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Belgian Minister of Finance

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Didier Reynders President of the Eurogroup (as of 1 January 2001) Belgian Minister of Finance



"The task of the Eurogroup should be a more ambitious one"

When I took office on 12 June last year, one of my first tasks was to attend the annual meetings of the Ecofin Council of Ministers. Even if it was not obvious to me at the time, it soon became clear that, for a Minister of Finance, the European dimension of his responsibilities is a matter of fundamental importance — to an even greater extent than for most of his colleagues. I therefore proceeded to devote a great deal of time and energy to European financial questions, especially as Belgium is due to hold the Presidency of the European Union during the second half of 2001. As Sweden — which will hold the Presidency of the Union during the first half of the year — does not intend to introduce the euro, I will become the President of the Eurogroup already in the first half of 2001.

Since my term of office will last a whole year, I will have many opportunities to leave a special mark on policy.

I am fully aware that holding the Presidency of the EU is a task which, if performed successfully, can benefit our country's image in the world. Making

the Belgian Presidency a success is one of the main challenges facing me.

A successful Presidency calls, above all, for impeccable organisation: this aspect has already been taken care of down to the smallest detail. A good programme which is both ambitious and realistic is the second main ingredient of success. Here too, the necessary preparations — especially as regards the Eurogroup's programme — are already well on the way to completion. This type of programme has two main strands: questions identified in the light of the current issues relating to European integration, on the one hand, and specific issues introduced by the Presidency, on the other.

The agenda of the Belgian Presidency is naturally dominated by the final preparations for the changeover to the euro, with the introduction of euro notes and coins as an essential feature. (p.16)

On 1 January 1999 the financial markets of the euro zone began using the euro and, since then, a common monetary policy has been implemented by the Eurosystem. (> 5)

€-Day - 12 months

In one year's time, euro notes and coins will become an everyday reality for all citizens. Individuals, businesses and authorities still have twelve months in which to prepare for this large-scale operation.

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Five changeover plans in detail

On pages 8 and 9 you will find a summary table showing the changeover plans for the 12 member countries of the euro zone. Below is a more detailed description of the plans for Belgium, France, Ireland, Luxembourg and the Netherlands (as from 10 October 2000). We shall be covering the other changeover scenarios in the next few issues.

Notes and coins

In Belgium retailers will receive a kit containing 525 coins with a total value of €240 as from 1 December 2001. Beginning on 15 December, private individuals will be able to obtain a kit of 29 coins (€12.4) from banks, post offices, public transport companies and major employers.

In France the kit for retailers (which will be distributed in December) will contain 640 coins worth €222 divided into two rolls of coins according to category. As from 15 December, private individuals will be able to obtain a kit of 40 coins worth €15.25. The kit will be in a small transparent plastic bag.

In Ireland the standard packages will be used for advance supplies to retailers. The notes will probably be distributed in mid-November and the coins at a later date, but not before 1 September. There is no plan to distribute kits to the general public.

In Luxembourg the kits will be distributed in line with demand from retailers as from 1 September 2001. For the public, kits of 29 coins worth €12.4 are planned as from 15 December 2001.

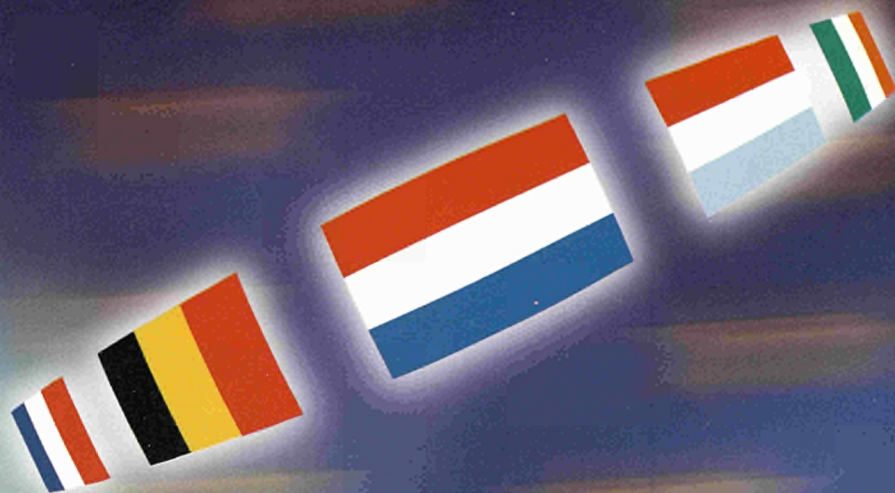
In the Netherlands retailers can obtain two types of kit. The first will contain two rolls of each type of coin, while the second will have ten rolls

of €0.01 and €0.02 coins. These kits will be available as from 17 December, although beginning in October retailers will be able to obtain small quantities of notes and coins designed to acquaint them with the new currency. The Dutch central bank will distribute free of charge to each individual above the age of six a kit containing one coin of each type. Kits with a value of €11.34 will be available from banks and retailers as from 17 December.

