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THE IMPACT OF THE CHANGEOVER TO THE EURO ON COMMUNITY POLICIES, INSTITUTIONS AND LEGISLATION

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A. INTRODUCTION

1. The present communication intends to provide a comprehensive assessment of the impact of the changeover to the euro at Community level and the resulting effect on Member States. It reflects the outcome of preparatory work within the Commission, involving each of its services, and of contacts with representatives of the other Community institutions and organs.

   This preparatory work has covered in particular the following areas:
   - the practical consequences for Community policies;
   - the euro-compatibility of Community legislation;
   - the impact in the technical and operational sphere (information technology, administrative changes, information and training of staff, etc.).

2. Besides the assessment of the various consequences of the transition to the single currency, this communication will also provide an overview of all work (legislative and other) which will need to be carried out before and after the start of Stage Three. This work programme is presented in detail in annex 8.

   Part of these preparations will involve other Community institutions, for example whenever specific legislation needs to be enacted. In addition, this legislation initiated at Community level will produce a direct or indirect impact at Member State level. In this respect, the present communication will assist both the Member States and the Community institutions in general in the finalisation of their own internal preparations.

B. IMPACTS OF THE CHANGEOVER IN CERTAIN SECTORAL AREAS

B.1 COMMUNITY BUDGET

3. The present legal framework (Art. 11 of the Financial Regulation) enshrines a situation in which the Budget is cast in ECUs but both revenue (resources) and expenditure are wholly or partly realised on the basis of national currency values:
   - On the revenue side, the contributions are paid by Member States in national currency. The traditional own resources are paid as collected (less a 10 % collection charge retained by Member States), whereas the provisional VAT and GNP contributions are determined and paid

according to a formula which involves two ECU exchange rates (1st of February, last working day of the year)[1].

- On the expenditure side, a significant part of the overall appropriations are presently committed and paid in ECUs (e.g. Structural Funds, research, other operational sectors, etc.). Generally speaking, all expenditure is executed in ECUs, except the payments obligations under the Guarantee section of the EAGGF as well as the administrative budget (of which staff remunerations and pensions form a major part). In relative terms however, CAP expenditure represents more than half (almost 52 % of payment appropriation in 1996) of total Community budget expenditure, and administrative expenditure a further 3.5 % (see table in annex 1A). Both areas are examined in greater depth in sections B.2 and B.3.

4. Operations carried out in national currency, as opposed to ECUs, result in the Community budget having to bear the exchange risk associated with the movement of national currencies. This is presently the case on the revenue side and, to a lesser extent, the expenditure side.

   With the introduction of the euro, the participating Member States will have their currency in common with the Community budget. Exchange rate effects will vanish as far as these countries are concerned, while remaining in place for the other ones. Generally speaking, exchange risks will thus be considerably mitigated, both for resources and for expenditure.

   As from 1 January 1999, the Commission intends, as a general rule and as far as budget expenditure payable in participating Member States is concerned, to make use of the possibility offered to a debtor to settle his debt in the euro unit[2].

5. The immediate benefits resulting from monetary union could be consolidated and even reinforced through complementary measures. This would for instance be the case if, whenever feasible, the use of the euro were to be extended in all Member States to those areas of budgetary expenditure which are currently still executed in national currency (guarantee section of the EAGGF, administrative expenditure, ...). As far as the "pre-in" countries are concerned, the underlying payment obligations would however continue to be expressed in national currency units i.e. the

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[1] An adjustment mechanism rectifies all provisional contributions in year "n+1", so that the definitive contributions correspond to the tax basis in national currencies, as effectively realized in year "n"

[2] By virtue of article 8.3 of Council Regulation .../98 on the introduction of the euro, based on EC Art 109.l(4), which will be adopted in mid-1998, once the list of participating Member States has been decided. See also: Resolution of the Council of 7 July 1997 on the legal framework for the introduction of the euro (OJ C236 of 2.8.97, pp. 7 - 12).

exchange risk would thus continue to be borne by the budget[3]. Further information is provided in annex 8 (see fiche on the Financial Regulation).

6. The changeover to the euro will produce further consequences on the operation of the Community budget, in particular as far as treasury operations and financial management is concerned. Because of their operational character, these impacts are dealt with in section D.

Revenue and expenditure under the ECSC and EDF budgets are governed by distinct rules (see description in annex 2). In both cases, contributions and payments are expressed in ECUs, and the changeover is therefore expected to occur in a straightforward manner.

B.2. AGRICULTURAL POLICY

7. Under present agrimonetary rules, prices and other amounts are established in ECUs, although they are paid or collected by Member States in national currency. To this effect, the agricultural conversion rates are being used, while the date of the operative event[4] serves as the reference date for the conversion. The agricultural conversion rates follow the evolution of the daily exchange rate with certain lags, the latter being more important in case the national currency appreciates vis-à-vis the ECU than in the opposite case. Whenever a monetary revaluation gives rise to an important decrease in the agricultural conversion rate, and hence in the level of prices and amounts expressed in national currency, temporary financial support can be granted in order to compensate farmers for revenue losses.

8. Each month, the guarantee section of the EAGGF reimburses the Member States in their national currency for the expenditure made under the CAP. For budgetary accounting purposes, these payments are converted into ECUs at the accounting rate[5]. The system thus gives rise to systematic discrepancies between prices and other amounts as fixed in ECUs in the CAP, and the amounts which are eventually entered into the budgetary accounts. The table in annex 3 shows that the gaps between agrimonetary

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[3] Already in the course of 1994, the Commission tabled a similar proposal, which consisted in amending Art. 11 of the Financial Regulation so as not only to label the budget in ECUs, but also to execute it in ECU, except where sectoral Regulation provide otherwise. At that time, a few Member States had raised reservations on this generalized use of the ECU, although on specific grounds which are not directly relevant to the present situation.

[4] The date at which the economic purpose of the operation has been attained, as defined in CAP legislation.

[5] The accounting rate corresponds to the exchange rate of the ECU on the 10th day of the month following the month during which the expenditure has been reported.

conversion rates and market rates are generally below 3 to 4 % in most areas of intervention, although peaks in excess of 10 % may be reached for certain countries and sorts of amounts. As a rule of thumb, an overall difference of 1 % between conversion rates and market rates roughly corresponds to ECU 400 million of expenditure.

9. Following the introduction of the euro on 1.1.1999, the agrimonetary regime will be affected in different ways:
   - in the case of a participating Member State, the Community budget will in principle reimburse earlier expenditure made in euros by the Member State concerned, without any need for further adjustment or conversion (elimination of exchange risk).
   - for the "pre-in" countries, the need for a conversion rate will persist in order to use the funds in these Member States. However, this does not imply that the existing system should necessarily be carried over in its present form. Some or all of the key elements (agricultural conversion rates, operative events, accounting rates, etc.) could, for instance, be redefined.

10. The transition to the new agrimonetary regime will require the settling of a certain number of technical difficulties:
    - for the "ins", the difference between the agrimonetary arrangements (between ECUs and national currencies) prevailing at the end of 1998 and the fixed and irrevocable conversion rates (between the euro and the national currencies of the participating countries) will have to be dismantled in a way which remains to be defined;
    - a similar transition might prove necessary for the "pre-ins" if the agricultural conversion rates are defined in a different manner from 1.1.1999 onwards;
    - technical adjustments will prove indispensable in order to manage the transition from the old regime into the new one. For example, transactions based on operative events dating back to 1998 or before, will have to be executed on the basis of old rules.

11. In any event, Commission proposals should be based on relatively reliable estimates of the aggregate gaps to be eliminated and thus notably take account of the list of participating Member States, as well as of the evolution of markets in the run-up towards monetary union. Specific proposals will be tabled towards the end of the first half of 1998, and would enter into force on 1.1.1999 (see also annex 8). Adjustments to the agrimonetary regime will also apply to the fisheries sector, more specifically for all amounts directly or indirectly fixed on the basis of Art. 43 of the Treaty.

B.3. ADMINISTRATIVE EXPENDITURE

12. For all Community institutions and organs combined, these expenses represent about ECU 2.7 billion in absolute terms (1996 figures), and correspond to about 3.5 % of the overall budget (1996 payment appropriations). The payment of remunerations and pensions constitutes by far the largest part of this category of expenditure, and is paid in national currency (see annex 1B). This is also the case for office rents and corresponding maintenance expenditure.

13. The calculation and payment of staff remunerations is based on the staff regulations (Arts. 63 to 65)[6]. This method is based upon the following principles:
    - remunerations are calculated and paid in the national currency of the country in which the official is established[7] ;
    - the monthly remuneration level in national currency remains fixed (subject to one or two annual adjustments in order to take account of the evolution of prices and of the purchasing power of national officials). As a consequence, the budgetary expenditure expressed in ECUs varies each month. With the introduction of the euro, this exchange risk will obviously disappear for all remunerations or pensions paid to officials established in participating Member States.
    - purchasing power equivalence is ensured through the adjustment of the remunerations of the officials established outside Brussels/Luxembourg. To this effect, a correction coefficient is applied which, in combination with a fixed exchange rate, takes account of the general price level in comparison with B/L.

14. The majority of Community staff are concentrated in just a few Member States. Some national currencies therefore have a more than proportional weight in the overall totals. For example, about 90 % of the 29.650 Community officials working for the different institutions and organs are established in Brussels or Luxembourg. A majority of pensioners (55 % of the 8.350 pensioners) also lives in Belgium or Luxembourg. The significance of the impact of the changeover will thus be primarily conditioned by the participation of Belgium and Luxembourg in monetary union. Some other categories of expenditure are closely connected to the remuneration system (see annex 4) and will thus be affected in a similar manner.

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[6] Generally speaking, the same provisions are applicable to pensions, which are calculated in a comparable manner.

[7] Community staff established in countries outside the European Union are, as a general rule, remunerated in BEF, with the possibility to exchange part of their salary in local currency.

15. In the present situation, the salary grid, as well as all other financial amounts (thresholds, ceilings, ..) in the staff regulations are expressed in BEF. In case Belgium joins the euro area, the changeover of these amounts to their euro equivalents at the official conversion rates would, if there were no further legislation, only take place at the end of the transitional period (31.12.2001) in accordance with the provisions of the euro Regulation on the introduction of the euro[8].

Because of the symbolic value and political significance of the remuneration of Community staff, it would be appropriate to ensure that all staff regulations would be expressed in euro terms as from the start of Stage Three (1.1.1999). This immediate transition to the euro would result from a horizontal changeover clause (see fiche on remunerations and pensions in annex 8) which would reduce the length of the transitional period to nil in this particular area, and thus anticipate the transformation in euros of all monetary references presently expressed in BEF. This clause would ensure the immediate changeover, as from 1.1.1999, of the currency unit in which the legal rights in the field of staff remunerations and pensions are being fixed and expressed (as distinct from the currency unit in which these remunerations and pensions are actually being paid out). It should moreover be noted that, although this operation leaves the substance (i.e. the final amounts received by the staff) entirely unchanged, all the pay slips would be expressed in euro and the remunerations and pensions would be paid in euro in the participating countries and in the national currencies in non-participating countries.

16. Finally, an important and well prepared information campaign will be launched, in order to fully brief Community staff on the euro in general and on the changeover of their remunerations and pensions in particular. This campaign should be launched well in advance of 1.1.1999, and prepared in consultation with the unions. Specific information efforts should be undertaken towards the Community's pensioners, for whom information might otherwise be less readily accessible. The campaign will be prepared and launched in parallel in all Community institutions.

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[8] Article 14 of Council Regulation .../98 on the introduction of the euro, based on EC Art. 109.l(4), which will be adopted in mid-1998, once the list of participating Member States has been decided. See also: Resolution of the Council of 7 July 1997 on the legal framework for the introduction of the euro (OJ C236 of 2.8.97, pp. 7 - 12).

C. THE CHANGEOVER OF COMMUNITY LEGISLATION

C.1. THE LEGAL FRAMEWORK FOR THE EURO

17. The legal framework for the transition to the euro is provided by the two euro Regulations[9] (see summary description in annex 5). These Regulations will ensure a smooth transition, based on the principle of legal continuity. Besides settling certain practical questions (e.g. conversion and rounding rules) these Regulations also set out the basic monetary law in the participating Member States.

