


Green Paper on the practical arrangements for the introduction of the single currency (31 May 1995)

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GREEN PAPER

ON THE PRACTICAL ARRANGEMENTS FOR THE INTRODUCTION OF THE SINGLE CURRENCY

(presented by the Commission)

FOREWORD

Europe will have a Single Currency

By the end of the century, Europe will have a single currency. It will be strong and stable. This is the wish of its leaders and peoples in signing and then ratifying the Treaty on European Union.

Making the change is a complex and politically delicate operation, requiring the utmost care and preparation. Stage Two of Economic and Monetary Union began on January 1 1994 and is the period designed by the Treaty for preparations leading up to the final and irrevocable fixing of currency parities no later than January 1 1999.

However, the Treaty does not enter into the detail of the methodology to be pursued. It says only that there must be a "rapid" introduction of the ECU¹ as the single currency after the irrevocable fixing of parities. The aim of this Green Paper is to contribute to the debate on the best way to achieve this goal.

Convergence criteria are of primary importance

The need to raise awareness of the technical issues involved does not in any way weaken the primary importance of economic convergence. This is at the heart of the Treaty and the indispensable condition for a strong and stable single currency, at least as strong as the strongest national currency. The Treaty has provided four criteria for measuring this convergence and one of them, covering public finances, focuses both on budget deficits and outstanding public debt.

These four criteria are both key indicators of sound economic management and the objective basis for a political decision. They must be strictly and fully respected, both before and after the changeover to the single currency.

The Treaty lays down procedures for ensuring respect for the criteria and sanctions when they are not respected. This is the only way to build Monetary Union on solid foundations and to guarantee its permanence. It is also the only way to provide Europe with that stable macroeconomic environment it needs for faster growth and more job creation.

Steady progress towards satisfying the criteria has been made in the last two years, notably in narrowing differences of inflation and interest rate levels between Member States. But overall progress towards convergence is still unsatisfactory, particularly as regards public finances : Member States have to step up their efforts on this front.

¹The word "ECU" is used in this document as it is written in the Treaty. In the context of the public acceptance of the single currency, it is important that the issue of its denomination should not become an obstacle to the technical preparations. If necessary, this requires a discussion at the political level.

Relations between the Monetary Union and non-participating Member States

Not all of them make enough progress on convergence within the time available. This possibility is clearly envisaged by the Treaty which allows Member States to proceed to Monetary Union at different speeds. As participants in the Council of Economic and Finance Ministers and the General Council of the European Central Bank, those not in the first group will be constantly encouraged to continue their efforts to meet the necessary conditions.

Furthermore, two Member States have an "opt-out" clause which allows them to decide separately on their willingness to take part in the Monetary Union.

A highly delicate matter which should be clarified as soon as possible is the future relationship between participating and non-participating Member States. Means of safeguarding the single market during the transition phase must be examined. Stability will need to be assured in relations between the currencies of the two groups and more thought is needed on precisely what mechanism will be necessary after the beginning of Stage Three.

How to proceed to the single currency

It is not the purpose of the Green Paper to answer the questions "who" and "when" about Monetary Union. They can be settled only by the European Council, and they will be in the course of time. But when the moment comes for the Heads of state and government to decide on the passage to the single currency, they will need to be sure that the question "how" can be fully answered.

Identifying the correct responses has been, and is, a continuing process which began several years ago and has gathered pace with the very broad consultations of recent months. These will continue for some time with all those directly concerned with the issues which have yet to be resolved. The Green Paper is a very important stage in a process, but it is only one stage.

In its preparation, the Commission has sought to avoid the pitfalls of either exaggerating or underestimating the difficulties ahead. The former might have given the impression of helplessness, or of internal divisions, while the latter could have resulted in a cut and dried approach, seeking to impose options right down to the last detail, including on those matters clearly requiring more thought. Many details have still to be worked out, in due course. They should be balanced and in particular prevent any distortion between banks, financial centers and countries.

Three ambitions for the Green Paper

The Green Paper seeks to encourage progress towards :

- reducing uncertainties, first and foremost about the overall costs of the changeover. Different scenarios can be envisaged, each with its advantages and disadvantages. They need to be judged according to sometimes contradictory criteria : public acceptability, efficiency, flexibility, pragmatism, respect for the Treaty and the credibility of the process. Without giving an ideal and definitive answer, the Green

Paper presents a reference scenario together with the necessary details of the legal framework required ;

- raising awareness of the key actors of the work to be done. The Green paper lists the technical questions to be resolved ;
- winning, at each stage of the process, public acceptance and support without which the operation cannot succeed. The Green Paper sketches a preliminary approach to defining communications strategies and emphasises that a great deal more planning needs to be done. A common impulse is needed whose decentralised execution should reflect very different national circumstances.