Dual circulation

One of the most frequently asked questions relates to the exchange of notes and coins at commercial banks during the dual circulation period in January and February 2002. In Belgium, Luxembourg and the Netherlands notes and coins will be exchanged free of charge at banks at least for the duration of the dual circulation period. In Ireland the amount that may be exchanged will be at least €500 per person.

With a view to speeding up the introduction of euro notes and coins and, at the same time, the withdrawal of the national currency units, several changeover plans will encourage retailers to give change only in euros. Wherever possible, this will happen in Belgium, France, Ireland and Luxembourg. The Netherlands goes a step further because, in principle, retailers will use only euros to give change as from 1 January 2002.



Another factor essential to the successful distribution of euro notes and coins is the ability of automatic teller machines (ATMs) to deliver euros rapidly. In Belgium all ATMs will distribute only euros as from 1 January 2002. Ireland, Luxembourg and the Netherlands plan on having ATMs fully operational for euros within a two-week period. France has announced that 85% of ATMs will be operating in euros during the first week. The denominations distributed will vary from one country to another: €20 and €50 in Belgium, mainly €10 and €20 in Ireland and €5, €10, €20 and €50 in the Netherlands. Information is not yet available for France or Luxembourg. Some countries have developed specific methods for distributing small denominations (€5 and €10), e.g. France (through credit institutions), Ireland (payment of social benefits at post offices) and the Netherlands, where retailers will receive a large stock of small denominations.

As regards the withdrawal of national coins, the arrangements vary from one country to another. In Belgium this will be done by banks under the control of the National Bank and the National Mint. In France retailers may deposit coins in standard packages in order to speed up the transactions and checking involved. They will be stocked at the Banque de France. In Ireland the coins received will be withdrawn from circulation. In the Netherlands the banks will exchange

coins free of charge for their customers. Finally, Luxembourg will cooperate with non-profit-making associations.

The date on which they will cease to be legal tender (in other words, the end of the period of dual circulation) has been set for 28 January 2002 in the Netherlands, 9 February in Ireland (subject to change), 17 February in France and 28 February in Belgium and Luxembourg.

After the dual circulation period

The period during which notes and coins may be changed will vary from one country to another. The commercial banks will carry out this operation until 30 June 2002 in France and until 31 December of the same year in Belgium and the Netherlands and also in Luxembourg (subject to agreement with the banks). In Ireland no particular period has as yet been specified. At the end of the respective period, the holders of national notes and coins will have to contact their central bank. The period during which exchanges can be made will not be the same everywhere: an unlimited period for notes and until the end of 2004 for coins in Belgium; 10 years for notes and at least one year for coins in France (with three years as a possibility); no time limit in Ireland; until the end of 2004 for coins and a period still to be specified for notes in the case of Luxembourg; until 1 January 2032 for notes and 1 January 2007 for coins in the Netherlands. ■

Commission Recommendation

Last October the Commission recommended a whole series of measures aimed at informing all users, helping citizens to become acquainted with the euro, encouraging them and economic operators to use the euro, reducing the number of conversion transactions required and facilitating the exchange of notes and coins. The following are the main points.

Before 1 January 2002

- Member States must make sure that full information is provided to individuals and groups for whom access to information is difficult.
- Bank accounts should be converted into euros as from the third quarter of 2001 unless the customer objects.
- As from 2001, payslips should be printed in euros or at least in euros and the national currency.
- Citizens should acquaint themselves with the euro, especially for running the family budget.
- Public administrations and local authorities should prepare themselves for operating in euros and for concluding all their contracts in the new currency.
- Retail businesses should help customers to familiarise themselves with prices denominated in euros and should aim to give prominence to euro pricing by the third quarter of 2001 at the latest.

During the dual circulation period

- Measures should be taken to permit the unlimited exchange free of charge of national notes and coins by banks for their customers.
- Retailers should be encouraged to give change only in euros as from January 2002. ■



Financial transfers made by the European Parliament in euros

With 184 000 transactions annually, the European Parliament is a major user of banking services. By using the euro, it has been able to negotiate advantageous terms.

From a strictly financial point of view, the European Parliament can be considered to be a large multinational firm within which flows are as large as they are varied. During 1999 the total value of financial transfers was EUR 1 071 million, as against EUR 862 million in 1998. The total number of banking transactions increased from 174 000 to 182 000, including 124 000 outside Luxembourg, i.e. 68.1% of the total. In 1999 the number of banking transactions in euros accounted for 95% of all transactions carried out in Luxembourg and for 65.7% of those outside the country. By way of comparison, the number of banking transactions in ecus accounted for only 3.5% of the total in 1998.

According to Michael Chamier, Financial Director at the European Parliament, the advantages of using the euro are mainly of two kinds. Firstly, all exchange risks are eliminated for currencies in the euro zone. Secondly, there is a substantial reduction in medium-term costs relating to euro transfers in the countries in the zone. These advantages apply to all cross-border transfers.

A contract for the amount of bank transfers undertaken by the European Parliament called for a tendering process. The terms governing the conduct of banking transactions outside Luxembourg are specified in a detailed agreement between the European Parliament and its banker. This agreement is the result of a specific call for tenders initiated

under the open procedure. The agreement, which remains in effect until 31 December 2001, relates to various aspects such as processing transactions, the terms governing transfer orders, the terms governing statements of account, remuneration for services provided, etc.