    As far as the replacement of monetary references in legal instruments (i.e. laws, contracts, etc.) is concerned, the following provisions are foreseen:
    - as of 1.1.1999, references to the ECU will become references to the euro on a 1 to 1 basis;
    - as from 1.1.2002, references to national currency units will read as references to the euro unit at the conversion rates.

18. Community legislation is directly affected by the two euro regulations. A guided search through the Celex data base, which includes all Community legal acts (including international agreements), has identified the texts (about 4000 in total) which are concerned by the changeover, i.e. the ones which contain references of a monetary nature (amounts expressed in ECUs or national currency, references to interest or exchange rates, conversion and rounding clauses, etc.). The Commission services have carried out a detailed screening of this legislation with a view to ensuring that each of these texts would be fully "euro-compatible" on 1.1.1999. It appears that the large majority of these texts only contain simple references to ECU amounts. At administrative level, contracts and other agreements signed with third parties (suppliers of goods and services, experts, etc.) have also been screened.

C.2. THE MAIN IMPLICATIONS OF THE EURO FOR EU LEGISLATION

a) References to amounts, ceilings, thresholds, etc. expressed in ECUs

19. The first and most obvious implication for EU legislation is caused by the fact of the ECU being replaced by the euro on 1.1.1999. At a technical level this is relatively easy to adapt to, given the fact that, unlike in the case

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[9] 1 Council Regulation 1103/97 of 17.6.1997, based on EC Art. 235, on certain provisions relating to the introduction of the euro (OJ L162 of 19.6.1997, pp. 1 - 3).
2 Council Regulation .../98 on the introduction of the euro, based on EC Art. 109.l(4), which will be adopted in mid-1998, once the list of participating Member States has been decided. See also: Resolution of the Council of 7 July 1997 on the legal framework for the introduction of the euro (OJ C236 of 2.8.97, pp. 7 - 12).

of national currencies, the rate of 1:1 is already known and indeed already certain.

In the case of simple references where the agreed Community figure for, say the minimum capital of a credit institution, is expressed as ECU 5 million, it is clear that with effect from 1.1.1999, the figure in the directive will legally speaking, have changed to euro 5 million as a result of the euro regulations, without any other action needing to be taken either at EU level or at national level, provided that national legislation is in compliance with Community law. Simple references are those references to current values where the value of the ECU figure has to be respected in national currency equivalent at all times (e.g. in the context of a regulation or directive which is applicable in all Member States).

20. The case becomes more complex if the common figure in ECUs in a Community legal instrument is accompanied (as a great many are) by a clause on the conversion to the respective national currencies. Typically such clauses provide a reference date (or formula) for converting ECU amounts into national currency, often allowing for some degree of rounding by national authorities (e.g. up to 10 % of the size of the amount) in order to arrive at suitable amounts expressed in national currency. The converted amounts are then frozen until the next review in one, two, three or occasionally more years (revision clause). In some cases, the clause requires Member States to adjust if its currency has fluctuated beyond a certain tolerance margin, hence leading to revisions without a fixed periodicity and actually at different times and frequencies for each Member State. Still other provisions use a conversion rate applicable on a given date without any possibility of revision. The table in annex 6 provides a typology of the most common conversion clauses in Community legislation.

21. Two principles need to be kept in mind when interpreting the relevant legislative texts:
    - under the principle of legislative continuity the amounts which have already been fixed under a directive at national level for a predetermined period of time should arguably not be changed immediately as a result of the introduction of the euro. Under this principle, the various amounts in national currency units could be retained for some time during the transitional period, notably because of the fact that national currency units will continue to constitute the reference in each Member State until the end of 2001, in view of the "no compulsion, no prohibition" principle;
    - under the principle of legislative coherence (and of equal treatment among the "ins") it is arguable that all such harmonised Community amounts should be "re-based" with effect from 1.1.1999, in order that the participating Member States should apply identical values from then onwards, hence ensuring equal treatment amongst them. The rounding option would consequently become void for the "ins", as there will no

longer be a possibility to convert at any different rates than the irrevocable conversion rates.

22. The preferred policy approach will be constrained by the above legal principles. The result will depend on the precise wording used in the legislation concerned. Because such monetary conversion clauses exist in large numbers and varieties, the Commission has worked out certain guidelines and decision criteria presented below, which are destined to ensure consistency across policy areas and to avoid unnecessary legislation. In certain policy areas, this approach has already been discussed with Member States in order to verify its practical implications.

    In those cases where amounts in Community legislation give rise to payment obligations (e.g. from the part of the Community budget), a strong case exists in favour of equal treatment, under the principle of legislative coherence, and hence the earliest possible alignment (i.e. on 1.1.1999).

    For amounts which are being used as legal references (e.g. thresholds, ceilings, etc.), the situation will notably depend on whether the text contains an automatic revision or currency fluctuation clause (which is not systematically the case) and whether rounding is allowed:

    - in the absence of a revision clause (e.g. the "fixed date" clause), the principle of continuity might lead to a situation where the amounts in national legislation would never converge in euro terms for the "ins", even after 1.1.2002. In those cases, specific legal steps (e.g. amendment of the conversion clause, possibly combined with the introduction of an automatic revision clause for the pre-ins) might be appropriate to ensure identical euro values, at least from 1.1.2002 onwards;
    - in the case of revisions with fixed frequency (e.g. pre-scheduled revisions the timing of which is fixed in advance under the instrument), the underlying approach should preferably be based on continuity in 1.1.1999, up to the first revision occurring after this date. At this first revision, the revision clause is generally no longer applicable for the "ins" to the extent that it has become void of purpose (it aims to compensate for currency fluctuations), and the conversion rates consequently become directly applicable. The revision process however remains unaffected as far as the "pre-ins" are concerned.
    - in the case of revisions with variable frequency (e.g. currency fluctuation clauses), the purpose of the clause consists in keeping the national figures as close as practicable to the figure in Community law. These clauses therefore become inapplicable for "ins" with effect from 1.1.1999 and participating Member States should thus proceed with the adjustment of their national figures to the national currency equivalent of the amount stated in Community legislation.

- Member States can however continue to apply rounding clauses if they so wish, as the underlying rationale for such clauses (i.e. determining suitable amounts in national currency units) continues to be applicable during the transitional period. For the "ins", such clauses however become void at the end of the transitional period and the Member States which have decided to make use of them should thus take steps to ensure that the euro amount contained in Community legislation also becomes applicable at the level of national legislation on 1.1.2002 at the latest. For consistency reasons, it would often be desirable for participating Member States to refrain from using the rounding faculty.

23. The consistent application of the guidelines described above will ensure overall coherence of Community legislation. In those instances where the outcome is not deemed appropriate from a policy point of view, specific measures (e.g. tabling of amendments, or even new legislation) will be put forward. A more extensive description of the guidelines is provided in annex 7. The outcome of the Commission's detailed examination of Community legislation, and any complementary measures envisaged, is described in a series of technical fiches (see annex 8) which cover different areas of Community policy. The fiches moreover illustrate the application of the guidelines.

    In most instances, these fiches take the form of "clarification notes", providing the legal interpretation of the meaning and effect of the various clauses in the light of the introduction of the euro. In other cases, the fiches describe why and when the Commission intends to table legislation. In a number of cases, the Commission has already discussed certain legal interpretations with the Member States, e.g. in the framework of Committee meetings. All such texts are currently available[10].

    In addition, much Community texts require implementation by Member States (e.g. transposition of a Directive into a national legal text, regular update as necessary of "current value" clauses in Directives). Such texts should be continuously monitored for conformity by Member States.

24. Numerous references exist in EU legislation to "national currencies". These references do however not become obsolete as far as the "ins" are concerned by the mere fact that several Member States will have the same currency as from 1 January 1999. They clearly remain in full effect for the "pre-ins"; as for the "ins" they clearly refer to the euro as the currency and will generally be interpreted as referring to the "national currency unit" of the euro until 2002.

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[10] Insurance Committee (XV/2049/97), Banking Advisory Committee (XV/1057/97), Consultative Committee on Public Procurement (CC/97/11 and CC/97/26), Consultative Group on Accounting Legislation (XV/7002/97).

b) Cases requiring a specific solution

25. In a small minority of the cases which have been screened, the result of applying continuity would lead to an unsatisfactory result, either by not providing the answer to a technical problem or by leading to a legal or economic anomaly. Such cases are relatively small in number and will have to be dealt with on a case by case basis. They often require ad hoc legislation and are also covered in annex 8.

An example is the difficulty which can arise when reference is being made to specific interest rates (e.g. in the context of penalty clauses). Some of these rates will no longer be available once the euro is introduced. In some cases, a major revision will prove necessary as will for instance be the case for the present system of minimum interest rates (called CIRR rates), which applies to the various currencies being referred to in the OECD Arrangement on Officially Supported Export Credits. The euro's entry on the stage will require a rethinking of existing methods for setting these minimum rates, as far as participating Member States are concerned (see fiche on export credits in annex 8).

c) Implications for agreements with third countries

26. A large number of bilateral agreements exist between the Community and third countries covering diverse fields (e.g. insurance, fisheries, etc.). Usually these agreements include monetary references and all therefore affected by the introduction of the euro. Having until the end of 1998 been based on financial obligations and references expressed in ECUs, they will, without any specific action by any party, be automatically converted into euro by the euro regulations. As a result of international monetary law doctrine, which is widely accepted as covering the ECU, there is formally speaking no need to "negotiate" the change to euro with the partners involved. Indeed this is fortunate given the long procedural steps that it would take to formally amend such agreements. For practical reasons, some form of information towards the parties concerned in advance of 1.1.1999 would be advisable (see fiche on international agreements in annex 8).

D. OPERATIONAL ASPECTS OF THE CHANGEOVER

D.1. TREASURY AND FINANCIAL MANAGEMENT

27. As a result of the situation described in section B.1, whereby virtually all inflowing revenues are contributed in national currencies, while about half of the expenditure is paid out in ECUs, the Commission's treasury department is presently confronted with an important and structural shortfall of ECUs. Because of this ECU "deficit", the treasury needs to buy between ECU 33-35 billion per year on the open market, normally using the currencies of the Member States which are net contributors to the Budget. The changeover to the euro, and the accompanying inflow of resources paid in euros, will tend to close the loop and thus drastically reduce the need for these massive currency purchases. As from the start of Stage Three, the Commission's foreign exchange transactions will thus represent a much smaller proportion of budgetary receipts and payments than is presently the case. The significance of this reduction will notably depend on the respective sizes of the euro and non-euro areas.

28. A second factor will contribute to this reduction of foreign exchange activities. Member States pay their contributions to the Budget via "own resource" accounts, which are either kept at the Treasury of the Member State concerned, or otherwise at their central bank. The Commission's treasury department subsequently draws on these accounts in order to cover the Community's payment obligations. Once or twice a month, the Commission issues a series of transfer orders between these accounts, so as to ensure that the outstanding amounts on these 15 accounts are roughly proportional to the budgetary contribution of each Member State[11]. The foreign exchange operations resulting from this monthly rebalancing exercise (which currently represents about ECU 1.5 billion per month on average) will be greatly reduced from 1 January 1999 onwards, as many transfers will simply be carried out in euros without the need to convert currencies.

29. The overall reduction of the number of currencies which results from the introduction of the euro will have further beneficial effects in terms of currency and account management. The Commission presently keeps at least two commercial bank accounts in each Member State, one of which is used for operations in national currency, while the other is used for ECU operations. In the participating countries, the two accounts will eventually be merged into a single one (by 1.1.2002 at the latest). It is being actively considered to proceed with this simplification at an early stage of the

[11] This rebalancing requirement results from Art. 12.4 of Council Regulation 89/1552 of 29.5.89 on the system of the Communities' own resources.

transitional period. Discussions with financial institutions as regards the practical aspects of payment operations during the transitional period and beyond are ongoing.

30. In its role of borrower under the EC, ECSC and Euratom Treaties, the Commission will determine its position as regards the redenomination in euros of its outstanding debt issues in the light of the decisions of participating Member States on the question of redenomination. As it stands presently, most of the debt issued by the EC, the ECSC and Euratom will have been redeemed prior to 1999. A majority of the remaining debt is denominated in ECU and does not require any specific action at the time of the changeover. Other remaining debt consists of small issues and consequently redenomination is not seen as an essential priority.