A reference scenario in Three Phases

Despite the breadth of the Green Paper's contents, the reference scenario is bound to receive most attention. Without entering into details, it divides the changeover into three phases characterised by :

- the decision of the Council, meeting at the level of heads of state and government, to launch the single currency ;
- followed no more than a year later by the effective beginning of Economic and Monetary Union with the irrevocable fixing of parities. During this phase, the scenario envisages a "critical mass" of financial activities in the single currency built around a single monetary policy and the emission of new public debt ; these are the two signals which the markets are waiting for ;
- completion of the transition no more than three years later with the introduction of notes and coins and the changeover of other payment systems.

The Commission believes that the "critical mass" scenario offers at this stage the most balanced means of satisfying the various requirements for a successful transition mentioned above.

A process involving all of the institutions

The Commission's Green Paper contributes to the implementation of the Treaty, but it is not the end of the process which concerns the future lives of all Europeans. All institutions will have to play their role according to their respective competencies. Cooperation is needed, and has to be constructive.

A major role is given to the European Monetary Institute. In particular, it has the exclusive responsibility concerning the design of the European banknotes and the future monetary policy instruments as well as concerning the preparation for future responsibilities falling to the European System of Central Banks.

For its part, the Council has a key leadership role. It has to take the final decision on the package of measures necessary for the rapid introduction of the single currency.

III

As the Union's only elected institution, the European Parliament should be fully involved in the process. It has a particularly important role to play in bringing the single currency closer to the citizens.

Member States have vital tasks to accomplish in numerous areas, notably communication, the adaptation of legislation and ensuring that their administrations, particularly those responsible for fiscal matters, ~~make~~ the necessary technical preparations. This work will be time consuming and should begin as soon as possible.

Conclusion

In the eyes of public opinion, the credibility of the EMU objective has clearly been hurt by the recession and the currency turmoil of the past three years. Polls still indicate a narrow overall majority support for a single currency but the situation differs widely between the countries.

However, the need for a strong and stable single currency is greater than ever. The Commission is absolutely convinced of this and recent events have served only to strengthen this conviction.

The time has come to take concrete actions to implement the objectives set out in the Treaty. By publishing the Green Paper, the Commission is playing its part and launching a call to action to all those most concerned, institutions, governments, as well as the private sector. The sooner Member States' economies converge, the more quickly will doubts dissolve. The sooner banks and enterprises start to prepare, the greater the benefits to them; the lesson here is just as it was with the single market.

At the same time, there is a need to explain to Europe's citizens the real value of their new money, and to convince them that it is an element of stability, growth and the future well-being of our continent. This will need a determined communications effort which is simple, continual and transparent.

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INTRODUCTION

1. By the end of the century, the European Union will have a strong and stable single currency. This is the wish of its peoples and its leaders, in signing and then ratifying the Treaty on European Union.

Economic and monetary union is a central commitment of this Treaty which aims at consolidating peace and prosperity which, from the outset, have been the prime objectives of the construction of Europe.

Today, when trade between Member States accounts for 60% of their total trade, the attainment of the common market and the liberalisation of capital movements call for a logical and essential complement: the single currency.

In the last few years, the unacceptable rise of unemployment, the difficulties caused by recession and the excessive or unwarranted fluctuations on foreign-exchange and capital markets have impaired progress towards economic and monetary union in Europe. Certain sectors of public opinion have been seized by doubt. In economic and financial circles, the desirability, credibility and feasibility of the single currency have been questioned.

The Union would have withstood these difficulties better had the single currency existed. This conviction is gaining ground and is further strengthening Member States' commitment to the Treaty on European Union; now it has to win over public opinion in Europe.

The single currency cannot be brought about by decree. Europe is profoundly attached to the principles of democracy: a historic step of this magnitude must reflect the wishes of its citizens. The European institutions must guarantee the openness and the transparency required by a development which will affect the everyday lives of each of us.

This is the purpose of the present Commission's Green Paper : to help foster among Europeans a pride in their currency and to encourage them to play a full part in making it a reality.

It gives rise to three groups of questions :

- Why the single currency? What benefit will it bring for Europeans? What about the fears?

- What is the Treaty's design for economic and monetary union?
- Why is a Green Paper needed today? How can it be really useful? What will be the questions - and answers - forthcoming from the citizens of the Union, business, banks and government, i.e. all the players involved in the transition to the single currency?

Section 1

The single currency, a factor of stability and prosperity

2. The increasingly closer integration of the European economies calls for greater monetary coordination, against a background marked by the disappearance of fixed exchange rate regimes and the globalisation of the world economy.

The establishment of the European Monetary System represented the first step in this direction. But the currency turbulence of recent years has demonstrated the need to go further.