As regards the terms involved, it is interesting to note that banking transactions within Luxembourg are conducted without any charge for beneficiaries or the European Parliament. In the case of transactions outside Luxembourg, the agreement provides that transfer orders entrusted by the European Parliament to its banker should, in principle, be handled without any charge to the beneficiary. The banker's remuneration for all the services provided has been incorporated into the agreement on the basis of a flat rate.

Mr Chamier notes that, compared with traditional terms, the euro transfers to the "in-countries" are dealt with on the same basis as transfers denominated in the various national currencies. The beneficiaries have the advantage of the same guarantee as regards bank charges and without the extra cost being charged to the European Parliament. In the case of the small number of euro transfers to the "out-countries", the European Parliament must bear specific charges. These transfers are, however, fed into the banking system with an indication that they are "free of charge for the beneficiary". ■

Didier Reynders
President of the Eurogroup
(as of 1 January 2001)
Belgian Minister of Finance



(< 1)

“The task of the Eurogroup should be a more ambitious one”

(> 1) Following a three-year preparatory phase, the EU Member States involved will switch over to the euro on 1 January 2002, thus completing economic and monetary union.

While the introduction of the euro on financial markets at the beginning of 1999 involved almost exclusively professional operators, the specific changeover to the euro will concern the whole economy and the general public, for whom the euro will become a tangible reality. The physical changeover to the euro will therefore be an event without precedent.

This operation can be a success only if all the economic operators — the financial sector, commerce including the distributive trades, small and medium-sized enterprises and public authorities — work to make it a success.

Surveys have shown that various economic operators currently make little use of the euro and are generally preparing slowly for it. It is therefore absolutely essential to facilitate use of the euro in good time through various measures including widespread use of dual price displays, switching over to the euro in all banking transactions, and euro invoicing by major utilities (electricity suppliers, telephone companies, etc.).

I am convinced that, as the Commission has recommended, it is necessary to promote an early and coherent changeover as from the middle of 2001 so as to prevent difficulties building up at the end of the year.

It is clear that the behaviour of economic operators as regards the use of euro notes and coins cannot be directed or controlled administratively. The success of the changeover will therefore depend on raising the awareness of businesses and individuals. Thus an effective communication policy conducted by the authorities should lead to the desired behaviour.

This communication policy will need to take various forms: it should be of a general nature for the public at large and should be more targeted in the case of various groups. It is important to be in a position to develop specific campaigns targeting certain social groups (the blind and partially sighted, the deaf and hard-of-hearing, the elderly, people with literacy problems, people who are socially and physically iso-

lated, marginalised people and migrants) and sectoral niches (self-employed people, farmers, SMEs). The specialists will therefore need to find specific communication methods and prepare educational material targeted at these groups.

The introduction of euro notes and coins is a multifaceted task. I have absolutely no doubt that, because of the excellent preparations that have already been made by all the parties involved and that will be refined still further during the Belgian Presidency, the changeover to the euro will prove to be a complete success.

The introduction of euro notes and coins will enhance the euro zone's visibility and this should contribute to the euro's soundness.

During my Presidency, I hope to be able to take various initiatives with a view to backing up these developments. Thus, the way in which the Eurogroup operates should be improved still further and the task entrusted to it should be revised so that it will be more ambitious. The Eurogroup should be far more than an informal club of Ministers of Finance. I am in favour of a permanent dialogue with the European Central Bank as this would undoubtedly contribute to the effectiveness of the policy mix adopted.

The Eurogroup should also lead to a forum in which initiatives are taken which can transform our part of the globe, viz. the euro zone, into a real catalyst for growth: the permanent structural changes taking place will make the markets for goods, services and production factors more flexible and competitive.

Budget policy should adhere to strict standards of equilibrium and debt reduction while increasingly seeking quality in public finances. A reduction of the tax burden on earned income would dynamise the labour market. Full employment is the best way of financing the costs of our ageing population.

The financial markets can expect initiatives aimed particularly at strengthening the euro's advantages as an international currency.

Finally, thanks to the single currency, monetary integration will contribute to making Europe a partner of international stature on the monetary and financial scene. ■



The euro: an integration factor for the candidate countries

The countries which are candidates for accession to the European Union are also candidates for participation in the euro. While the two processes do not have to be simultaneous, they are inseparable. In any event, the euro is already becoming a reality in the economies of the countries which have applied to join the EU. It is in the interests of local firms to prepare for this.

The following is a summary relating to the main theme of a conference organised on 26 September in the context of the Hanover World Fair. This event brought together business executives from the Member States and the candidate countries to hear Mr. Pedro Solbes, the EU Commissioner responsible for Economic and Monetary Affairs, and Ms. Christa Randzio-Plath, Chair of the European Parliament's Committee on Economic and Monetary Affairs.