On the lending side, the debtors might be willing to accept the redenomination of their debt in euros. Debtors will also be reminded of their right to switch to the euro for all payments relating to loans expressed in the currencies of participating Member States.

31. The Commission through its treasury department intends to establish working relations with the ECB as far as the conduct of its financial operations are concerned, notably with a view to further simplifying and rationalising existing money flows whenever possible and appropriate. The Commission is currently discussing with the EMI how it could participate, on a voluntary basis, in the ECB's future system of notification of large foreign exchange transactions, which will form part of the Bank's monetary policy supervision instruments.

D.2. STATISTICS

32. A significant number of Eurostat's statistical time series are expressed in monetary units and therefore directly concerned by the changeover. Some of these monetary series are expressed in national currencies (primary series), while others are expressed in ECUs (common reference series). The former are usually the primary series, while the latter are mostly used for comparisons and/or aggregations (e.g. computation of Community GDP). Other series, such as the ones on price indices, are also concerned, although in an indirect manner.

33. Eurostat's preparatory work on the practical consequences of the changeover to the euro has been conducted in the framework of the Working Group of Statistics within the EMI (where IMF and BIS also participated). Member States have also been associated through the Committee on Monetary, Financial and Balance of Payments Statistics. In addition, Eurostat has proposed the creation of a specific LEG (Leadership

Group; a new form of partnership between Commission and Member States) on the euro. The LEG will prepare input which will help Member States for the changeover of their national statistics to the euro. In the present case, INSEE in France will take the lead, while Finland, Germany, Italy, Luxembourg, the Netherlands and Spain are also represented in the group.

34. The main operational conclusions reached so far by Eurostat are summarised hereunder:
    - primary time series (expressed in national currencies) of participating Member States will be rescaled, by dividing them by the conversion rate, as far as the data prior to 1.1.1999 are concerned (data expressed in the currencies of the "pre-in" countries remain unaffected): this ensures continuity of statistical figures and also leaves all statistical properties of the series intact (e.g. growth rates, etc.). Three other solutions are still being discussed (keeping heterogeneous series, publishing only the data in ECUs, developing a specific solution for each series);
    - common reference time series (expressed in ECU at the exchange rate published in the O.J. of the EC) remain unaffected as far as the pre-1999 figures are concerned. Subsequent data will be expressed in euros.
    - new statistical aggregates will be produced for the euro zone, together with corresponding statistics for the pre-in countries which do not yet belong to this zone.

    These recommendations apply only for the publication of the data. A common conversion policy is to be preferred for the whole European Statistical System.

35. The fixing of exchange rates and their publication have to be ensured for a variety of purposes, notably references in legal texts. Following the request from market practitioners for the daily publication of reference rates for the euro by an official and authoritative body, the EMI has stated its intention to propose that the ESCB would be responsible for the publication of these rates (cf. EMI policy message issued on 1 July 1997). This will also ensure legal continuity in respect of the present daily publication by the Commission of ECU exchange rates, which are often referred to in Community legislation.

    The need for appropriate interest reference rates for the euro also merits attention, notably because of their application in certain areas (export credits, ..) and by external users. This would moreover ensure continuity in respect of the present ECU Yield Curve model. Different technical and methodological questions are currently being examined.

D.3. INFORMATICS

36. The introduction of the euro will have an impact on existing information systems in the different Community institutions, as will the millennium problem which is largely concurrent. The necessary adjustments to computer programmes are in general prepared and implemented in a decentralised manner.

As far as the Commission is concerned, a specific working group "Euro/Year 2000" has been created in order to support the efforts of the different services in preparing their systems for both events. The group is establishing an inventory of all major systems and programmes which will be concerned be either of these two questions. From a first survey, it appears that the efforts in the informatics field relating to the euro will be concentrated in the following areas: statistical data bases, treasury operations (budgetary receipts and payments), contract follow-up and agricultural monetary systems. In each of these areas, it is foreseen that work will be completed in time for the transition to Stage Three.

Finally, the Commission is preparing the integration of the euro symbol into the standard Commission informatics configurations.

D.4. OTHER

37. With the start of Stage Three approaching, the Commission is becoming increasingly involved in information and communication activities relating to the practical aspects of the changeover and the preparation of enterprises and citizens in this respect. Technical documents covering legal or financial subjects, which were originally prepared for internal Commission use, are often of interest for outside parties. Such papers are therefore increasingly made available for circulation outside the institution, particularly when they can assist third parties in their preparation to the changeover. Some of these internal reports actually result from specific inquiries or requests for clarification addressed to the Commission.

A special series of euro-related publications, entitled EURO PAPERS[12], has recently been launched in order to circulate documents of a technical or practical nature. The new series aims to assist economic agents and other parties in their preparations for the transition to the euro. In addition, EUROPA, the Commission's official Internet server, and the EURO site in particular (http://euro.eu.int) is increasingly being used to publicise these documents and all other material aimed at the general public.

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[12] N°1 "External Aspects of Economic and Monetary Union", N°2 "Accounting for the introduction of the euro", N°3 "The impact of the introduction of the euro on capital markets", N°4 "Legal framework for the use of the euro", N°5 "Round Table on Practical Aspects of the Changeover to the euro", N°6 "Checklist on the introduction of the euro for enterprises and auditors".

38. As all Community institutions and organs are concerned by the changeover to the euro, albeit to varying extents, an informal inter-institutional network of contact points has been created with a view to foster the exchange and dissemination of information. The network will also ensure coordination of all actions of common interest (e.g. staff information campaign on the euro). Other fora for inter-institutional cooperation are the "Collège des chefs d'administration" (notably dealing with remuneration issues) and the "Comité Interinstitutionnel de l'Informatique".

E. CONCLUSIONS

39. The Commission's overall assessment of the impact and practical consequences of the changeover to the euro is largely positive, both in relation to the effect on Community policies and to the internal functioning of the Commission and the Community institutions in general:
    - the impact on the Community budget will be beneficial, both on the revenue and expenditure side: the exchange risk borne by the Community budget will for instance be substantially reduced, currency management will be facilitated, etc.;
    - certain policy areas will be considerably simplified; the agrimonetary regime probably constitutes the most prominent example;
    - while certain specific tasks will have to be undertaken in order to prepare a smooth changeover, the transition effort appears to be quite reasonable in relation to the benefits. For example, specific changeover legislation will be extremely limited, while the operational changeover is not expected to cause any disruptions provided ongoing preparations continue as scheduled.

    As far as the legislative changeover is concerned, the Member States will have a greater part of the task. This will have to be tackled in the context of their overall review of national legislation, in some cases with effect from 1.1.1999, in most cases with effect from 2002 or before.

40. The Community's changeover effort will largely be concentrated before 1.1.1999, contrary to the changeover at national/regional/local level, where the transition effort will be spread over the entire length of the transitional period, and in a few instances be concentrated towards the end of it (1.1.2002), when national currency units will start to disappear. As Community financial operations are mostly ECU-based, the changeover to the euro will almost exclusively take place on 1.1.1999 i.e. without transitional period. Despite the fact that most adjustments will thus be "front loaded", the introduction of the euro will occur in a smooth and orderly fashion as far as Community policies and legislation is concerned. This will also apply to the internal organisation and functioning of the different Community institutions.

EXECUTION OF PAYMENTS FROM THE 1996 BUDGET

ANNEX 1A

Sub-Sections	Description	Payments in ECUs		Payments in National Currencies		Total	
		ECU million	%	ECU million	%	ECU million	%
Part A	Administrative appropriations	**639.80**	**24.03 %**	**2023.10**	**75.97 %**	**2662.90**	**100.00 %**
Part B	Operating appropriations						
B0	Guarantees, reserves	936.40	100.00 %	0	0 %	936.40	100.00 %
B1	EAGGF Guarantee Section	40.10	0.10 %	39041.80	99.90 %	39081.90	100.00 %
B2	Structural operations, structural and cohesion expenditure, financial mechanism, other agricultural and regional operations, transport and fisheries	24142.30	98.00 %	493.60	2.00 %	24635.90	100.00 %
B3	Training, youth, culture, audiovisual media, information and other social operations	654.30	95.55 %	30.50	4.45 %	684.80	100.00 %
B4	Energy, Euratom nuclear safeguards and environment	163.80	94.35 %	9.80	5.65 %	173.60	100.00 %
B5	Consumer protection, internal market, industry and trans-European networks	538.20	96.68 %	18.50	3.32 %	556.70	100.00 %
B6	Research and technological development	2615.90	90.27 %	281.90	9.73 %	2897.80	100.00 %
B7	External actions	3642.20	97.07 %	110.10	2.93 %	3752.30	100.00 %
B8	Common foreign and security policy	51.40	100.00 %	0	0 %	51.40	100.00 %
	Total Part B	32784.60	45.05 %	39986.20	54.95 %	72770.80	100.00 %
	Total Parts A + B	33424.40	44.31 %	42009.30	55.69 %	75433.70	100.00 %

EXECUTION OF PAYMENTS FROM PART A OF THE 1996 BUDGET

ANNEX 1B

Sub-Sections	Description	Payments in ECUs		Payments in National Currencies		Total	
		ECU million	%	ECU million	%	ECU million	%
A1	Expenditure relating to persons working with the institution	94.20	5.54 %	1606.90	94.46 %	1701.10	100.00 %
A2	Buildings, equipment and miscellaneous operating expenditure	165.80	47.50 %	183.20	52.49 %	349.00	100.00 %
A3	Expenditure resulting from special functions carried out by the institution	193.80	97.05 %	5.90	2.95 %	199.70	100.00 %
A4	Inter-institutional cooperation, inter-institutional services and activities	50.40	64.53 %	27.70	35.47 %	78.10	100.00 %
A5	Data processing	95.20	97.64 %	2.30	2.36 %	97.50	100.00 %
A6	Staff and administrative expenditure of European Community delegations	14.60	8.59 %	155.30	91.41 %	169.90	100.00 %
	Publications Office	25.80	38.17 %	41.80	61.83 %	67.60	100.00 %
	Total Part A	**639.80**	**24.03 %**	**2023.10**	**75.97 %**	**2662.90**	**100.00 %**

ANNEX 2

Impact of the changeover on policy areas managed separately from the Community budget

A. ECSC

A.1. Revenues and expenditure

Budgetary revenues are twofold:

- the levies on the production of coal and steel, which are paid by the enterprises in the two sectors; it is however expected that these levies will be abolished as from 1998;
- financial revenue resulting from the investment of the ECSC reserves (essentially the guarantee fund for borrowings);

Expenditure covers the following items:

- social measures (readaptation, social housing for coal and steel workers);
- research programmes in the two sectors;
- interest subsidies for job-creating reconversion loans.

As the ECSC has a commitment budget, all expenditure items are solely accounted for in commitment terms. Outstanding commitments are written into the passive side of the ECSC balance sheet and subsequently paid (or otherwise cancelled in whole or in part).

A.2. Legal framework

The legal framework for the ECSC's budgetary activities[13] specifies that the levies on ECSC products are expressed in European units of account (subsequently converted to ECUs by virtue of Decision 3334/80/ECSC), while all expenditure should also be expressed in European units of account (now ECUs). As a result, all exchange risks are fully borne by the contributors to and beneficiaries from the ECSC budget. Even when payment requests are expressed in national currency, they are limited to the ECU countervalue originally agreed, irrespective of exchange rate evolutions between the currency concerned and the ECU. As the euro Regulations will automatically convert references to the ECU into references to the euro, no specific action is required in order to ensure a smooth transition to the euro.

[13] Articles 49 and 50 of the ECSC Treaty, complemented with the decisions 2/52/ECSC and 3/52/ECSC (ECSC revenues) and decision 3289/75/ECSC (expenditure).

B. The European Development Fund (EDF)

B.1. Revenues

The contributions from Member States are paid in ECUs, except for Germany which pays in national currency. All references to amounts in the Lomé Convention are also expressed in ECUs. The changeover to the euro will thus be automatic and without apparent difficulties.

B.2. Payments

All bank accounts, as well as most treasury operations, are ECU-based. A certain volume of operations is carried out in Community currencies, and occasionally also other ones (USD, YEN, ...).