Only the single currency and its environment of stability will provide the citizens of Europe with the many practical advantages listed below :

- a more efficient single market, once the single currency is in place;
- the stimulation of growth and employment;
- elimination of the additional costs connected with the existence of several European currencies;
- an increase in international stability;
- enhanced joint monetary sovereignty for the Member States.

An essential complement to the single market

3. For the single market to work smoothly, exchange-rate adjustments must not be allowed to disrupt trade or investment through their unpredictable impacts on profitability. An exchange-rate adjustment, even a moderate one, may substantially alter the balance of a contract between two European firms and at the same time affect the relative wealth of citizens and the purchasing power of consumers. Only a single currency covering the largest possible number of Member States can shelter firms and individuals from these disruptions.

For the first time it will also permit a genuine comparison of the prices of goods and services across frontiers. This will be of benefit to consumers and business alike, sharpening competition and boosting trade within the single market.

A stimulus to growth and employment

4. The single currency will promote investment and employment in two ways :
 - because it is based on a solid economic framework in which public deficits are under control and price stability secured. This will foster trade, improve the allocation of resources, encourage increased savings, enhance growth and in the end create more employment and higher living standards;
 - because the European Central Bank will have the means to fulfil its primary objective, that is to ensure price and monetary stability throughout Europe. The clearly defined nature of this task, the independent status of the ECB and its strong constitution will foster market confidence, which, in turn should be conducive to low interest rates, in particular long term rates. This is especially welcome for SMEs.

A factor in lowering costs

5. Transaction costs (the costs of foreign-exchange transactions or the costs of exchange-rate cover) will disappear altogether within the monetary union. These transaction costs are far from negligible: they are estimated to be 0.3-0.4% of the Union's gross domestic product, i.e. ECU 20-25 billion.

Everyone has to pay them. For example, an individual leaves his country with 1 000 marks, francs or pounds in his pocket and visits each of the countries of the Union in turn. At each border crossing, he changes his money into the currency of the country he is entering. On his return home, he will be left with less than 500 marks, francs or pounds or any other European currency, without having made a single purchase.

A contribution to international stability

6. The European Union is the world's leading trading power. Its currency will naturally become one of the main exchange and reserve currencies, on an equal footing with the dollar or the yen.

Europeans should increasingly be able to pay for their imports from third countries in their own currency. European firms should increasingly be able to export their products and invoice them in their own currency. They will be able to calculate the profitability of their investment programmes on a sound basis, and thus safeguard employment.

Equipped with an internationally recognised currency, Europe will also be better able, together with its US and Japanese partners, to strive for greater stability in the international monetary system.

Enhanced joint monetary sovereignty

7. For some, the transition to the single currency means the loss of national monetary sovereignty. But how much autonomy do monetary policies really have today in Europe? With capital moving freely between interdependent economies, an autonomous monetary policy is no longer a credible policy option. Member States will only lose a prerogative, which in practice they cannot use. By collectively managing EMU's monetary policy, the participating central banks will exercise a new kind of joint monetary sovereignty - a shared but effective responsibility over one of the strongest currencies in the world.

What about the fears

8. A single currency means irrevocably fixed exchange rates. Some people fear that when their country is experiencing particular difficulties, the exchange rate instrument cannot be used to deal with them. However, this instrument provides - mostly temporary - relief only in special circumstances. In most cases, such difficulties are better addressed or cushioned through other channels for which the responsibility remains largely within the Member States, such as budgetary policy or the functioning of the labour market. For this reason, the Treaty spells out the need for a high degree of convergence and the principle of an open market economy with free competition. In the case of difficulties caused by exceptional occurrences beyond the control of a Member State, the Treaty foresees however the possibility of granting, under certain conditions, Community financial assistance to be decided by the Council.

Section 2

The Treaty on European Union provides a sound and clearly defined foundation for economic and monetary union

9. The Treaty :

- is designed to establish the single currency as one of the most stable currencies in the world;
- establishes economic and monetary decision making centres which are strong and balanced;
- sets a single currency goal to match those with the best track records;
- lays down a precise and realistic timetable for achieving this goal.

The ECU will be one of the strongest currencies in the world

10. For monetary union to be credible and strong, it must encompass only countries which are well managed economically. To this end, the Member States have undertaken to improve the performances of their economies to match those with the best track record. This is the concept of convergence.

In order to assess whether the degree of convergence is sufficient, the Treaty sets out the rules of good management which must be followed. These are the convergence criteria, which in fact embody sound economic principles in so far as inflation, interest rates, exchange-rate stability, and government deficits and debt are concerned.

