercial communication. They started off with the issue of rebates and they had a hard time, I assume to come to an opinion even on this rather uncontroversial communication matter. What I want to say is that we as consumers feel that until a further level of harmonisation has been achieved particularly as regards rules and advertising for example targeted to vulnerable consumer groups such as children, the universal of the applicable country of origin rule will weaken existing consumer protection standards. This is why we do not agree with the radical imposition of



this principle. I agree, and this is something that is possibly raised in every discussion on this issue that it is not an easy task for business to deal with the different legislation in place in 15 other member states. But you will probably agree with me that it is not an easy task for consumers either. If suppliers decide to offer their products and services on the virtual market, we have seen that there is a big list of advantages that they can have in doing so. It seems reasonable that they should be prepared to some extent to pay for this advantage by respecting the legislation of the markets which they target in some cases. I do not say all time and in every situation but in some specific cases and I will give you an example.

As the directive stands now it means that if a member state has special rules on marketing, for example marketing directed to children, these rules do not have to be respected by a service provider who is established in another member state. If, for example, an Italian service provider sets up a website in Swedish language, because he wants to conquer the Swedish market, we can assume that he addresses marketing exclusively to the Scandinavian or to the Swedish market. He will not be obliged to comply with the Swedish regulation as regards marketing in place in Sweden. We all know that the Scandinavian countries have a rather high standard as regards fairness of marketing and so on. So this is why we think that the concept as it stands now, is too radical and should be altered.

There is another point that I would like to raise which is the question of the global dimension of electronic marketing. The directive as it stands now is addressed only to service suppliers who are established in the European Community. Of course electronic commerce as by its nature is a global business and involves global transactions and this is why we think there is some further need for regulation or consideration for the time being.

So as regards the directive on the electronic commerce, let me summarise this point by telling you what BEUC has argued for. First high commonly harmonised standards as regards marketing for electronic commerce and secondly the development of principles for determining what country-of-destination rules must be respected and in what cases. And third point is we need international solutions and we need international standards as regards marketing.

I will now quickly come to the question of self-regulation. It seems that almost everybody sees self-regulation as having an important part to play in the development of electronic commerce. I think we can count consumer organisations among these voices who say that. The problem we have with the current directive is that it encourages the development of codes of conduct at European level but it does not give a clear institutional or legal framework or means of measuring outcomes of self-regulation. For example how will we measure and who will measure the success of failure of codes of conduct or codes of practice and what happens if self-regulation is not effective? So these

questions are not dealt with sufficiently and we say that if these questions are not dealt with, self-regulation risks to be merely window dressing and this is why we ask for further development of these provisions in the directive.

A third point is the question of redress that has also already been addressed by Mrs Martin-Prat. We think that this is one of the most important issues, of course, for consumers and it has nearly completely been excluded from the Commission proposal. It is clear that here we need further ideas and further instruments such as the virtual magistrate which was an initiative in the US to have an alternative dispute settlement online. We need at the European level a network of national out-of-court settlement bodies. We need national enforcement authorities who work together. And of course, we need international solutions again, international conventions and bodies to act as intermediaries. I will quickly touch at the question of new marketing practices. We have already heard today by the two previous speakers that there will be new ways to do marketing and new marketing techniques. I assume that the lower cost of reaching more people will lead to much more commercial communications and also I am afraid to much more fraud, deceptive or abusive marketing practices. There is estimation in the United States that apparently up to 10% of all US based telemarketing is fraudulent.

Therefore we need to develop improved methods of regulation of marketing. Not for e-commerce per se because there are and there will be new forms of marketing and these new forms cannot be adequately dealt with the current rules. This point so far regards the proposed directive on electronic commerce.

Now I would like to touch very briefly on three other issues. The one issue is the big question of the law applicable and the jurisdiction in relation to contracts. We have heard this already in the introduction. It is a big question if the consumer who is involved into the conclusion of a contract online, can be considered as somebody who still is buying from his home country or if somebody who is surfing on the internet is actually going into the country where the supplier is established. This issue needs to be clarified, I am talking about the Brussels and Rome convention mainly. At least the Brussels convention is currently under review and we hope that we will have a clarification very soon.

Another issue in regard of the international implication of this in another place is the OECD guidelines who hopefully will have a recommendation on exactly this topic, on the law applicable and on the jurisdiction.

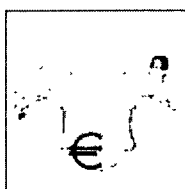
Then I would like to very briefly raise the topic of data protection. This is not so much a problem internally in the EU because we have two directives which have not yet been fully implemented but which have a very good standard and should be implemented soon, the deadline was already October last year. But the issue is rather complicated. The problem that we have seen has a reason in the connection with the US and the negotiations on the question of the equal level of protection that third countries would have if there were data exported to

third countries from the EU. The US have proposed safe harbour principles that we BEUC have considered to be not sufficient and we have already complained the intransparency as regards the procedure in relation to finding agreement on the US safe harbour principles because we think that they are not sufficient. The whole EU protection in the field of data protection is not valid if we do not have equal protection in third countries. Because the processing of data, as you know, will often take place in third countries. This is a very important issue.