A two-track approach

The future members of the European Union will also participate in economic and monetary union. Unlike what has happened in the past, "opting out" will no longer be possible. However, as was explained by Mr. Solbes, it is essential to note that the two membership processes do not have to take place simultaneously: "Integration of the candidate countries into the European economy involves a complex set of decisions, in particular institutional and structural reforms, the adoption of measures needed to fulfil the requirements of the single market and the promotion of an effective and competitive financial system. All these measures can be viewed as the ingredients which will make it possible to bring the process to a successful conclusion. I believe that, in the transition countries, the reform agenda for accession should have priority over changes geared to participation in EMU. We do not expect that the candidate countries will be joining the euro on accession. The convergence criteria are not membership criteria. As in the case of the countries which are already members of the euro area, the adoption of the single currency can be only the final stage in a successful process leading to integration into the European Union."

This point of view is shared in the candidate countries. Werner Riecke, Deputy President of the National Bank of Hungary, said: "The introduction of the euro at least two years after accession must be the long-term strategy of a candidate country."

In practice, this means that the choice and implementation of an economic policy which includes structural reforms is currently more important for the candidate countries than the exchange rates of their currencies. In addition, some exchange-rate flexibility may be necessary in these countries as they prepare their economies for integration into the European Union and the single market.

The euro is already making itself felt

As regards the timetable, integration of the candidate countries into the euro zone is therefore not something which is likely to happen right away. On the other hand, as was explained in Hanover by Mr. Michael Tomasek, adviser on the European Union at Komerční Banka, the euro is very much a reality not only within the euro zone but also in the countries concerned: "The Czech Republic has as neighbours two countries in the Union: Austria and Germany. This is the longest border we have! 70% of our foreign trade is conducted with the countries of the European Union, and more than 50% of turnover is in euros. 60% of payments are made in euros, and the National Bank holds 60% of its reserves in euros. Our currency is linked closely and in a very stable way to the euro, and exchange-rate fluctuations are insignificant. The influence of the euro on the economy and Czech society is considered to be of increasing importance. We can predict that, as soon as euro notes and coins are introduced in 2002, the European currency will rapidly

Candidate countries, notes and coins

As from 1 January 2002, the introduction of euro notes and coins will make the general public aware of the importance of EMU. This major change will also have an impact on countries which are not members of the euro zone and in which notes denominated in the monetary unit of the euro zone will be used in parallel with national-currency notes. Antti Heinone, the Director in charge of "notes" at the European Central Bank, draws attention to the importance of this change: "Prudent logistics planning is necessary in these countries in order to ensure that the changeover to euro notes and coins is conducted flexibly and is a success for all the parties concerned. Having finalised the introduction strategy in the euro zone, the European Central Bank is currently considering its policy for outside the zone. The ECB's 2002 campaign will provide candidate countries with visual information concerning the notes and coins and the procedures to be followed for the switchover to notes and coins." ■



become a much more important alternative than the German mark is at present in some border areas.”

While waiting for the euro notes and coins to become a reality, the countries of Central and Eastern Europe are already facing the changes that the euro has brought about among their partners that are members of the European Union. According to Carl Hahn, former President of Volkswagen, these countries are already assessing access to a world which is changing rapidly as regards markets, skills and capital: *“The competitiveness of their education systems, social harmony and an understanding of the market economy will determine the degree of their success. Already, growth rates in some countries in Central Europe are living proof of the indirect power of integration exerted by the euro.”*

A concrete reality

In some multinational firms with subsidiaries in Central Europe, the euro has already become an accounting reality. This is the case in particular with the Dutch company, Philips, which has been using the euro as a reporting currency since EMU became operational. Ton Ruhe, Euro Project Director, explains how this widespread use of the euro was made possible: *“A currency evolving in a highly inflationary environment is not considered to be sufficiently stable to be used as a functional currency within a group, and it is therefore the most stable currency which should be used. However, a decreasing number of countries in Central and Eastern Europe are suffering from excessively high inflation. This means that, for a group like Philips, it is extremely difficult to justify the change of functional currency. Ever since entities outside EMU have had relations with several participating countries, the impact produced by the introduction of the euro has been that the share of the reporting currency in total activity can increase much faster than*

before 1 January 1999. That is why Phillips was able to change its functional currency in several subsidiaries in Poland and Hungary very quickly after the euro became its reporting currency.”

As viewed from inside a subsidiary, using the euro entails both costs and benefits. Anton Zvonko Kink, Financial Director of Revoz, a Slovenian subsidiary of Renault, explains how euro integration has taken place: *“As a Renault subsidiary, Revoz follows the business policy of the parent company. However, there were two other major reasons for switching to the euro: a large proportion of EU currencies in incoming and outgoing flows, on the one hand, and the benefits expected from the operation, on the other. During the euro implementation phase, software was adapted, prices converted into euros, bank capacity checked and partners informed of the changes involved. Employees in the sales, purchase and finance departments were trained. The introduction of the euro generated costs and benefits. Most of the initial costs resulted from modernising software. The benefits came from a reduction in conversion costs, from a simplification of cash management and from price transparency.”*

Bernd Steicher, Senior Vice-President and Chief Economist at Siemens, which has been using the euro as an internal currency since 1 October 1999, looks to the future and sees use of a new currency boosting turnover in trade with and within the candidate countries once the euro has officially replaced national currencies. However, he would like a reasonable timetable to be adhered to: *“The integration of the countries of Central and Eastern Europe into the European Union and at a later stage into EMU is certainly desirable. However, premature participation in EMU would be very risky. That is why getting things right is more important than speed.”* ■

Conversion strategy

The European Commission advises firms in the candidate countries to draw up a conversion strategy based on a precise evaluation of several criteria such as the degree of openness to the outside world, demand, supply plans, competition strategies, available banking services and internal resources. The euro will simplify daily activities and reduce costs. This is because the use of only one currency instead of twelve will make it possible in particular to combine everything into a single account and to benefit from a better return on deposits. Moreover, loans will be less expensive as the euro-zone market is bigger and more liquid. Firms which adapt faster to this new environment will without doubt be the ones which will benefit most. ■

Exchange of notes and coins: the situation by country.