For the single currency to be sound, these criteria must be scrupulously observed not only for entering the third stage but also for participating on a lasting basis in monetary union. The Treaty lays down procedures, which could lead to financial sanctions, and allows market forces (no bail out) to encourage those Member States which are failing to do so.

The institutions of an economic and a monetary union

11. The sound management of EMU must be permanent : compliance with the criteria is not simply a test of qualification for membership but a lasting commitment by the Member States to adhere to an economic policy conducive to sustainable growth, employment and the maintenance of purchasing power.

EMU is built on two foundations : a strong focal point for the coordination of economic policies (the Council of Economics and Finance Ministers) and an independent monetary institution (ESCB).

The Council of Economics and Finance Ministers is responsible for defining the broad guidelines of economic policy; it has means at its disposal to apply pressure on participating countries to meet their budgetary commitments. In addition, there is no possibility of bail out.

The European System of Central Banks (ESCB), which brings together the central banks of the Member States and the European Central Bank (ECB), is independent: they cannot receive any instructions from either Member States or the European institutions. The ECB freely determines the Union's monetary policy and its task is to guarantee price stability.

A single currency is a common goal

12. The single currency should ultimately cover the entire single market. New members of the Union must also comply with the relevant provisions of the Treaty on European Union as has been the case for Austria, Finland and Sweden.

Not all Member States will have achieved a sufficient degree of economic convergence by the time EMU starts. However, the Treaty allows for different rates of integration. Those countries which do not meet the criteria from the outset will fully participate in all the procedures (multilateral surveillances, excessive deficit) designed to facilitate their future participation. The Governors of their central banks will be members of the ECB General Council. The Member States with a derogation will treat their economic and monetary policy as a matter of common interest within the competent bodies of the Union. However, they will not take part in decision-making as far as the actual management of the single currency is concerned.

When the Treaty was signed, the United Kingdom and Denmark wished to reserve the right not to participate in monetary union and Denmark has since then notified that it will not participate. This "opt-out" was agreed by the other signatories. This meant that those two Member States were able to ratify the Treaty, thereby subscribing to all of its provisions, including Protocol No 10, by which Member States undertake not to oppose the transition to the single currency.

The Treaty sets out a precise and realistic timetable

13. The second stage of economic and monetary union began on 1 January 1994. Since that date, the Ecofin Council has had new instruments at its disposal to promote convergence :

- each year in the spring, it endorses the broad guidelines of economic policy, which lay down the common objectives in terms of inflation, public finance, exchange rate stability and employment;
- it discusses Member States' economic policies on the basis of national convergence programmes (in which each country adopts a multiannual strategy for meeting the criteria at the earliest possible moment) and the Commission's report on convergence;
- it decides which countries have an excessive deficit; and recommends to each of the countries the measures needed to remedy the situation. If these recommendations are not followed, it may decide to publish them, a step that could have a significant political and market effect.

The year 1994 also saw the creation of the European Monetary Institute. As the forerunner to the European Central Bank, the EMI has to strengthen central bank cooperation and the coordination of national monetary policies. It has to make the preparations required for the establishment of the ESCB, for the conduct of a single monetary policy and the creation of a single currency in the third stage of EMU, including the preparation of banknotes. In all these areas, significant progress has already been achieved.

At the meeting to be held at the end of 1996, the Council, composed of the Heads of State or Government, will decide whether a majority of Member States meet the conditions for embarking on monetary union. This decision will be taken by qualified majority. If the decision is in the affirmative, and if it deems it appropriate, the Council will set the date for the beginning of the third stage.

The third stage will in any case start no later than 1 January 1999. The transition to a single currency will be automatic on that date for those countries which meet the criteria, however many of them there are.

At that date, the monetary union will be a reality: exchange rates between national currencies and against the ECU will be fixed irrevocably. The European Central Bank will be operational and will conduct the single monetary policy; the ECU will be a currency in its own right; the foreign-exchange markets will fix its value against third currencies, for example the dollar and the yen. Such is the undertaking entered into by the Member States and democratically ratified. Such is the design of the Treaty on European Union.

In these circumstances, why the need for a Green Paper?

Section 3

The Green Paper will reduce uncertainties

14. In less than four years, EMU will be a reality. The time has come to launch the final stage of the preparatory work and to determine together with all players involved how to prepare for the introduction of the single currency. It is not a matter of "who" will take part and "when", but "how" this will happen.

For this, encouragement, not prescription, is what is needed.

The Green Paper adopts an open and interactive approach

15. The choice of green is the first symbol of this approach. The aim of the Green Paper is to establish a list of questions posed by the introduction of the single currency. It does not necessarily try to respond to all of them in a detailed definitive manner. Instead, the Commission would like this document to be used for reference and discussion by all those concerned by the introduction of the single currency (Member States, the European Parliament, the EMI, central banks, banks, firms, consumers, and others).