Local projects are often paid in the currency of the recipient ACP country. As a result of conventions with local banks, the accounts which the EDF keeps in these countries are however always expressed in European currencies and the switching of these accounts to the euro should occurs without difficulty.

ESTIMATED AGRIMONETARY GAPS FOR 1997 BASED ON THE SITUATION OF 01/10/1997

	BLF	DRK	DM	DRA	ESC	FF	FMK	HFL	IRL	LIT	ÖS	PTA	SKR	UKL
A. Agrimonetary gaps between RMR and ACR (% of ACR)														
1) for market prices and amounts	0.82	0.79	0.77	0.37	0.10	1.19	2.54	0.78	0.09	2.67	0.75	0.67	5.25	1.09
2) for per ha aid for arable crops	0.58	3.25	-0.90	0.37	0.10	1.19	2.54	-0.85	8.56	11.23	-0.91	0.67	8.91	15.03
3) for aid per head of livestock and structural aid	0.58	3.25	-0.90	0.37	0.10	1.19	2.54	-0.85	8.56	5.37	-0.91	0.67	15.02	14.38
B. Annual cost for a 1 % gap[14] (ECU million / %)														
1) for market prices and amounts	11.33	6.83	22.84	19.21	3.00	32.59	1.16	14.98	10.05	27.83	1.74	19.07	1.26	11.41
2) for per ha aid for arable crops	1.56	6.11	30.88	5.44	1.86	46.47	2.12	1.39	1.09	18.28	3.35	16.65	4.31	16.20
3) for aid per head of livestock and structural aid	1.34	0.64	6.61	1.07	2.20	11.53	2.05	0.38	7.25	5.06	3.61	6.45	1.61	7.11
C. Total annual cost[15] (ECU million)														
for agrimonetary gaps	10.90	27.32	-16.1	9.57	0.68	108.06	13.50	10.20	72.27	306.67	-5.05	28.34	69.21	358.15
Total EU-15 (ECU million)	**993.72**													

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[14] Estimated according to the 1997 budget. (**ACR**: agricultural conversion rate ; **RMR**: representative market rate)

[15] Part C is calculated by multiplying the corresponding amounts in parts A and B of the table, and by adding up the three products obtained.

ANNEX 4

Changeover of remunerations: related issues

1. Remunerations outside the Union

   These remunerations are paid in BEF at the weighting factor applying to Belgium. On request, part of the remuneration can be paid out in local currency at the remuneration rate and local weighting factor.

2. Mission expenses

   Within the EU: all lump sum amounts and ceilings are expressed in BEF and are paid out at the monthly exchange rate.

   Outside the EU: all amounts are expressed in ECUs and will automatically be converted to euros from 1.1.1999 onwards.

3. Free lance interpreters

   The current agreement applies until 31.12.98 and will be renegotiated in the course of 1998. Increases are currently weighted according to the relative weight of the different currencies in the ECU basket. Payments are made in ECUs and will thus convert to euros.

4. Health insurance scheme

   All ceilings are expressed in BEF. Payments are made at the accounting rate.

ANNEX 5

The introduction of the euro in Community secondary legislation

Under the Madrid scenario[16] for the changeover to the single currency it was decided that a Council Regulation entering into force on 1 January 1999 would provide the legal framework for the use of the euro. It is against the background of the Madrid scenario and the two euro regulations[17] which will implement the scenario, that the implications for existing EU legislation have to be assessed.

The euro regulations have three main consequences for EU legislation:

(1) The principle of continuity of legislation

Regulation 1103/97 on certain provisions relating to the introduction of the euro provides that *"legal instruments"* are to continue unchanged by the introduction of the euro, except of course for the substitution of the euro in place of the existing currency unit (national currency or more frequently in EU legislation, the ECU). This will be the case *unless* the legislator decides to introduce some change. There are obviously limits to the legislators' discretion here; e.g. a change which was in conflict with the very principle of continuity would not be acceptable.

(2) "No compulsion and no prohibition"

This approach was established by the Heads of State in the Madrid scenario in order to offer the maximum possible freedom to economic agents to manage the pace of their transition, while at the same time guaranteeing that those who wished to make a late transition at the very end of Phase C, should be able to continue using their familiar national currency unit until the end of that time. In the context of the euro regulation the principle of freedom to use the euro unit in contractual relations implies the consent of a counterparty.

In the legislative setting the euro regulations make it clear that both the national currency unit and the euro unit can be used during the transitional period to set up new legal instruments. The use of the euro unit can however not be imposed during this period other than in the clearly defined and limited circumstances described in the euro regulations; public administrations can however decide to add the euro unit (or allow for the use of the euro unit) as an alternative option for citizens, companies etc.

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[16] Approved by the Heads of State and Government at the summit in Madrid of December 1995.

[17] Council Regulation 1103/97 of 17.6.1997 (OJ L162 of 19.6.1997, pp. 1 - 3) and draft Council Regulation .../98 (see Council Resolution of 7.7.1997 on the legal framework for the introduction of the euro; OJ C236 of 2.8.1997, pp. 7 - 12).

(3) Derogations to "no compulsion" and the standstill for legislative measures imposing use of the euro unit

The draft euro regulation under Article 109l(4) Treaty establishes that Member States may not legislate to impose the use of the euro, except by a co-ordinated procedure involving a common timetable, apart from certain exceptions explicitly provided for in the second regulation (e.g. payments by crediting an account, redenomination of outstanding debt, changeover of organised markets and payment systems).

ANNEX 6: TYPES OF EURO SENSITIVE THRESHOLD AND CEILING CLAUSES IN LEGISLATION

Timescale: PRE-EMU ECU & national currency equivalents	Date: 01.01.99 ECU = euro National currency into euro	Timescale: CHANGEOVER PERIOD National Currency Unit ("NCU") expression of euro, at conversion rate	Date 1.1.02 End of National Currency Units (NCUs)
1. Current value clauses (e.g. Banking)	Continuity clearly applies. These clauses are straightforward and continue to apply equally to both "ins" and "outs"		
2. Fixed date clauses[18] (e.g. Insurance 76/580 and Cultural Objects)	Continuity clearly applies. This type of clause will perpetuate differences (very large in cases such as this 1976 insurance directive) between the values in national implementing legislation.		
3A. **Automatic revision clauses** with a timetable and complete mechanism for converting into national currency (e.g. Public Procurement and most Insurance directives)	E.g. Procurement: revision every 2 years based on fluctuations in past 2 years. E.g. Insurance: annual revision on 01.01 as at specific date	At the first revision to take effect on or after 01.01.1999 it is considered that conversion clauses should not apply to 'ins'. The argument for continuing to apply the clause for "ins" is overridden by the main object of the directive i.e. to set a harmonised threshold. For "outs" the clause continues to apply.	
3B. **Currency fluctuation clauses** (e.g.; Securities, 2nd. Company Law)	These clauses require Member States to take action to adjust their threshold/ceiling if their currency has fluctuated beyond a tolerance margin	The rationale of fluctuation clauses ceases for "ins" w.e.f. 01.01.1999. The underlying legal basis for the amounts in national currency in the "ins" national laws (if different from the ECU/euro amount in a directive) also ceases. "Ins" should use the conversion rate of the euro regulation w.e.f. 01.01.1999.	
4. "**Rounding**" **clauses** to reach a convenient national currency amount. (e.g. Accounts).	These clauses are intended to assist the national legislator to translate a round ECU amount into a convenient national currency amount. As such they can be applied from 01.01.1999 until 31.12.01.		Clauses cease to apply w.e.f. 01.01.2002 (application of clause could only frustrate object of directive).

18 Some of these also have a clause providing that the Council may revise the thresholds on a Commission proposal

ANNEX 7

Guidelines on the legal changeover of monetary references

A. INTRODUCTION

In view of the multiplicity of monetary references (e.g. in the form of thresholds, floors and ceilings, payment and reporting obligations, etc.) in Community legislation, either expressed in ECUs and/or in national currencies, the Commission has developed some guidelines on the interpretation of these references in order to ensure a consistent application across policy areas (cf. section C.2 of the communication).

It appears that in many instances the interpretation of monetary references will be affected by the introduction of the euro, although in general no specific legislation will have to proposed as the meaning of the clause can be interpreted in a robust and legally consistent manner. Individual interpretations of such clauses are provided in annex 8, while the present annex provides a more general presentation of the guidelines.

B. MONETARY REFERENCES

Monetary references in Community legislation are, as a general rule, defined in ECU terms and will therefore automatically change to euro as from 1.1.1999 without apparent problems. Legal difficulties can however arise in a second stage because of the need to convert some of these amounts into national currencies.

B.1. Simple references

Simple references to amounts in ECUs are those where there is no clause in the legislation to determine the conversion of the ECU amounts into national currencies. These simple references can be of two types:

- In its most simple form, reference amounts in ECUs apply directly (e.g. an amount both established and paid out in ECUs by the Community budget). It is clear that in such cases the introduction of the euro will not require any specific steps at Community level;

- In other instances, conversion into national currencies, even if not expressly specified in the EU legislation, is implicit in the nature of the legislation, for example whenever a Community legal act defines a ceiling or threshold which needs to be satisfied at all times, without mentioning any conversion arrangements (e.g. all operations exceeding a certain threshold labelled in ECUs need to be reported). As noted above, no specific steps are necessary at Community level as it is up to Member States and parties concerned to ensure at all times that the provision of the Community legislation is being applied, and that the amounts expressed in national currency correspond to the ECU values. This will continue from 1.1.1999 with the simple replacement of the ECU amount by a euro amount. National authorities are however advised to check national implementing rules to ensure that they are indeed up to date on 1.1.1999. It should also be noted here that the practical difficulties resulting from exchange rate fluctuations will disappear for the "ins", as the euro becomes their national currency from 1.1.1999 onwards. For the "pre-ins", the situation remains as before.

B.2. References to ECU amounts, with associated provisions on conversion in national currencies

Unlike simple ECU references discussed in the previous section, many references to ECU amounts in Community law are accompanied by Community provisions on conversion of the ECU amounts into national currencies. Many references in legislation covering the internal market, the customs code, indirect taxation, etc. are of this kind. Typically, these provisions have one or a combination of the following elements:

- Provisions relating to the exchange rate (and in some cases its method of calculation) to be used for the conversion from ECUs to national currencies;

- Provisions establishing a periodical revision of the exchange rates to be used (and hence of the amounts expressed in national currencies), in order to adjust for exchange rate fluctuations. These revisions either occur with a pre-established frequency (e.g. every two years) or as soon as a certain fluctuation margin has been exceeded;

- Limited rounding options (e.g. maximum 10 % up or down), designed to allow for the establishment of convenient amounts in national currencies.

In the case of participating Member States, it would seem logical to ensure that discrepancies between monetary references in Community law and in national law, and which simply result from past exchange rate fluctuations or from rounding, are eliminated within a reasonable period.

At least two general policy approaches could be followed to this effect:

- One could for instance seek an early alignment of monetary references in Community and national law i.e. with effect from 1.1.1999. This would require specific legislation at EU level to amend the relevant provisions. This approach would be likely to pose fewer problems in cases where there are no provisions on periodical revision. However, even in this case the equivalent of the (by then) euro amounts in the national currency units of "ins" would not be known until 1.1.1999 as the conversion rates will only be determined on this date.

- A second option would be to leave the outcome entirely to the principle of continuity as confirmed in the euro Regulations. While this would work well for cases where there are provisions on periodical revision due to take place within the transitional period, absence of a revision clause in the legislation would risk that no alignment of amounts in "in" Member States would ever take place.

It is clear that neither of these policy options produces an entirely satisfactory result for all cases. A pragmatic approach is therefore necessary, based upon the particular nature of the provisions. In this respect, a policy distinction should be introduced between:

- amounts giving rise to payment obligations (e.g. payments made by the Community budget under the agrimonetary rules). In such cases, strong reasons exist to bring them in line as soon as possible i.e. on 1.1.1999;

- amounts being used as legal references (e.g. thresholds, etc.), where the need for early alignment is usually less compelling, particularly if one keeps in mind that the amount expressed in national currency will continue to be the reference in each Member State during the transitional period, in compliance with the "no compulsion, no prohibition" principle.