	Early supply to financial institutions and retailers	Early supply of coins to public	Exchange by banks without charge (*)	Denominations of notes in ATMs	End-date as legal tender	Withdrawal of national coins	Exchange at banks after end-date as legal tender	Redemption period after end-date as legal tender (**)
	Financial institutions: 1.9.2001 Retailers: 1.12.2001	15.12.2001		€ 20, 50 €	28 February 2002, at midnight	By the banks under the control of the BNB and the Belgian Mint	31 December 2002	Notes: unlimited Coins: end-2004
	1.9.2001	17.12.2001		€5, 10, 20, 50 at most	31 December 2001		28 February 2002	Unlimited
		Not planned	GDR 30 000 (planned) up to 600 000	€5, 10, 20, 50 mainly	28 February 2002		Possible, period to be specified	Notes: 10 years Coins: 2 years
	Financial institutions: 1.9.2001; Retailers: Dec. 2001	(15.12.2001)	(No limit)	€10, 20, 50 or €20, 50	28 February 2002		30 June	Unlimited
	Retailers: December 2001	Exact date not yet decided	For customers, no charge up to 17 February 2002; limited where a customer is not involved		17 February 2002	Standard pack for retailers, stored at BDF	30 June	Notes: 10 years Coins: at least 1 year
	Notes: probably mid-November 2001. Coins sooner	Not planned	Up to a total of IEP 500 per person	€10 and 20 mainly	Saturday 9 February 2002, at midnight		For a period not yet specified	Unlimited
	Retailers: final days of 2001	Not planned	€500 recommended. No limit with one-day notice	€50 and 10 or €20 and 10	28 February 2002	ITL 50 and 100 coins before 2002		10 years
	1.9.2001	15.12.2001	No charge for customers	€10, 20, 50, 100	28 February 2002	By banks under BCL control	31 December 2002	Notes: unlimited Coins: end-2004
	Retailers: second week of December	17.12.2001	No limit up to 1.4.2002, exchange via bank account	€5, 10, 20, 50	28 January 2002 at midnight			Up to 1.1.2007 for coins and up to 1.1.2032 for notes
	1.9.2001	17.12.2001	ATS 50 000 recommended	€10 and 100	28 February 2002			Unlimited
	1.9.2001	17.12.2001	No limit for a deposit; also one transaction up to €500	€5, 10, 20, 50	28 February 2002	Storage at army facilities		Notes: 20 years Coins: 1 year
					28 February 2002		No official period	Notes and coins: 10 years

Figures in brackets indicate government intentions; * For customers; ** At central banks.



Could oil be priced, invoiced and paid in euros?

Eric Dor

**Professor at the Catholic University of Lille and at IESEG, France
Guest researcher at Leuven Catholic University, Belgium**

In the countries participating in European monetary union, the rise in the cost of supplying a barrel of crude oil since January 1999 has been particularly spectacular when expressed in the European currency. In fact, to the threefold rise in the dollar price of a barrel is added a 29% appreciation of the dollar against the euro since it was first launched. For this reason, some have expressed regret that oil is not priced in euros on international markets. This would have had two advantages: on the one hand, the appreciation of the dollar would have had no effect on the cost of oil in euros and would not have added further to the mounting oil bill for European importers and, on the other, the euro itself would have depreciated less against the dollar. Indeed, the rise in the dollar price of oil has triggered an increase in commercial transactions in dollars and therefore an increase in the demand for dollars, and this has been conducive to its recent appreciation against the euro. It is true that daily capital flows are almost 50 times greater than commercial flows and therefore have a much greater impact on the demand for currencies, but the movements detected in commercial transactions can fuel anticipations which then influence financial flows and the relative demand for currencies. Witness the movements triggered recently on the oil market.

Currently, the dollar is the currency used to *set prices and invoices* on the oil market. This is a concrete example of the dollar's function as an international *unit of account*, which is one of the attributes of an international currency, along with serving as a *medium of exchange* and a *store of value*. Like other commodity markets, the oil market takes the form of a market of uniform products (little differentiation) where competition is fierce: an importer's demand reacts significantly to small variations in the price expressed in his own currency. As a result, oil exporters have no incentive to set the price in their own currency. Market forces indeed mean that the prices invoiced by the various producers of the same oil product, expressed in the producers' various currencies, would be identical once expressed in another currency, whichever that may be (that of the same importing country). Under these conditions, it is more efficient all round if prices are expressed in the same currency so as to reduce information and comparison costs and thus make the market more efficient. For this reason, the prices on the oil market are always set in the same

third currency — the dollar — whatever the export and import currencies.