In recent weeks, intensive consultations have allowed the Commission to identify more clearly expectations and constraints. This interactive process must continue and intensify.

To assess the constraints with which the process must contend, the Commission set up an independent group of experts chaired by Mr. Cees Maas which held a large number of hearings with professionals concerned. The conclusions reached at this stage by this group are published at the same time as the Green Paper. They allowed a greater appreciation of the technical feasibility of the changeover to the single currency.

Thus, the Green Paper combines a detailed review of the questions raised by the introduction of a single currency, with a presentation of the views of the Commission on some of these questions and an indication of those areas where further consultations are still necessary. Where the Commission puts forward its own view, it does so in the interest of the smooth working of the whole process. While the Commission keeps entire responsibility for these expressed preferences, it is still open to further discussion and consultation in order to identify the best solution.

The Green Paper pursues a threefold objective

16. *First, it sets out to remove as far as possible the uncertainties still surrounding the changeover to the single currency.* Uncertainty is the primary factor affecting cost and risk : its several aspects must be rapidly removed so that the banking sector, government and firms can prepare to make the necessary investments.

At the political level, consideration of the Green Paper's conclusions by the Cannes European Council should be an opportunity for the Member States to reaffirm their commitment to the timetable set out in the Treaty and contribute to the necessary preparations to meet the timetable.

Currency users require a reference scenario and legal certainty in order to undertake the preparations that are necessary. This is addressed in the first and third parts of the Green Paper respectively in order to identify the most suitable approach in collaboration with all interested parties.

17. *Second, it sets out to demonstrate the technical feasibility of the transition to the single currency.* The aim of the Green Paper is to establish the key issues proposed by the introduction of the single currency, so that they might be openly discussed and better understood. In this respect, it represents a response to the frequently expressed concern of those in the private sector who have urged the Commission to make its best endeavours to clarify the practical arrangements for introducing the single currency.

18. *Third, the Green Paper defines possible approaches for encouraging public acceptance of the changeover to the single currency.* The fourth part is devoted to the communication campaign which is needed to bring home to European citizens the advantages of the single currency and to prepare everyone for the practical measures required for the introduction of the ECU. The timely adoption of the suggested technical measures should ensure an orderly and smooth changeover. An appropriate preparation

will help to alleviate doubts, in particular in those countries where the present strength of the national currency makes it more difficult to accept the changeover. The support of all citizens is crucial to the success of monetary union.

These objectives determine the structure of the Green Paper :

Part 1: the transition scenario

Part 2: the role of the different groups of currency users

Part 3: the legal framework of the single currency

Part 4: communication.

Part 1 - The transition scenario

Chapter I

Criteria which shape the scenario

19. The Treaty provides for the "rapid" introduction of the ECU as the single currency from the beginning of monetary union, i.e. when conversion rates have been irrevocably fixed, and the ECU has become a currency in its own right.

With this in mind, the Commission has devised a reference scenario based on three criteria which, in its view, determine the choice of scenario. These are: feasibility; compliance with the legal framework and credibility of the process; simplicity, flexibility and low costs.

Section I

Feasibility

20. In many respects, the most satisfactory transition would be for all sectors to change simultaneously to the single currency at the start of stage three. This approach is known as the immediate big bang.

However, it has become apparent that this solution raises insurmountable difficulties. To some extent, this was anticipated by the drafters of the Treaty who chose the word "rapid" for the transition, and not "immediate". These difficulties are of two kinds :

- *the need for preparation.* The move to the single currency will impact upon the daily lives of hundreds of millions of consumers and citizens, tens of millions of firms, particularly on their accounting systems (see Part 2), and all public administrations, financial or otherwise. Past experience shows that the complete success of the transition depends on the launch well in advance of a comprehensive information campaign and continuing for some years (see Part 4);
- *the time required for technical changes.* The EMI presently envisages that three years will be needed for the manufacture of banknotes, once their technical characteristics are decided upon. Directors of national mints have made a similar estimate for coins.

It has also been suggested that a period of several years will be required by the banks in order to fully adapt their management and information systems, and by vending machine operators who will need to adapt the existing stock of machines.

It is now accepted that the necessary preparations cannot be fully launched before the Council's decision to move to EMU. The complete changeover to the single currency cannot therefore take place on the first day of stage three.

Section 2

Compliance with the Treaty and the credibility of the process

21. The explicit reference in the Treaty to the ECU as a currency in its own right and to the rapid introduction of the single currency implies for the Commission that at the start of stage three, a sufficient number of activities must switch to the single currency.