In relation to legal references, the following guidelines could be followed:

- for legislation without a revision clause (or with the next revision date after the end of the transitional period), a legislative proposal is required in order to ensure a revision at the latest by the end of the transitional period (1.1.2002). After the transitional period, uniform euro amounts would thus apply. In practice, only a few cases of this nature exist.

- for legislation including a revision clause, the introduction of the euro would be catered for at the scheduled revision date (unless this revision occurs after the end of the transitional period). At the date of the revision, the conversion rates would become directly applicable for the participating countries, thereby replacing the specific method described in the legislation, as this method would be void by then. If this legislation includes a rounding option clause, participating Member States would be allowed to continue to make use of this clause. At the end of the transitional period, this rounding clause would become void for them as well and, to the extent they would have made use of it, specific steps should thus be taken to revert to the euro value contained in the directive.

These guidelines ensure that all legal references are eventually equalised in the participating Member States, at the latest when the transitional period comes to an end. The amount of extra legislation remains limited (because most of the legislation has within it the necessary flexibility to deal with the changes), which minimises any possible risks of contention in sensitive areas. Non-participating Member States in particular have an interest in keeping "extra" legislation to a minimum as they will not derive any benefit from it.

More generally, a sufficient degree of flexibility should be allowed in the implementation of the proposed approach, notably in order to take account of sectoral specificities, possible difficulties of implementation, overall legislative coherence in the policy area concerned, etc.

C. INTERPRETATIVE NOTES

Following a detailed screening of Community legislation, it appears that the number of cases where specific legislation is necessary are rather limited in number. However, it is appropriate to provide the Commission's interpretation of certain legal provisions (including details of this approach), notably in order to foster consistent applications and interpretations by all parties concerned and thereby to increase legal certainty. Annex 8 therefore includes a description, in the form of an interpretative or clarification note, of all legal texts which do not require a legislative amendment, but need to be interpreted and applied consistently beyond 1 January 1999. These interpretations are based upon the guidelines described under B above.

Similarly, the numerous references in EU legislation to "national currencies" do not become obsolete by the mere fact that several Member States will have their national currency in common. They clearly remain in full effect for the "pre-ins"; as for the "ins" they clearly refer to the euro as the currency and will be interpreted as referring to the "national currency unit" of the euro until 2002.

ANNEX 8

OVERVIEW OF THE IMPACT OF THE CHANGEOVER ON COMMUNITY LEGISLATION

CUSTOMS

Customs Code

COMMON AGRICULTURAL POLICY

Agrimonetary regime

FREEDOM OF MOVEMENT FOR WORKERS

Social security of migrant workers

INTERNAL MARKET

Cultural objects
Public procurement
Banking
Insurance
Securities
Company Law
Accounting
Defective products
Intellectual property

INDIRECT TAXATION

VAT legislation

COMMON COMMERCIAL POLICY

Export Credits

EXTERNAL RELATIONS

International agreements

CONSUMER PROTECTION

Consumer credit and certain other contracts

BUDGETS

Financial Regulation

ADMINISTRATIVE EXPENDITURE

Remunerations and pensions

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**CUSTOMS**
MEASURES CONCERNED:	**Customs Code**

A. DESCRIPTION

1. Council Regulation (EEC) No 2913/92, as amended by Regulation (EC) No 82/97, establishes the Community Customs Code. Implementing provisions are contained in Commission Regulation (EEC) No 2454/93, as last amended by Regulation (EC) No 1427/97.

   Council Regulation (EEC) No 918/83, as last amended by Regulation (EC) No 355/94, sets up the Community system of reliefs from customs duty.

   Council Regulation (EEC) No 3911/92, as last amended by Regulation (EC) No 2469/96, lays down rules concerning the export of cultural goods.

B. COMMENTS

2. Article 18(1) and (2) of the Community Customs Code stipulates that "the value of the ECU in national currencies ... shall be fixed once a month. The rates to be used for this conversion shall be those published in the Official Journal of the European Communities on the penultimate working day of the month" or "... in cases other than those referred to in paragraph 1 ... once a year. The rates to be used for this conversion shall be those published in the Official Journal of the European Communities on the first working day of October ...". These provisions will no longer be relevant from 1.1.1999 for Member States participating in EMU and will therefore cease to be applicable to them. This is because their purpose is to obtain the value of the ECU in national currencies in respect of the various amounts expressed in ECUs in the Regulation. Given that this value will be precisely known from 1.1.1999, there will no longer be any need to apply the provisions to the participating Member States[1]. Nevertheless, they will remain fully applicable to the currencies of non-participating Member States.

   The provisions on the rounding of amounts laid down by paragraph 3, under which customs authorities may round up or down the sum resulting from the conversion into their national currency of an amount expressed in

[1] Provisions which are similar to the ones in Article 18 are applicable for the conversion in national currencies of price undertakings (expressed in ECUs) signed between the Commission and certain exporters in the framework of anti-dumping procedures. The same reasoning thus applies for the conversion of these price undertakings as from 1.1.1999.

ECUs provided the rounded sum does not differ from the original amount by more than 5%, will remain in force since their underlying purpose (i.e. the need to obtain round figures in national currency) will still be relevant during the transitional period. At the end of that period, the participating Member States will directly apply the amounts in euros.

3. During the transitional period, businesses will be able to use either the euro or their national currency in filling out their customs declarations using the single administrative document (SAD). The SAD contains boxes designed for amounts which, at the present time, are systematically expressed in local currency. The document does not therefore contain any reference to the currency used. A legislative measures will be introduced to enable the euro to be used for this purpose.

4. Article 132 of Council Regulation (EEC) No 918/83 also lays down rules on conversion and rounding. For the reasons give above, the conversion rules will no longer be relevant with regard to participating Member States, while the rounding rules will continue to apply in their respect until the end of the transitional period. Once the transitional period has ended, the various euro amounts contained in the Regulation will be the only amounts referred to by participating Member States.

5. The Annex to Council Regulation (EEC) No 3911/92 contains monetary references combined with a rule that conversion is based on the exchange rate applicable on a specific date (1 January 1993), with no provision for rounding off amounts. However, this Regulation lays down that, every three years, the Council, acting on a proposal from the Commission, will examine and, where appropriate, update the amounts indicated in the Annex, on the basis of economic and monetary indicators in the Community. If no measures are taken to update these amounts and amend the date of conversion, participating Member States will, after 1.1.2002, apply amounts which might be significantly different to those previously applied in national currency. For evident reasons of legislative coherence, this situation should be remedied by amending Regulation 3911/92 ("Export of cultural goods") in the same manner as Directive 93/7 on the return of cultural objects unlawfully removed from the territory of a Member State, the provisions of which will be re-examined in a report to be produced in 1999 (the envisaged approach is explained in the fiche "Return of cultural objects").

C. ACTION AND TIMETABLE

6. No action is required at Community level concerning the conversion and rounding rules laid down by Article 18 of the Customs Code and by Regulation (EEC) No 918/83.

7. As far as introducing the euro into the SAD is concerned, Regulation (EEC) No 2454/93 (laying down provisions implementing Regulation (EEC) No 2913/92) will have to be amended in order to give

Member States the legal framework they require to make this change. An initial draft has already been discussed by the Customs Code Committee. It is expected to be adopted by the Committee by the end of 1997.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**COMMON AGRICULTURAL POLICY**
MEASURES CONCERNED:	**Agrimonetary regime**

A. DESCRIPTION

1. Introduction of the euro on 1 January 1999 will have various specific repercussions for agriculture. For example, in the case of participating Member States, the Community budget will refund expenses previously incurred in euros, and no additional adjustment or conversion will be necessary. For the other Member States, an exchange rate will in principle still be required, although that does not necessarily mean that the existing system will have to be kept as it is.

B. COMMENTS

2. With regard to payments to recipients, CAP legislation is based on Article 43 of the Treaty and is in general subject to the agrimonetary regime established by Regulation (EEC) No 3813/92. In the light of the two Council Regulations which form the legal framework for the use of the euro, the main difficulties which might arise in this area relate to:

   - the conversion rate to be applied in respect of non-participating Member States (future agrimonetary regime);
   - measures for dismantling monetary gaps for the currencies of participating Member States;

   All of these problems could be legally resolved by means of a single proposal for a Council regulation based on Article 43 of the Treaty.

3. As for the matter of meeting the Member States' expenses, each month the EAGGF Guarantee Section refunds CAP expenditure in national currency. For participating Member States, this will be done in euros from 1.1.1999. For non-participating Member States, the Commission takes the view that it would be appropriate to envisage a generalized use of the euro in this area, while the underlying financial commitments would continue to be expressed in national currency (the Community budget would therefore continue to bear the exchange risk).

C. ACTION AND TIMING

4. A Commission proposal on the future agrimonetary regime and transitional measures should not be presented until after it is known which Member States will participate in EMU and reliable indications have been obtained on the likely monetary gaps to be dismantled on 1.1.1999. In principle, it should be possible to transmit a proposal of this nature to the

Council at the end of the first half of 1998 with a view to its entry into force on 1.1.1999. It should deal with all the difficulties linked to the legislation based on Article 43 of the Treaty.

General use of the euro for the purpose of meeting the expenditure of non-participating Member States would require amendment of Regulation (EEC) No 729/70. Any proposal to this end will be presented at the same time as the revision of the agrimonetary regime.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA	**FREEDOM OF MOVEMENT OF WORKERS**
MEASURES CONCERNED:	**Social security of migrant workers**

A. DESCRIPTION

1. Council Regulation (EEC) No 574/72 of 21 March 1972 fixing the procedure for implementing Regulation (EEC) No 1408/71 on the application of social security schemes to employed persons, to self-employed persons and to members of their families moving within the Community.

B. COMMENTS

2. Article 107 of Regulation (EEC) No 574/72 lays down the practical arrangements for converting amounts from one national currency to another. The conversion rate is based on a monthly average of exchange rates for the currencies in question during a reference period of one month. The system involves fixing four times a year an average monthly rate applicable for three consecutive months. Thus, the average January rate is applied for all of the second quarter, the April rate for all of the third quarter, and so on.

3. The method of adjusting exchange rates described in Article 107 of the Regulation will cease to be relevant from 1.1.1999 for conversions between the currencies of participating countries and will be replaced by the provisions of Article 4 of Regulation 1103/97. However, it will continue to apply for conversions involving the currency of at least one non-participating Member State.

   The purpose of the conversion rule is to determine as precise a value as possible on the basis of exchange rates recorded over the reference period. However, from 1.1.1999 exchange fluctuations between participating currencies will no longer occur. Beyond that date, applying the conversion clause would run counter to its very purpose. The clause will remain fully applicable, however, to conversions involving non-participating currencies.

4. For conversions between a participating and a non-participating Member State, the euro will be the central currency from 1.1.1999. For payments between non-participating Member States, the existing system will remain in force.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES CONCERNED:	**Return of Cultural Objects Directive**

A. DESCRIPTION

1. Directive 93/7 on the return of cultural objects is directly affected, together with Regulation 93/ on the exportation of cultural objects. The relevant provisions are those specifying the application thresholds (Annex Point B) as well as the clause setting out the modalities for the conversion of the thresholds into national currency. Every 3 years (starting February 1996) the Council is to examine and if appropriate bring up to date, the thresholds. Moreover it is foreseen that the Council may on a proposal from the Commission (normally made in its report to be carried out every 3 years) amend the directive.

B. IMPACT OF THE CHANGEOVER

2. Unless action is taken to amend the directive (i.e. the fixed exchange rate of 1.1.1993) the "ins" will continue to apply different amounts from each other (different because based on 1993 exchange rates, rather than on the irrevocably fixed euro conversion rates of 1999). Moreover this situation will continue so long as the directive retains the clause in question.

C. ACTION AND TIMING

3. It is suggested that the Commission propose amending the directive to the effect that from 1.1.2002 the participating Member States will apply uniform thresholds in euros directly from the directive. Non-participating Member States will continue to convert into their national currencies, with the conversion being based on the value of national currencies against the euro on a convenient date (to be decided) in advance of the date for entry into force of the new thresholds, i.e.1.2002 (the new date will replace the 1993 conversion date against the ECU). The Commission is due to make its next triennial report on the directive in 1999. This would be the suitable occasion to propose such a change and would give ample time for it to be implemented nationally by 1.1.2002 (at the latest).