As regards intellectual property I just would like to mention two legislative initiatives. One is the trade mark directive. Currently the Commission is considering the issue of Community exhaustion versus international exhaustion. Which means that if you bring a product onto the market when the rights of exhaustion are already exhausted, if it's on the market internationally or only on the EU market. Here we are strongly in favour of an international exhaustion and that means of a change of the current trade mark directive. The other issue is the copyright directive, which we fear will restrict the rights that consumers for the time being have and will limit the access of information society.

And thirdly, and I am coming to an end, as I have announced in the beginning, I would like to give you some figures as regards very recently done studies. One is from our sister organisation, Consumer International. They have done a study and they have made a kind of expertise and have with other eleven consumer organisations carried out a shopping exercise. They have bought 150 items from 17 different countries over the Internet. The preliminary results were that 8 items took over a month to arrive, 11 never arrived. Many sites did not give clear information about delivery charges especially cross frontier which is very important for the consumer if he decides to buy cross border or cross-Atlantic or wherever. Barely half, 53% had a policy on returning goods and in some cases, the seller name or website address changed in the middle of the transaction and so on. The study has not been completed yet so I cannot give you the full result; but it will be very interesting and it will be publicly launched in September. And interestingly, on the other side of the Atlantic, the Federal Trade Commission of the US has issued results of an informal survey of 200 websites, 100 websites in the US and 100 foreign websites and the results are astonishingly similar to the one we have found in Europe. There are only 45% who have indicated the emergence country. There is only 26% who had a refund policy, 65% informed about the total cost of delivery of the good and only 10% informed about the applicable law to the contract.

I think this shows more or less clearly that there is still a long way to go.



Discussion and Conclusions

Chaired by Mr. Fernando de ESTEBAN
Director of Informatics
European Commission

Le 9 juin 1998, le premier symposium «Managing the changeover to the euro and the new millennium» concluait ses travaux en insistant sur la nécessité de favoriser la diffusion d'informations et l'échange d'expériences.

Nos travaux ont démontré que la prise de conscience de l'importance des changements engendrés par l'introduction de l'euro et la préparation du changement de millénaire s'est accentuée depuis.

Les administrations nationales et communautaires ont atteint un bon niveau de préparation.

Les Petites et Moyennes Entreprises ainsi que les institutions locales de petite taille ont pris conscience de l'importance de ces défis et doivent encore achever leur préparation. Il n'y a plus de temps à perdre.

Dans ce contexte, et compte tenu du fait que 180 jours nous séparent de la date du 1 janvier 2000, il est essentiel que les énergies disponibles se mobilisent autour de la préparation des plans de contingence robustes qui tiennent compte des interdépendances entre les infrastructures de base.

Par ailleurs, l'avènement du commerce électronique comme puissant moyen de développement de l'activité commerciale accroît la pression tant sur les Petites et Moyennes Entreprises que sur les institutions de faible taille. Il apparaît dès lors essentiel de favoriser l'échange d'informations et d'expériences par la mise en place de campagnes de sensibilisation et d'information à l'attention de ces entités mais aussi à l'attention des citoyens et des consommateurs.

Enfin, la prise en compte du potentiel offert par le commerce électronique ne pourra être complète qu'avec la définition d'un cadre réglementaire adéquat.

Des actions d'information et de formation des entreprises et des consommateurs devront favoriser le renforcement de la confiance en ce nouveau moyen d'échange.

Au cours des années à venir, le commerce électronique modifiera profondément les structures organisationnelles des entreprises et l'organisation des marchés à l'échelle mondiale. Les entreprises européennes devront relever ce défi avec le soutien des pouvoirs publics.

Un troisième symposium devrait permettre de faire le point en juin 2000.





Interesting documents

The impact of the changeover to the euro on community Policies, Institutions and Legislation

Europaper III, 12 April 1999

Inter-Service Group on the changeover to the euro

Directorate General II – Economic and Financial Affairs

European Commission

Migrating to euro

Systems Strategies & best Practices Recommendations for The Adaptation of Information System to the euro

Editor Amir Bamea

Report by the euro Working Group

July 1999

The Year 2000 Computer Problem Resolution

Telecommunication Council

22 April 1999

The “Millennium Bug”: the Preparedness of Key EU Infrastructures for the Y2000 Date Change

Report to the European Council – Cologne, June 1999

European Commission

On Certain Legal Aspects of Electronic Commerce in the Internal Market

European Parliament and Council Directive

COM(1999)427 98/0325 (COD)





Interesting web sites

EURO

The euro HOME page

<http://europa.eu.int/euro/html/entry.html>

IT Impact of the euro

<http://www.ispo.cec.be/y2keuro/euroit.htm>

European Central Bank

<http://www.ecb.int/>

DG II Europapers

<http://europa.eu.int/comm/dg02/document/europap/eupidxen.htm>

Electronic Commerce

DG XV

<http://europa.eu.int/comm/dg15/en/media/eleccomm/index.htm>

ISPO

<http://www.ispo.cec.be/ecommerce/>

Directive on electronic commerce

<http://www.ispo.cec.be/ecommerce/legal.htm>

Year 2000

DG III Y2K computer problem

<http://www.ispo.cec.be/y2keuro/year2000.htm>

OECD

<http://www.oecd.org/dsti/sti/it/index.htm>

United Nations

<http://www.un.org/members/yr2000/yr2000.htm>



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