This also reflects the views of the operators on the financial markets, who consider that the political will of the authorities must be reflected in decisions accompanying the irrevocable locking of exchange rates. This has led the Commission to consider :

- that monetary policy and exchange rate policy should be conducted in the single currency by the European Central Bank and the European System of Central Banks;
- that governments should switch their public debt issues to the single currency within the shortest possible time, bearing in mind the technical constraints of the market.

These two steps clearly reflect the balance between the monetary and economic provisions of the Treaty. They are complementary signals designed to show the combined determination of both the political and the monetary authorities. If one or other was absent, the credibility of the process could be questioned.

One consequence could be a strong preference on the part of investors for securities denominated in national currencies enjoying the greatest reputation for stability prior to the monetary union, despite the new situation in which exchange rates were irrevocably fixed and refinancing conditions were the same. If this were to happen, there could be an impact affecting both the relative movement of long-term rates and the relative position of financial centres within the area of monetary union.

Section 3

Simplicity, flexibility and low cost

22. The technical difficulties raised by the move to the single currency must not be solved by creating pointless, incomprehensible and costly complications in the lives of citizens, consumers and business. As past experience shows, success depends on the choice of a process which is simple and transparent for the greatest number.

This means in particular that the changeover in the various means of payment (notes and coins, cheques, cards, transfers, payment orders) must take place in an orderly basis, and in a simple way.

The need for simplicity must not, however, lead to an excessively rigid approach. Flexibility is appropriate, for example :

- *when there are wide dissimilarities within a category of currency users.* This is particularly the case for enterprises. Most of them will probably wish to adapt to the single currency gradually, but those which are heavily involved in intra-European trade may find it advantageous to convert their treasury management very early in the process. Even today, some international groups have adopted the basket ECU as a unit of internal management;
- *when it is possible and desirable to allow the free play of competition and the market,* in particular as regards the services which banks will offer their private customers before the general changeover.

Section 4

Other scenarios

23. Other scenarios than the one to be presented below have been put forward, but the Commission considers that they do not meet the above-mentioned criteria to the same extent. A general purely demand-led scenario would, for example, entail greater complexity and involve higher costs, especially for the banking sector.

24. A delayed big bang would, on the other hand, have most of the advantages of an immediate big bang, especially with respect to the simplicity and cost criteria. All operators and all banks, even the smallest ones, would be put on the same footing and any possibility of dual accounting would be excluded. These are some of the reasons why such a scenario is favoured in various quarters and it is still under discussion.

However a number of comments can be made about this scenario :

- it is not a priori consistent with the Treaty provisions which call for a rapid introduction of the ECU;
- it does not ensure as from the beginning the credibility associated with a widespread use of the ECU in the banking and financial sector;
- it delays addressing issues of public acceptability and familiarisation.

Therefore, even if there are other solutions, the Commission has preferred to focus at this stage on a specific reference scenario which, in its view, is most consistent with the criteria mentioned above.

Chapter II

A reference scenario for the move to the single currency

25. The Commission in this chapter provides a reference scenario for discussion and clarification. The transition scenario is a crucial element in the practical arrangements for moving to the single currency. It must provide operators with the certainty they need to take the investment decisions that are essential for the smooth operation of the changeover. Rather than imposing a rigid solution, the Commission intends to identify the most suitable approach in collaboration with interested parties and in accordance with respective competences.

The changeover must be as *short* as possible so as to mitigate the risks of confusion that would weaken the credibility of the process and the determination of operators to carry it through. It must proceed in a number of well-defined *phases*, with substantial progress being made during each successive phase. It must minimise the *costs* by avoiding arrangements which call for costly transitional measures which would become rapidly redundant. Lastly, it must inspire public *confidence* and allow individuals to become familiar with the single currency.

26. A three-phase reference scenario is presented which corresponds to the letter, spirit and logic of the Treaty :

- launch of economic and monetary union (**PHASE A**);
- effective start of EMU and emergence of a critical mass of activities in ECU (**PHASE B**);
- final changeover to the single currency (**PHASE C**).

A smooth transition would be facilitated if the measures envisaged for each phase, whenever possible, were taken ahead of schedule. Public authorities concerned (Council, Commission, European Monetary Institute/European Central Bank, Member States) must send clear signals as quickly as possible to different currency users so as to convince them of the imminence of EMU.

Section 1

PHASE A : The launch of economic and monetary union (EMU)

27. The start of **PHASE A** is characterised by the decision of the Council to move to monetary union in accordance with the procedure laid down in the Treaty (Article 109j and 109l). The aim of this phase is to take the decisions and measures required for moving to EMU, at **PHASE B**. The most significant is the establishment of the European System of Central Banks (ESCB) and the European Central Bank (ECB) with the appointment of the Executive Board of the ECB. In conjunction with banks and financial institutions, the ESCB/ECB would begin to introduce the operational instruments required for conducting monetary and exchange rate policy in ECU from the start of the

ensuing phase. On the basis of available estimates, these preparations should be completed within a maximum of twelve months, thus determining the maximum duration of **PHASE A**.