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES:	**Procurement Directives**

A. DESCRIPTION

1. The Directives 93/36 (Supplies), 93/37 (Works), 92/50 (Services), all three of which have been amended by Directive 97/... adopted on 13.10.97, and Directive 93/38 (Utilities) constitute the EC's public procurement legislation affected by the changeover to the euro. The relevant provisions are the ones specifying the application thresholds[20], as well as the clauses setting out the modalities for the revision of the thresholds[21].

B. SUMMARY OF THE EFFECTS OF THE CHANGEOVER

2. The thresholds will be expressed in euros as from 1.1.1999 in accordance with the Regulation 1103/97 on certain provisions relating to the introduction of the euro. The national amounts, converted in accordance with the directive at the rate of exchange against the ECU under the conversion mechanism currently in force, will not be affected *until the next review date*.

3. All four Procurement Directives provide for a revision of the value of the thresholds in national currencies every two years. In addition, they specify that the value in national currencies shall be based on the average daily values of the currencies expressed in ECUs over the 24 months terminating on the last day of August immediately preceding the 1 January revision.

   The method of adapting the values of thresholds in national currencies to accommodate changes in exchange rates will have ceased to be relevant and therefore cease to be applicable to "ins" by the date of the review following the introduction of the euro on 1.1.1999 (next review 1.1.2000) but will continue to be relevant and valid for "pre-ins". This is because the purpose of the clause is to fix the expression of the value of the thresholds in terms of Member States' currencies as accurately as possible, on the basis of past performance i.e. average figures over the past two years. Given that by the revision date the "ins" will not have separate national currencies the possibility of currency fluctuation against the euro amounts in the directive will have ceased to exist. Therefore it would clearly be contrary to the sense of the clause to apply it to "ins". For "pre-ins" the calculation continues as before. The figures for "ins" will be expressed in

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[20] Article 5(1)(a) of Directive 93/36, Article 6(1) of Directive 93/37, Article 7(1) of Directive 92/50, Article 14 of Directive 93/38.

[21] Article 5(1)(c) of Directive 93/36, Article 6(2)(a) of Directive 93/37, Article 7(8) of Directive 92/50, Article 38 of Directive 93/38.

national currency units at the conversion rate applied to the threshold amounts in euros as appearing in the directive. The results of the reference value calculations (and, for "ins" of the conversion rates in national currency units from the euro amounts) will continue to be published in the Official Journal for the use of Member States.

4. The first revision subsequent to the introduction of the euro will occur on 1.1.2000. By virtue of the principle of legal continuity, all Member States will implement the public procurement Directives during the preceding two-year period (between 1.1.1998 and 1.1.2000) on the basis of the threshold values expressed in national currency units resulting from the previous revision dated 1.1.1998. At the 1.1.2000 revision the method prescribed by the directives will not apply to participating Member States but will continue to be applied to non participating Member States to calculate the value in national currencies of the directive thresholds, as follows: The calculation will be based on the average daily values of their currencies *against the ECU* for the 16 months before 1 January 1999 (1 September 1997 - 31 December 1998) together with their average daily values *against the euro* for the remaining 8 months (1 January 1999 -31 August 1999) of the 24 month review period. For participating Member States the euro amounts of the thresholds will apply directly.

C. <u>ACTION AND TIMING</u>

5. Member States' representatives discussed the issue on the basis of a clarification note on 30 September. Member States could in general agree with the interpretation. Legislative action is not required (assuming that the interpretation will be accepted by all Member States).

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES:	**Banking Legislation**

A. DESCRIPTION

1. The Directives 77/780/EEC & 89/646/EEE; 92/30/EEC; 92/121/EEC; 94/19/EEC; 91/308/EEC; 93/6/EEC 93/6/EEC, 93/6/EEC, 89/647/EEC & 96/10/EC, 89/647/EEC; 92/121/EEC; 93/22/EEC; 77/780/EEC; 92/30/EEC; 95/26/EC; 86/635/EEC constitute the Community's banking legislation which is affected by the changeover to the euro.

B. SUMMARY OF THE EFFECTS OF THE CHANGEOVER

ECU references

2. An examination of all references to the ECU in banking supervision directives together with other possible implications for those directives of the introduction of the single currency has been carried out. The main conclusion of this work is that the two euro regulations themselves will resolve the very large majority of potential issues without further action. In particular it is clear under article 2 of Council Regulation 1103/97 that all references to the ECU automatically become references to the euro.

3. The fact that all of the banking thresholds are *simple thresholds* i.e. they have to be respected in national currency equivalents at all times means that the problems associated with revision periods, rounding provisions, currency fluctuation clauses are absent from banking. As a result there is no difficulty involved in the transition and both "ins" and "pre-ins" will apply the directives in exactly the same way and for the same amounts. Accordingly no further clarification is needed with regard to thresholds, ceilings and other simple ECU references contained in Community banking supervision legislation.[22]

For certain other questions some explanation is felt to be helpful as follows:

Foreign exchange risk

4. The single currency will be introduced into participating Member States by the euro regulations in accordance with the Treaty and will replace their national currencies from 1 January 1999. Thus no foreign exchange risk will exist between the euro and the participating national currency units and between participating national currency units themselves from that date.[23]

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[22] 77/780/EEC as amended by 89/646/EEC Art. 4(1) & 2(a); 92/30/EEC Art. 3(3); 92/121/EEC Art. 6(6); 94/19/EEC Art. 7(1); 91/308/EEC Art. 3(2) & (3); 93/6/EEC Art. 3(1), (2), (3), (4) & 4(6)(ii) and (iii).

[23] 93/6/EEC (Annex III (3.1)

Traded debt position risk

5. The single currency will be introduced into participating Member States by the euro regulations in accordance with the Treaty and will replace their national currencies from 1 January 1999. Thus traded debt positions in euros and participating currency units will be positions in the same currency for the calculation of capital requirements for market risk.[24]

Derivative contracts

6. Derivative foreign exchange contracts in ECUs and participating national currencies will cease to behave like derivatives after the single currency is introduced into participating Member States and replaces their national currencies. A similar feature may also occur for certain interest rate derivative contracts with reference rates derived from the ECU and participating national currencies. In principle such contracts should be treated as cash claims or obligations from 1 January 1999. However certain transitional problems may arise which it is considered the competent authorities should decide how to address according to the individual circumstances of the particular case.[25]

European Central Bank (ECB)

7. When the ECB is established in 1998 it should be considered to be a 'central bank'/'zone A central bank' with respect to all aspects of the EU banking and related directives.[26]

C. <u>ACTION AND TIMING</u>

8. Monitor any transitional problems (see paragraph 6).

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[24] 93/6/EEC (Annex I (3) (9.1) & (13)

[25] 89/647/EEC as amended by 96/10/EEC (Annex II); 93/6/EEC (Annex III, 3.1)

[26] 89/647/EEC(Arts 2.1 and 6.1); 92/121/EEC (Art. 4.7); 93/22/EEC (Art. 2.4); 77/780/EEC (Art. 2.2); 92/30/EEC; 95/26/EC (Art. 4); 86/635/EEC (Art. 8.2 & 14.1 and 14.2)

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES CONCERNED:	**Insurance**

A. DESCRIPTION

1. The Directives 73/239/EEC, 76/580/EEC, 88/357/EEC, 84/5/EEC, 79/267/EEC, 92/96/EEC, 91/674/EEC and 91/370/EEC (Swiss Agreement) constitute the Community's insurance legislation affected by the changeover to the euro. The provisions most frequently affected are those specifying application thresholds and related provisions converting thresholds from ECU/euro into national currency amounts. The remaining provisions relate to currency matching, revision of the amounts of the thresholds and definition of the ECU and/or unit of account. In addition, there is a provision on interest rate guarantee and three provisions on the relationship between the ECU and the Swiss franc.

B. SUMMARY OF THE EFFECTS OF THE CHANGEOVER

ECU references and conversion clauses

2. All thresholds in the EC legislation will be expressed in euros as from 1.1.1999 in accordance with the Regulation 1103/97.

3. The provisions on conversion of ECU (euro) threshold amounts into national currencies will continue to apply to non participating Member States from 1.1.1999, the applicable rate being that of the last day of the preceding month of October. These provisions will no longer apply to participating Member States with effect from the revision due to occur as of 1.1.1999, as the clause will have lost its rationale on that date and therefore be inapplicable following the ending of the "in" Member States' national currencies. On 1.1.1999 the amounts expressed in ECUs will be expressed in euros, their equivalent in the national currency units during the transitional period being that resulting from the application of the irrevocably fixed conversion rates. Regarding the transitional measure provided for in Article 2 of Directive 76/580/EEC, since the amounts of the thresholds in Directive 73/239/EEC have not been amended, this provision will continue to apply during the transitional period and beyond if not amended. Community legislative action will be required if the amounts of the thresholds are to be identical throughout the euro area e.g. from 1.1.2002 onwards.

Currency matching provisions

4. As from 1.1.1999 and during the transitional period national currency units of participating Member States are one and the same currency as the euro and each other, for the purpose of matching rules.

Interest rate guarantee provisions

5. Regarding life insurance contracts with an interest rate guarantee Article 17(1)B(a)(i) of Directive 79/267/EEC, as amended, shall continue as at present for contracts denominated in non participating Member States' currencies. Where the contract is denominated in participating Member States' currencies or in euros the home member State shall use one of the following rates: (i) the rate on bond issues in euros by the home Member State when this is a participating Member State or (ii) the rate on bond issues in euros by any other participating Member State or (iii) the average of the rates on the bond issues in euros by all the participating Member States (provided that such information is supplied by an official body) or (iv) the rate of the euro denominated issues by Community institutions. All of these possibilities will be compatible with the interest rate guarantee clause as a consequence of replacing participating Member States' national currencies by the euro and replacing the ECU by the euro. The reading of this provision in the light of the Council regulations does not allow the exclusion of any of the above-mentioned possibilities. However, in order to achieve a more harmonised application of this clause, the Commission will suggest that Member States may choose to restrict themselves to applying option (iii), or option (i) when the information supplied by an official body is not available. This does not preclude a later decision on a legislative amendment in the light of the experience of the application of this clause after the changeover to the euro.

The Swiss Agreement

6. From 1.1.1999 the principle of continuity will mean that the conversion rate for ECU to Swiss francs will remain as written into the agreement - i.e. a set rate subject to the review under the terms of Article 3.1 of Protocol No 3, which provides for alteration only if the set rate differs by more than 10% against the rate fixed by the Swiss National Bank as on the last day of October of each year. This provision will continue to apply after 1.1.1999 with the only change being the replacement of the ECU with the euro.

Other affected provisions

7. The remainder of affected provisions, revision of thresholds and definition of the ECU, are affected only by the replacement of the ECU by the euro.

C. ACTION AND TIMING

8. A legislative amendment to Directive 73/239/EEC and Directive 76/580/EEC will be necessary, to take effect from not later than 1.1.2002. (See point 2, above). An amendment might also be desirable to Directive 79/267/EEC (see point 5 above); this requires further study.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES CONCERNED:	**Securities Markets Directives**

A. DESCRIPTION

1. The Directives 79/279 (Admission to official Stock Exchanges); Directive 89/298 (Public Offer Prospectus) 93/6 (Capital Adequacy Directive (CAD)); 94/18 (Eurolist); 97/9 (Investor Compensation) constitute the EC's securities legislation directly affected by the changeover to the euro. The relevant provisions are those specifying the application thresholds as well as the clauses setting out the modalities for the revision of the thresholds

B. IMPACT OF THE CHANGEOVER

2. The thresholds will be expressed in euros as from 1.1.1999 in accordance with Council Regulation 1103/97.

3. Directive 79/279 (Admission to official Stock Exchanges) provides in Schedule A paragraph I.2 that the equivalent in national currency of the (ECU) threshold "shall initially be that applicable on the date on which the directive is adopted." The Directive was adopted on 5 March 1979. However, there follows a revision clause the effect of which is to require the MS to adjust their national figures (back to the ECU figure) if they diverge by more than 10% from the directive.

4. Given that the purpose of this clause is to keep the national figures as close as practicable to the figure of ECU/euro 1 million in the directive (and not to simplify the transposition into national law of ECU ceilings by allowing rounding of inconvenient figures) the clause becomes redundant for "ins" with effect from 01.01.1999. The directive should be interpreted as requiring the MS to adjust their national figures on 01.01.1999 to the national currency unit equivalent of ECU 1 million, at the conversion rate. For "pre-ins" the clause continues to operate, unaffected.