Why the dollar and not another currency?

The exporter and the importer must both incur the cost of a transaction on the foreign exchange market in order to change their respective currencies into the international currency used both as a unit of account and as a medium of exchange, or as a settlement currency.

The choice is therefore dictated by seeking the lowest transaction costs on the foreign exchange market. And it is widely known that these transaction costs are lower in the currency in which the largest volumes of trade are transacted. For this reason, the dollar was the obvious choice a few decades ago, at a time when the weight of the United States in commercial transactions was predominant.

Could the dollar now be replaced by the euro?

Typically, there is enormous inertia discouraging the replacement of one international currency by another. For example, the pound sterling remained an international currency for several decades after Britain had lost its status as a leading world economic power. The main reason for this inertia lies in transaction costs on the foreign exchange market. Every importer or exporter, like every borrower or lender for that matter, has an interest in using the currency used by most other firms since transaction costs are lowest in that currency. These costs can be measured by the gap between the buying price and the selling price, called the "bid-ask spread", which is lowest on interbank transactions. These gaps narrow as the liquidity of the market rises, favouring the currency that is already exchanged most often, and widen as exchange rates become more volatile. Currently, neither oil producers nor buyers outside EMU have an interest in the price being set in euros and in payments being made in euros. The lack of initial internationalisation of the euro means that transaction costs are higher than for the dollar and the marked volatility of the value of the euro has made this situation worse.

Oil-producing countries hold most of their official reserves in dollars and are trying for the most part to peg their currencies to the dollar, which means stabilising the nominal or real exchange rate of their



currency against the dollar. The considerable depreciation of the euro since it was launched is not an incentive for these countries to prefer to peg their currency to the euro rather than the dollar. A future oil market priced in euros would thus transfer the cost of hedging the exchange risk of European importers to the producing countries. Under current circumstances, it is not realistic to expect them to find this acceptable.

Market forces invariably play a decisive role when a new international currency is launched, and legislation does no more than adapt to the changed situation. Of course, European institutions, both public and private, could take the initiative to create an oil market priced in euros, in the same way as new stock markets are created. But, as with the share market, nothing will force the players on those markets, both buyers and sellers, to execute their transactions there. ■

Commission Recommendation on measures to facilitate the preparation of economic operators for the changeover to the euro

Preparations need to be speeded up considerably and the changeover effort should be more widely based.

Only a few months from the deadline, many studies carried out in the euro zone are indicating that there has been "some delay" in the preparations which need to be made by economic operators and individuals for the new currency. In other words, while it is not yet too late, it is time to make full use of the transitional period between the formal introduction of the euro and its physical introduction in the form of notes and coins — and in particular the year 2001 — to encourage economic operators and consumers to make their preparations and to stagger the technical changeover effort.

This is precisely the context in which the Commission Recommendation, which is also designed to flesh out certain provisions contained in its previous Recommendations of 23 April 1998 concerning banking charges for conversion to the euro, has to be viewed. Five articles are at the heart of the text: informing future users (Art. 1); helping citizens to become accustomed to the euro (Art. 2); encouraging economic operators to gain experience in using the euro (Art. 3); reducing the flow of transactions to be converted into euros (Art. 4); and, finally, facilitating the transition to the euro as legal tender (Art. 5).

Informing future users: continue the effort!



Member States should ensure that citizens are well informed of the arrangements for the changeover to the euro and that this information campaign will be continued for some time in 2002. It would appear that, because of less interest in the media and a slackening in communication efforts, some consumers currently know less about the euro and the timetable for its introduction than they did in 1999. A special effort should therefore be made in favour of those who have difficulties in obtaining access to information (e.g. people experiencing economic or social hardship, the elderly and people with a physical, sensory or mental handicap).

Public administrations should provide firms, especially SMEs, with precise information regarding the timetable and the legal, tax and accounting rules applicable to the changeover. In the social and educational spheres in particular, they should take an active part in the information campaign relating to the physical introduction of the euro and the need for citizens to prepare for it. The national education system and the social security funds are major channels which, as a rule, are not sufficiently used in this regard.

Trade associations, the Euro Info Centres, chambers of commerce and trade, accountants and management consultants, whose involvement differs greatly between Member States, should ensure that the firms with which they are in contact will make the necessary preparations and be able to carry out all transactions in euros from 1 January 2002. Banks should inform their customers of the practical consequences which will ensue at the end of the transitional period. They should in particular draw attention to the fact that it will be impossible to make book-money payments or hold accounts in the national currency unit after 31 December 2001. Finally, businesses should carry out awareness campaigns among their employees and develop ad hoc training campaigns for their employees who are in contact with members of the public.



Helping citizens to become accustomed to the euro



With the advance fixing of prices in euros, a situation will be avoided in which individuals have the impression that they are waking up in a foreign country on 1 January 2002.