28. In order to generate irreversible momentum, the Council, as part of the decision to move to monetary union, should announce the final date for the full introduction of the single currency (at the latest four years after the start of **PHASE A**).

29. In addition, the Commission considers that at the beginning of **PHASE A** the following package of measures should be adopted :

- the **legal framework** allowing the single currency to be introduced at the start of **PHASE B**. *Inter alia*, this would include conditions for using the new currency in the different sectors and relations with national currencies, continuity of contracts and legal obligations; legislation enabling financial and tax authorities to collect some payments in ECU at the start of **PHASE B**;
- the **characteristics and technical specifications of notes and coins** such that cash handling machines and information systems can be adapted. The **decision allowing the production of ECU notes and coins** to begin would be taken by the competent authorities;
- establishment of a **national steering structure** for supervising the move to the single currency, involving all the currency users concerned (government, central bank, private sector, consumers). It would draw up an **action plan** for adapting public administration at national and local levels. Some form of coordination would be put in place at the Community level;
- definition of a **changeover plan** in each country by the banking and financial community which would specify the speed and scope of the technical adaptation of its members. Such a plan would establish a number of technical arrangements necessary for a smooth changeover (capital markets and their infrastructures - quotation, settlement, delivery, registration, wholesale payments systems).

This package should be prepared in advance, and some of the measures preferably should have been adopted well before the start of **PHASE A**. Throughout this phase, private operators would continue, on a voluntary basis, their own preparations for the move to the single currency.

Section 2

PHASE B - Effective start of monetary union and the emergence of a critical mass of activities in ECU

30. Under the Treaty, the start of **PHASE B** is marked by the Council fixing the conversion rates of participating currencies and by the ESCB assuming responsibility for the single monetary policy. The ECU ceases to be defined as a basket of currencies and becomes a currency in its own right, for which the national currencies are perfect substitutes, i.e. different denominations of the single currency. The fixing of conversion rates will not in itself affect the external value of the ECU. The conversion rate of the basket ECU in relation to the single-currency ECU is 1:1. Official foreign exchange markets for the participating national currencies will disappear completely.

31. This phase marks the entry into force of stage three of EMU and would last a maximum of three years. In order to reinforce the perceived credibility and irreversibility of EMU, the Commission believes it important to generate a rapid momentum for the introduction of the single currency by the immediate creation of a critical mass of activities in ECU. The emergence of this critical mass would require an initial changeover in the banking and financial sector, which would then have a maximum of three years to complete the changeover of remaining operations and systems.

32. The definition of this critical mass of ECU activities will have to be clarified in the months ahead in consultation with the banking sector and the EMI which is the responsible institution for preparing the monetary policy framework. However, the Commission would like the definition to be as broad as possible, so as to include monetary and exchange rate policy, inter-bank, monetary, capital and exchange markets, new government debt and wholesale payment systems..

- *Monetary and exchange rate policy in ECU:* the Commission takes the view that the single monetary policy should be defined and implemented in terms of the single currency from the start of this phase. The ESCB would conduct ECU transactions with all operators involved in monetary policy (national central banks, banks). This would affect the whole range of instruments associated with monetary policy : refinancing, open-market operations and, more generally, short-term transactions. In addition, and following the same logic, the ESCB would deal exclusively in ECU vis-à-vis third currencies (dollar, yen). Settlement of monetary policy transactions

would be made through the real-time wholesale TARGET¹ system that the EMI has undertaken to render operational by the end of 1996;

- *New issues of public debt:* new debt issues by the public sector would be denominated in ECU as from the start of **PHASE B** to the extent that it is technically possible. The issues which would be most appropriately denominated in ECU would be those addressed to institutional investors and those maturing after the start of **PHASE C**. Private issuers could decide to follow a similar path;
- *Inter-bank, monetary and capital markets:* globalisation implies that markets affected by the conduct of the single monetary policy would have to be able to work in ECU simultaneously from the start of **PHASE B**. This changeover concerns primarily Treasury bills, bonds and their derivatives. All operators on these markets (banks, investment funds, insurance companies, institutional investors, intermediaries) would operate in ECU, as would the associated market systems (quotation, settlement, delivery, registration);
- *The wholesale settlement systems,* TARGET and the private system of the ECU Banking Association would be available to process large-value payments in ECU.

33. The emergence of a critical mass in ECU activities would have various implications for the major categories of currency users. National currencies would continue to be used between banks and most of their customers (businesses, consumers). However, any private operator could decide voluntarily to anticipate the switch to the single currency.