   The same adjustment mechanism is also found in Schedule B paragraph III. 1 of Directive 79/279 and the same result should be applied as for Schedule A.

5. Directive 89/298 (Public Offer Prospectus) Directive 96/6 (CAD) and Directive 97/9 on Investor Compensation each contains fixed ECU references (thresholds and one ceiling) with no fluctuation margins or other revision mechanisms. The directives as modified by the euro regulations

in conformity with the directives at the end of 1998 then no action is likely to be required of them. The national amounts could of course be *higher* if the MS so wishes. The same logic will apply *pari passu* in the case of the ceiling (which could be lower than the euro figure in the directive).

C. ACTION AND TIMING

6. No action is required provided under the interpretations set out above.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES CONCERNED:	**Company Law**

A. DESCRIPTION

1. Directive 77/91/EEC is the only piece of Community company law legislation which is affected by the changeover to the euro. This directive lays down coordinating rules in respect of the formation of public limited liability companies and the maintenance and alteration of their capital. The only provisions of the directive directly affected by the changeover to the euro relate to a minimum threshold of ECU 25 000 for subscribed capital necessary for incorporation of a company and the alteration of the equivalent of this threshold in national currencies, where necessary.

   Apart from these directly affected provisions, there are some other implications following from the Directive, particularly with regard to redenomination in euros of company share capital, which should be clarified in point 4.

B. SUMMARY OF THE EFFECTS OF THE CHANGEOVER

ECU threshold and equivalents in national currencies

2. The threshold set in ECUs in Article 6(1) of the Directive will automatically be expressed in euros as from 1.1.1999 in accordance with Council Regulation 1103/97.

   Amendment of the Directive will not be necessary as a result of the introduction of the euro.

3. For non participating Member States the provisions of the Directive shall continue to apply, with the threshold set in euros. If the equivalent of this threshold in national currency units is more than 10% below the threshold now set in euros, which is the margin allowed by Article 6(2) of the Directive, the Commission, in accordance with the provisions of this Article, shall inform the Member State that it must amend its legislation to comply with the minimum amount expressed in euros.

Redenomination of share capital

4. Rounding rules may be required to apply to company share capital after the automatic conversion to euro. This is to avoid having shares with a nominal value with one or more decimal places, which is not practicable for the market. Therefore, Member States may need to provide national rules to enable companies to adopt cost effective rounding procedures. For instance, Member states can provide simplified procedures for the increase or decrease of capital if this is necessary for rounding purposes, or introduce shares without nominal value. The second company law Directive should not be interpreted as preventing the adoption of such simplified procedures exclusively for the purpose of the changeover. Shares without nominal value are already possible under Article 3 (c) of the Directive.

C. ACTION AND TIMING

5. No need for legislative action at Community level.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES CONCERNED:	**Accounting**

A. DESCRIPTION

1. Directives 78/660/EEC, as amended, and 83/349/EEC, as amended, constitute the Community's accounting legislation which is affected by the changeover to the euro. These directives lay down the accounting provisions for the preparation and presentation of annual and consolidated accounts, respectively. The provisions of these directives most affected by the changeover to the euro relate to thresholds for the preparation and presentation of certain accounts, the conversion rates to be applied in converting these thresholds into national currencies and the possibility to round the result of the conversion into national currencies by up to 10%.

   With the exception of this last provision, which is described in more detail in section B paragraph 4 below, amendment to the Directives will not be necessary as a result of the changeover to the euro. This amendment can, in any event, be dealt with in the context of the normal revision amendment which must take place every 5 years. The provisions which allow accounts to be presented additionally in ECUs are also affected.

2. Apart from these most directly affected provisions, there are many provisions which, requiring clarification or explanation, are the subject of a policy document published by the Commission services - XV/7002/97, "Accounting for the introduction of the euro." This document, elaborated within the Contact Committee on the Accounting Directives, provides explanatory information and guidelines on how the changeover to the euro can be treated within the existing framework of European accounting legislation.

B. SUMMARY OF THE EFFECTS OF THE CHANGEOVER

ECU thresholds, conversion rates and rounding provisions

3. In any event, the current provisions on conversion of threshold amounts into national currencies, which apply from 21 March 1994, are subject to a 5-yearly review, which is normally achieved through a legislative amendment. The next review will take place (at the Commission's initiative) in 1999, which will set the new threshold amounts into the national currencies of non participating Member States. The new threshold due to be set in 1999 would apply directly in euros to participating Member States (the euro amount can be transposed into national law expressed in the national currency unit at the 1.1.1999 conversion rate).

4. After the transitional period the national currency units of the participating Member States can no longer be used. There will no longer be a need to translate the euro thresholds of the Fourth Directive into the national currency units of the participating Member States. The non participating Member States can continue to use the 10% rounding rule. To ensure equal treatment of Member States, it must be ensured that at the 5-yearly adjustment of the thresholds in 1999 a system will be introduced into the Directive which guarantees an equivalent treatment of SMEs in both participating and non participating Member States.

C. ACTION AND TIMING

5. A legislative amendment to Directive 78/660/EEC, within the context of the normal 5-yearly revision, will be necessary, to take effect from 1999. This amendment will be made part of a package of modifications that the Commission will announce in the spring of 1998.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES CONCERNED:	**Directive on liability for defective products**

A. DESCRIPTION

1. Directive 85/374 is affected by the changeover to the euro. Due to its historic application threshold of ECU 500 (franchise) and ceiling of ECU 70 million (overall ceiling), the effect of the introduction of the euro on this directive is delayed. The amounts which Member States apply in their national laws will continue to be those set under the historic conversion rate of 25 July 1985 (i.e. date of adoption of the directive). These national amounts will not change until the amounts of the threshold/ceiling in the directive change, following a Commission proposal to that effect.

B. SUMMARY OF THE EFFECTS OF THE CHANGEOVER

ECU thresholds, conversion rates and rounding provisions

2. All thresholds in the EC legislation will automatically be expressed in euros as from 1.1.1999 in accordance with Council Regulation 1103/97. National currency amounts applying the directive in national law will not be affected, until a Commission proposal is put forward (and adopted) for the revision of the amounts in the directive.

3. The current provisions on conversion of threshold amounts into national currencies, applicable since 25 July 1985 are subject to a 5 yearly review, implemented through legislative amendment. The next review will set the new threshold amounts in euros and determine the applicable date for converting these amounts into the national currencies of non participating Member states and into the national currency units of participating Member States (at the irrevocable conversion rates fixed on 1.1.1999).

4. After the transitional period the national currency units of the participating Member States can no longer be used. There will no longer be a need to translate the euro figures from the directive into the national currency units of participating Member States.

C. ACTION AND TIMING

5. A legislative amendment to Directive 85/374/EEC, within the context of the normal revision, is suggested. This should be timed to take effect at the first opportunity after 1.1.1999, following which the participating Member States will apply national currency unit equivalents of the new euro amounts (at the conversion rate) while the non participating Member States

will translate the new euro amounts into their national currency, at the rate prevailing on the date of revision, for a new 5 year period.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INTERNAL MARKET**
MEASURES CONCERNED:	**Intellectual property legislation**

A. DESCRIPTION

1. Regulation 2869/95 on the fees payable to the Community Trade Mark Office is directly affected.

B. SUMMARY OF THE EFFECTS OF THE CHANGEOVER

ECU references

2. Under article 2 of Council Regulation 1103/97, all references to the ECU automatically become references to the euro. These references do not give rise on any problems of interpretation.

3. There is a somewhat unusual clause in Article 6(2) of this regulation, which refers to the conversion rate between the Peseta and the ECU, as fixed daily by the Commission. This clause will of course cease to be applicable if Spain adopts the euro, given that there will be nothing to fix on a daily basis, as the irrevocable fixing of the conversion rate will take place on 1.1.1999 for all time. If Spain does not adopt the euro on 1.1.1999 there will still be a purpose for this cash conversion clause. which will establish an official rate between the euro amounts in the Regulation and the amounts required to be paid in Peseta to satisfy the requirements under the regulation.

C. ACTION AND TIMING

4. No action necessary.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**INDIRECT TAXATION**
MEASURES CONCERNED:	**Legislation on VAT and excise duties**

A. DESCRIPTION

1. The Sixth Directive 77/388/EEC (as amended by Directives 91/680/EEC, 92/111/EEC et 95/7/EC) establishes the common system of VAT.

   Directive 69/169/EEC (as last amended by Directive 94/4/EC) lays down the rules governing travellers' allowances.

   Directive 78/1035/EEC (as last amended by Directive 85/576/EEC), establishes the tax exemptions applicable to small consignments, while Directive 83/181/EEC (as last amended by Directive 88/331/EEC) lays down the rules governing exemption from VAT on importation.

   Directive 79/1072/EEC establishes arrangements for the refund of VAT to taxable persons not established in the territory of the country.

   Directives 92/80/EEC, 92/82/EEC and 92/84EEC lays down the rules governing taxes on manufactured tobacco, mineral oils and alcoholic beverages.

B. COMMENTS

2. Article 31 of Directive 77/388/EEC gives Member States the option, when converting the amounts indicated in the Directive into their national currency, of rounding the amounts resulting from this conversion either upwards or downwards by up to 10%. Given that its underlying logic (i.e. the need to obtain round figures in national currency) will still be relevant during the transitional period, this rule will continue to apply during that time. At the end of the transitional period, participating Member States will have to incorporate into their national legislation the amounts in euros indicated in the Directive since their national currencies will have ceased to exist as monetary units and the rounding-off rule will therefore no longer serve any purpose.

   On the other hand, Article 28m of the same Directive stipulates that the conversion of some amounts should be based on the rate of exchange applicable on a specified date (16 December 1991). The amounts in question are minimum amounts (for taxation at destination of intra-Community acquisitions, simplified recapitulative statements) or Community amounts (taxation of distance selling). Given that Article 28m does not provide for any possibility of revision, the amounts in national currency will continue to apply during the transitional period. In the absence of specific legislative measures, this will also continue to be the case for participating Member States after they have completely changed over to the euro on 1.1.2002. This would give rise to different amounts (all expressed in euros) in the various countries forming part of the euro zone. Measures will therefore have to be adopted to remedy this situation and to ensure that participating countries adopt the euro amounts laid down by the Directives. This opportunity should also be used to revise the conversion clause of Article 28m, which will still be applicable to non-participating countries, in order to restore a degree of uniformity in applying these thresholds within the Community..

3. Article 7 of Directive 69/169/EEC and Article 4 of Directive 78/1035/EEC lay down conversion and rounding rules. The applicable conversion rate is that of the first working day of October, taking effect on 1 January of the following year; amounts in national currency may be rounded off by no more than ECU 2; the amount of the previous year may continue to apply if the conversion leads to a change of less than 5% or to a reduction in the tax exemption. These conversion rules will no longer be relevant from 1.1.1999 for participating countries because fixed parities will have been established and they will consequently cease to apply to them. They will, however, remain fully applicable to the currencies of non-participating countries. Following the same logic as for Article 31 of Directive 77/388/EEC, the rounding rules will continue to apply during the transitional period as far as participating countries are concerned. However, they will become obsolete for those countries after that period.

4. Article 7 of Directive 79/1072/EEC contains a conversion rule (the rate being that of 1 January of the year in question) and a rounding-off rule identical to that of Article 31 of Directive 77/388/EEC. The action to be taken is therefore comparable to that described above.

5. The same applies to the conversion rules laid down by Directives 92/80/EEC, 92/82/EEC, et 92/84/EEC, which will therefore be dealt with in the same way.

C. <u>ACTION AND TIMING</u>

6. It should be examined during the transitional period whether a legislative measure will be needed to ensure that, from 1 January 2002, participating countries adopt the euro amounts of Directive 77/388/EEC to which Article 28m applies. No Community action will be needed in respect of the rounding option provided for in Article 31 of Directive 77/388/EEC and in the other tax directives. At national level, provisions will have to be adopted to ensure that the various euro amounts contained in the Directives on VAT and excise-duties are in force from 1.1.2002.