Inverting dual display of prices has a twofold advantage:

- it will make it easier for the consumer to learn about the new currency because it will enable the consumer to see, and not merely glimpse, prices in euros. Many studies have shown that the current method of displaying prices (main price in the national currency with the euro equivalent) does not attract real attention. Setting prices in euros along with the equivalent in the national currency compels greater attention, thus helping people remember some reference points relating to euro values more readily;
- it will encourage better staggering of technical preparations by traders and will give them more time to correct any errors. It will not in itself be an extra cost as it will merely anticipate action which will in any event be necessary in January 2002.

During the third quarter of 2001 at the latest, therefore, prices should be set in euros along with the equivalent in national currency for all products sold at a distance and at sales outlets where book-

money payments predominate. Sales receipts should show the equivalent in national currency for the total amount to be paid. As soon as possible in 2001, public administrations and firms should pay the wages and salaries of their employees in euros, with an indication of the equivalent of the final amount in national currency. At the very least, payslips should show amounts in national currency and in euros. Pay negotiations between the social partners should be conducted in euros during 2001.

As soon as possible in 2001, advice of payment of pensions should show amounts in national currency and in euros. Where necessary, the pensions themselves should be paid in euros together with an indication of the equivalent of the final amount in national currency.

Public authorities, insurance companies and public utilities (for water, gas, electricity, etc.) should set their tariffs in euros during the third quarter of 2001 and should indicate on their invoices the equivalent in national currency of the final amount to be paid.

Encouraging economic operators to gain experience in using the euro

Unless a customer requests otherwise, the changeover of bank accounts and book-money means of payments into euros during the third quarter of 2001, together with a reference to the equivalent in national currency on the bank statement, will achieve a threefold objective:

- it will encourage economic operators to make greater use of the euro. Consumers who have already made several book-money payments in euros will naturally be less apprehensive and will find it easier to use the new notes and coins. For these consumers, the euro will have already lost the unsettling and mysterious feeling due to its novelty;



- it will help people to learn about the scale of euro values;
- it will stagger the technical changeover to be made by banks. The idea that the technical tools for changing a currency can be adapted without difficulty overnight is a myth. The opposite has been shown to be the case by trials carried out by economic operators who have made the changeover to the euro.

The Commission therefore recommends that, unless requested otherwise by a customer, bank accounts and book-money means of payment relating to them (cheques, transfer forms and cards) should be changed over from national currency to the euro at the beginning of the third quarter of 2001. Bank statements should contain an indication of the equivalent in national currency. All electronic payment terminals should be able to process transactions in euros on the same date. At present, only half of the stock of terminals managed by banks can carry out transactions in euros and the same applies to the rather small proportion of those owned by traders (as adapting them involves an expense for traders). Particularly in the distributive trades and tourism, economic operators are invited to conduct targeted campaigns with a view to encouraging use of the euro, for example, by awarding loyalty points to people who pay in euros.

Reduce the flow of transactions to be converted into euros



Open-ended contracts concluded in 2001 should be drawn up in euros (e.g. employment contracts). Fixed-term contracts (e.g. leases, loan agreements) concluded in 2001 and expiring after 1 January 2002 should also be drawn up in euros. These measures are aimed at getting economic operators used to thinking in euros and at halting the increase in the stock of legal instruments which will need to be adapted in 2002. Moreover, in view of the fact that the State is by far the leading economic operator, government and local authority contracts should be concluded and paid in euros during 2001 with a

view to producing a multiplier effect on the other actors. Firms set up in 2001 should also be encouraged to denominate their capital in euros. Finally, for the purpose of reducing the volume of physical exchange transactions, consumers should be encouraged to deposit their spare cash, namely, notes which they will not need for current expenditure, before the end of December 2001. Member States should also encourage them to make use in good time of their stock of coins.

Facilitating the transition to the euro as legal tender: exchange free of charge and without any ceiling for bank customers



During the dual circulation period, the exchange of notes and coins in a participating Member State should be free of charge and without any limit as to amount for customers of a bank in that Member State, subject merely to a prior notice requirement if the amount to be exchanged exceeds the ceiling set by the bank and corresponding to a "household" amount. The Commission Recommendation of 23 April 1998 concerning banking charges for conversion to the euro laid down the principle that the customers of a bank should not be charged for the physical exchange of national notes subject to a ceiling equivalent to a "household" amount. The lack of detail as to what would happen above that ceiling could have given the impression that there would be a charge, and this may have worried many consumers — especially elderly people — who hold their savings in cash. With a view to reassuring them and guaranteeing simplicity of operation, it is proposed to maintain the principle of no charge above this ceiling and to require only prior notice such as that generally required by banks for the withdrawal of large sums from an account. In order to take account of the situation of people who no longer reside or work in the immediate vicinity of their bank branch, notes would also be exchanged free of charge for people who are not customers but subject to the ceiling set by each bank.

Appropriate rules should be adopted to enable individuals to exchange their national notes and coins for euros at commercial banks and other financial institutions for an additional period after the end of the dual circulation period. They should also be able to exchange coins at official institutions after they have ceased to be legal tender and for an amount of time sufficient to enable coins to be returned during a later visit by holders residing abroad. The period stipulated by the central banks for the exchange of notes is generally very long (10 years) or unlimited. Certain Member States are considering a very short period for coins, however. But many tourists take coins with them and cannot change them in their country of residence. Member States are asked to provide for the possibility of changing national coins with official institutions — normally the central bank — during a sufficiently long period to enable visitors to exchange them during a subsequent visit.

With a view to making it easier to give change, sufficient quantities of small denominations of notes should be made available in automatic teller machines or through any other suitable means as of the beginning of 2002. Member States, trade associations and chambers of commerce should encourage traders, craftsmen and the liberal professions to give change only in euros as from the beginning of January 2002. Indeed, giving change in euros is a prerequisite for a fast changeover to euro notes and coins. While it is in traders' interests to keep the dual circulation period as short as possible, giving change in euros nevertheless requires their active collaboration. For instance, traders are called on to play the role of a "currency vacuum cleaner", as it were, by giving change in euros and bringing their stock of cash to the bank each day in order to exchange it for euros. ■

Avoiding difficulties in 2002

The context of this recommendation is an exceptional one: there are many signs which give grounds for believing that the current preparations which are being made by economic operators and consumers are not what they should be. As Mr. Pedro Solbes has explained: *"The long transition phase between the creation of the euro and its introduction in the form of notes and coins should, among other things, have given sufficient time to economic operators to prepare themselves from a technical point of view and it should also have given consumers sufficient time to become used to the new prices and values. In the absence of early action, this objective may not be fully achieved."*

Studies carried out by the Commission and in the Member States have concluded that there have been delays in these preparations generally and that these could give rise to major difficulties at the beginning of 2002. For example, the most recent quarterly score — which assesses the results of the second quarter of 2000 — assigned by the Commission for development and use of the euro shows that, in most participating States, fewer than 1% of firms have switched over their accounting systems to the euro. In volume terms, the average share of payments in euros has been only 1.8% for private individuals and 3.2% in the case of firms. Many firms are mistaking the end of the transition period for the end of the dual circulation period and are thinking of 30 June 2002 as the date for the latter.

This finding has led the Commission to give greater consideration to measures which could improve the situation and make it possible for the euro to be introduced flexibly and smoothly. With a view to discussing this question, the Economic and Financial Affairs Directorate-General set up an advisory group last May which brought together the main European professional federations (ranging from banks to audit firms and the tourist industry) and European consumer protection associations. The Commission also used other networks at its disposal — such as those involving the national officials responsible for the changeover to the euro — for the purpose of drawing up a survey of good practice relating to the preparations for the currency switchover. During the discussion following its communication of 12 July 2000 regarding the practical aspects of the changeover to the euro, the Commission announced at the informal Versailles Ecofin Council that it would be presenting new proposals. As Mr. Solbes stated: *"While this draft recommendation is a concise one, its scope is also a wide one. It is based on the conviction that it is now up to the Commission to play its policy role of giving an impetus in this matter by proposing a series of measures designed to speed up considerably the preparations for the changeover to the euro and to permit a better spread of the technical effort relating to the changeover."* ■



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€-Day for private individuals 12 months to become acquainted with the euro



- Most cash dispensing machines will be able to distribute euros. The denominations distributed may vary in amount from one country to another.
- Most traders will give you change in euros even if you have paid in a national monetary unit.
- Public authorities will also have changed over to the euro; in other words, all transactions with them will be conducted in this currency.
- Cheques, banking transactions, new contracts and all "book money" transactions will no longer be conducted in a national monetary unit but in euros.

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1.1.1999 : Opérations bancaires possibles en euro

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€-Day minus 12 months : No change in the date of 1 January 2001 but this is a period which is growing shorter. That date will mark the start of the last year in which we shall be living with national currencies. According to circumstances, we will increasingly be encountering the euro, especially with dual displays of prices and on payslips, invoices, etc.

€-Day minus 6 months : As from 1 July 2001, but with variations from one country to another, bank accounts will be gradually converted into euros automatically. A bank customer may always temporarily object, although the process will in any event be concluded on 31 December 2001 at the latest. In some countries, calibrating equipment will gradually display prices in euros (petrol pumps, taximeters, etc.), while major billers will give priority to use of the euro in their relations with customers.

€-Day minus 15 days : In most countries, private individuals will be able to obtain euro-coin kits of varying amounts. Note: the date will not be the same everywhere!

€-Day : On 1 January 2002 euro notes and coins will be introduced simultaneously in all countries of the euro zone.

€-Day + 15 days : With variations between countries, you will use the euro in the vast majority of cases. It has been estimated that between 80% and 100% of cash transactions will be conducted in euros on this date.

€-Day + 1 to 2 months (depending on the country involved) : Notes and coins in the national monetary unit will cease to be legal tender. You will no longer be able to use them as a means of payment, although they will keep their value.

From €-Day to + 6 months/1 year : You will be able to continue exchanging your notes and coins for euros at commercial banks. Note: the date and the terms governing exchange will not be the same in each country.

From €-Day to + 1 year/no set date : You will be able to exchange your notes and coins for euros at the central bank in your country. The expiry date will vary between countries. It will be a minimum of 1 year for coins and 10 years for notes. There will therefore be no reason for you to rush to make the exchange at the beginning of 2002!

For the exact dates (where already indicated), please see the summary table on pages 8 and 9 . This table will be regularly updated in the next few issues. ■



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