7. No action is envisaged with regard to the other conversion rules laid-down by the tax directives which will remain applicable to non-participating countries.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**COMMON COMMERCIAL POLICY**
MEASURES CONCERNED:	**Export Credits**

A. DESCRIPTION

1. In order to create a level playing field in the area of export credits extended with public support, all OECD member countries comply with the provisions of the "Arrangement on guidelines for officially supported export credit" (also called the "Consensus"). The first version of this arrangement was agreed in 1978. Since then, the text has been regularly renegotiated in order to strengthen the terms. Following each round of negotiations, the newly agreed text becomes part of Community legislation through the enactment of a Council Decision (last revision: Decision 97/530/EC; OJ L216 of 8.8.97; the full text of the arrangement was annexed to Council Decision 93/112/EC; OJ L44 of 22.2.93).

2. One of the key features of the Consensus is a fairly elaborate system of minimum interest rates. These Commercial Interest Reference Rates (CIRRs) are supposed to approximate market rates for comparable operations. They are calculated per currency and are adjusted once per month to prevailing market conditions (twice a month for aircraft financing rates), following notification by each country for its own currency. For most currencies, CIRRs are calculated on the basis of the yields of government bonds issued in the country concerned, supplemented with a 100 basis points margin.

   Presently, CIRR rates are notified to the OECD Secretariat for 20 different currencies. As far as the Community is concerned, 12 national currencies are involved (no CIRR rates exist for the Greek drachma, the Portuguese escudo and the Luxembourg franc), while the Commission notifies a CIRR rate for the ECU.

3. Governments are allowed to extend export credits, expressed either in the domestic currency or any other currency, provided the terms of the Arrangement, notably as regards minimum interest rates, are respected.

B. COMMENTS

4. In the absence of any specific action in relation to the start of EMU, participating Member States could in theory continue to notify their national rates, based on the yields of their domestic government bonds. This approach would lead to the creation of a complex system of "national" euro rates, which would not only vary in level (depending on the yields of the corresponding government bonds) but also in structure (a single-tier

system applies to most Community currencies, while a few countries have opted for a three-tier one).

The logic of such a system would be difficult to grasp and it is unclear how the Arrangement should then be interpreted and applied as far as the euro is concerned. For example, exporters from countries outside the euro zone would be confronted with a multitude of euro rates whenever they offer export credit finance in euros. In principle, they should be entitled to choose the CIRR rate, and would probably opt for the lowest one. The same logic would in all likelihood apply to exporters from countries belonging to the euro zone, who might expect to get finance at the same rates as their competitors outside the euro zone i.e. at a euro rate which would differ form the euro rate applying to their national government.

5. The approach based on different "national" euro CIRRs negates the euro as a single currency and lead to numerous difficulties and inconsistencies in implementation. It also goes against the basic logic of the CIRR system, which is currency-based, as opposed to country-linked.

At the start of stage 3 (1.1.1999), the CIRR rates for the currencies of the participating Member States, as well as the ECU CIRR, should thus be replaced by a single euro CIRR. This rate should comply with the provisions of Annex VIII of the Arrangement and thus closely correspond to a rate for a first-class domestic borrower.

C. ACTION AND TIMING

6. The Community's main interest is to ensure a smooth transition to a new system, avoiding disturbances and discontinuities which could be harmful to Community exporters/importers or adversely affect the image of the euro on the international stage. Preparation will have to go through several stages (discussions at OECD level, Council Decision, ...) and therefore needs to start on a timely basis.

Informal discussions in the Council Working Group on Export Credits have already started in order to secure a Community position on this question with a view to initiate discussions at the OECD.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**EXTERNAL RELATIONS**
MEASURES CONCERNED:	**International agreements**

A. DESCRIPTION

1. The Community has concluded numerous international agreements which include references to national currencies or to the ECU.

B. COMMENTS

2. The principle of "*lex monetae*", which is applicable to contracts under private law also holds for international agreements: jurisdictions of third countries will recognise the euro as the successor to the respective national currency. That means references in agreements to a currency of a participating Member State have to be interpreted with reference to European monetary law which has changed and has become an integral part of the monetary law of the participating Member States.

3. The same holds for references in agreements to the ECU as defined in Community law. According to Article 109 l (4) of the Treaty and Article 2 of Council Regulation 1103/97, references to the ECU will be replaced by references to the euro at a rate of 1:1.

4. It follows that any renegotiation of the Community's international agreements - whether referring to national currencies or to the ECU - is not necessary. Neither is it indispensable to change the respective currency references physically since such references will have to be read as references to the euro.

C. ACTION AND TIMING

5. No specific legislative action is envisaged in relation to the Community's international agreements.

6. EC delegations in third countries will be provided with appropriate information for external use in relation to the above. Specific demarches regarding this specific issue are not called for, but delegations will be instructed to raise the issue in the context of regular contacts regarding EMU and the changeover to the euro. The issue regarding references in international agreements to national currencies or to the ECU should also be raised in the context of bilateral discussions with partner countries.

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**CONSUMER PROTECTION**
MEASURES CONCERNED:	**Consumer credit and certain other contracts**

A. DESCRIPTION

1. Council Directive 85/577 deals with consumer protection in respect of contracts negotiated away from business premises, for example contracts concluded during an excursion organized by the trader away from his business premises or during a visit by the trader to the consumer's home.

Council Directive 87/102 (as last amended by Council Directive 90/88) is aiming at the approximation of laws, regulations and administrative provisions of the Member States concerning consumer credit. The Directive is applied to credit agreements.

B. COMMENTS

2. Directive 85/577 specifies that it will only apply to contracts exceeding a specified amount (presently 60 ECU; "current value" clause).

Directive 87/102 does not apply to credit agreements involving amounts less than 200 ECU or more thàn 20.000 ECU (Art. 2.1). The Directive contains a clause for conversion into national currencies. The initial exchange rate to be used is the one of the date of adoption of the Directive, while rounding is allowed up to 10 ECU (Art. 13.1). As this is a fixed date clause, it will perpetuate differences between the values in national implementing legislation. Article 13.2 foresees 5-yearly revisions from 1995 onwards. These revisions however only deal with the amounts in the directive, as opposed to their translation into national currencies.

Both directives include a minimum clause which offers the possibility to Member States to take more protective measures. For example, in some countries, the minimum has been reduced to 0 ECU.

C. ACTION AND TIMING

3. The Commission has already announced that both directives will be revised. In the case of directive 87/102, this revision will moreover ensure that the ceilings and thresholds applying to "ins" will correspond to the amounts specified in the Directive as from 1.1.2002 at the latest (except for Member States desiring to take more restictive measures).

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**BUDGETS**
MEASURES CONCERNED	**Financial Regulation**

A. DESCRIPTION

1. The Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities[27] is the basic text governing the drawing-up and implementation of the Communities' budget, and as such implements Article 209 of the EC Treaty. It is complemented by a Commission Regulation containing implementing provisions[28].

B. COMMENTS

2. Article 11 of the Financial Regulation requires the budget to be drawn up in ECUs and refers, for the purposes of defining the ECU, to Council Regulation (EC) No 3320/94 of 22 December 1994. It determines the value of the ECU and lays down rules for conversion between the ECU and national currencies. Other references to the ECU are widespread in the Financial Regulation (book-keeping, etc.).

3. Although Article 11 makes any change in the definition of the ECU decided on by the Council automatically applicable to the Financial Regulation, this Article should be amended in order to take account of the introduction of the euro and, in particular, to establish the principle that not only is the budget drawn up in euros, but the Community's rights and obligations are also expressed and executed in euros (notwithstanding specific provisions concerning revenues or expenditure). The other references to the ECU will also have to be replaced by references to the euro.

C. ACTION AND TIMING

4. A proposal for an amendment of the Financial Regulation will be presented by the Commission, in accordance with Article 209 of the Treaty, towards April 1998. Once this has been adopted by the Council, the Commission will amend its Regulation 3418/93/EEC laying down detailed rules for the implementation of certain provisions of the Financial Regulation.

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[27] OJ L 356 of 31.12.1977, p.1. Regulation last amended by Council Regulation (EC, Euratom, ECSC) No 2335 of 18 September 1995 (OJ L 240 of 7.10.1995, p.12)

[28] Commission Regulation (Euratom, ECSC, EC) NO 3418/93 of 9 December 1993 laying down detailed rules for the implementation of certain provisions of the Financial Regulation of 21 December 1977 (JO L315 du 16.12.1993, p.1)

CHANGEOVER TO THE EURO *Community legislation*	
POLICY AREA:	**ADMINISTRATIVE EXPENDITURE**
MEASURES CONCERNED:	**Remunerations and pensions**

A. DESCRIPTION

1. The Staff Regulations, the rules applicable to other servants of the Communities and the tax regulation are the legislative basis governing the laying-down and payment of the remunerations, pensions and other pecuniary rights of officials and other servants.

   The amounts making up the remuneration (pay scales, allowances, contributions, taxes, etc.) are at present expressed in BEF. The net amount is converted into the national currency of the place of employment (the country of residence in the case of retired officials) on the basis of a fixed exchange rate which, combined with a weighting, takes account of the differences in the cost of living compared to Brussels.

2. From 1.1.1999, Article 8(3) of Council Regulation .../98[29] on the introduction of the euro will enable payment to be made in euros in those countries which will have adopted the euro as their national currency, and this will not require any amendment of the Staff Regulations To this end, the remuneration currently fixed in national monetary units will merely have to be converted into euros at the fixed conversions rate.

   At the end of the transitional period (31.12.2001), in accordance with Article 14 of Council Regulation.../98 on the introduction of the euro, and assuming that Belgium adopts the euro, all the amounts making up the remuneration (currently expressed in BEF) and all the associated exchange rates and weightings will be replaced by their equivalents in euros at the fixed conversion rate.

B. PROPOSED MODIFICATION

3. Aware as it is of the political significance and symbolic value of these remunerations, the Commission proposes, on the assumption that Belgium adopts the euro, that they should be expressed in euros.

   Consequently, from 1.1.1999, all references to BEF and all amounts expressed in BEF will be replaced in the Staff Regulations by references to the euro and by amounts expressed in euros Amounts appearing on salary statements (basic salary, allowances, contributions, taxes, etc.) will be

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[29] See the Resolution of the Council of 7.7.1997 on the legal framework for the introduction of the euro (OJ C 236 of 2.8.1997, p. 7 - 12)

expressed in euros and the euro will become the central currency for determining remunerations and pensions in all countries.

4. From 1.1.1999, remunerations and pensions will be paid in euros in all countries having adopted the euro as their national currency. In non-participating countries, remunerations and pensions will continue to be paid in national currency.

5. Given that the rate of conversion between the national monetary unit and the euro will be fixed, the level of net remunerations or pensions paid to the official will remain unchanged, irrespective of his place of employment. The solution will therefore require only a formal amendment of the Staff Regulations compatible with the method applied for adapting remunerations. In substance, this approach anticipates the full changeover to the euro which would otherwise not occur until 1.1.2002.

C. ACTION AND TIMING

6. The legislation which the Commission will propose will have the effect of replacing the term "Belgian franc" with "euro" and amounts in BEF with their equivalent in euros in the Staff regulations and other rules affected at the relevant rate of conversion with effect from 1.1.1999. The following will be proposed:

 - a proposal for a regulation amending the Staff Regulations and the rules applicable to other servants with regard to the determination of remunerations, pensions and other pecuniary rights in euros;

 - a proposal for a Council regulation amending Regulation No 260/68 laying down the conditions and procedure for applying the tax for the benefit of the European Communities;

 - a proposal for a Council regulation amending Regulation No 122/66 (laying down the list of places for which a transport allowance may be granted, the maximum amount of that allowance and the rules for granting it) and Regulation No 300/76 determining the categories of officials entitled to allowances for shiftwork, and the rates and conditions thereof.

7. A qualified majority within the Council will be required in all cases. It should take about 14 months for these decisions to be adopted given that the opinion of the Staff Regulations Committee and the other institutions is required for any amendment to the Staff Regulations.

 Close cooperation at inter-institutional level will enable the regulations and "pay" component to be amended in the best possible conditions and the staff to be informed in co-operation with their representatives.

8. The draft Commission proposals will be ready by the beginning of 1998. The Commission is currently carrying out the preliminary consultations. They will in principle have to be adopted by 1 January 1999.

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