34. The changeover for *banks and financial institutions* to the single currency will begin through a single monetary and exchange-rate policy, market transactions and the associated settlement systems. The critical mass will basically concern well defined and homogeneous market activities which can be readily identified and processed according to independent procedures.

The other information and management systems would change over during **PHASE B** in accordance with the **changeover plan**, applying a decentralised approach that will be coordinated by the competent authorities. The nature of the transactions performed in retail banking, involving high volume but small value, means that the changeover in this area would take place only after the national payments systems have been adapted.

¹ see part 2, chapter 1, section 2

35. *Public administrations* would have a leadership role to play during **PHASE B**, in accordance with the **action plan** adopted by the **national steering structure** in the course of the preceding phase. It would be possible to pay some taxes in ECU. More generally, major items of public expenditures could be denominated, and wherever possible, paid in ECU as soon as possible, as could the presentation of national budgets. Moreover, public administrations would also have to mount an information campaign.

36. *Private businesses* other than banks could conduct some of their operations in ECU circumstances permitting. Firms most heavily involved in international business might benefit from changing over all or part of their operations to the ECU in **PHASE B**. Other enterprises would probably be less inclined to anticipate the switch to the single currency.

37. *Consumers* would continue to use their national currency during **PHASE B**, owing to the limited availability of ECU-denominated means of payment. However, competition and public demand may lead a number of private operators to introduce a range of services in ECU. This, however, is dependent on the changeover of corresponding payment systems to the ECU. More generally, public awareness would be systematically promoted through both public and private initiatives, for example the dual display of prices.

Section 3

PHASE C - Final changeover to the single currency

38. This phase would have been announced when EMU is launched (at the start of **PHASE A**). However, this phase could begin before the pre-announced date if the Council meeting in the composition of Heads of State or Government so decides. It would last as long as necessary to complete the physical replacement of national notes and coins, i.e. several weeks. It would mark the completion of the introduction of the single currency and involve the following developments :

- notes and coins are exchanged;
- only the ECU is legal tender;
- the changeover of the banks and the financial system is completed : all means of payment (transfers, cheques, cards) are converted into ECU, in conjunction with the domestic settlement systems;

- the private non-bank sector conducts all transactions exclusively in ECU.

39. This replacement operation needs to be meticulously prepared. In a number of cases (cash registers, ticket machines and vending machines), preparations will start long in advance, as soon as the information is available on the technical specifications of the coins and notes so that software and hardware can be adapted. The actual changeover could be completed in a few weeks in order to avoid complications caused by a prolonged period of dual circulation. The old national currencies may be exchanged free of charge at the national central banks during the statutory period laid down in each country.

40. Given the magnitude of what will be an unprecedented event, the Commission considers that a maximum period of four years between the decision to move to EMU (PHASE A) and the final changeover to the single currency (PHASE C) is not *a priori* excessive. This period is likely to be shortened. The duration of this process is largely dictated by the need to prepare the general public and by technical requirements (the time the banking industry needs in order to make necessary preparations, and the time needed to produce ECU notes and coins).

41. It is difficult to predict exactly how long it will take to familiarise the general public with the ECU and to implement all the technical preparations required. But to the extent that authorities are willing to take preparatory measures before the start of PHASE A, and that the critical mass is sufficiently large, then PHASE B may be shortened. Hence the Commission proposes that the periods given in the reference scenario be viewed as maximum periods and that the dates fixed by the Council should be deadlines.

42. This paper has greatly benefited from the work undertaken by the group of independent experts chaired by Mr. Cees Maas. The group proposes a noticeably shorter period: just one year between the actual start of EMU and the final changeover to the single currency, in place of a maximum period of three years proposed by the Commission. The Maas group's scenario clearly applies only if 1 January 1999 is chosen as the date for the start of EMU which is the group's preferred date. But if EMU were to start sooner - in 1997 or 1998, for example - a longer transitional period of a more substantive nature would be needed since preparations would be far less advanced. In that event, the differences between the two proposals become blurred.

INTRODUCTION OF A SINGLE CURRENCY / SEQUENCE OF EVENTS

PHASE A Launch of EMU	PHASE B Start of EMU	PHASE C Single currency fully introduced
<p><i>Start of the phase :</i></p> <ul style="list-style-type: none"> • List of participating Member States • Date of start of EMU announced (or confirmed) • Deadline for the final changeover to the single currency • Setting up of the ESCB and the ECB • Start of production of notes and coins <p><i>Throughout the phase :</i></p> <p>Stepping-up of preparations and implementation of measures that will, if possible, have been adopted beforehand :</p> <ul style="list-style-type: none"> • Legal framework • National steering structure • Banking and financial community changeover plan 	<p><i>Start of the phase :</i></p> <ul style="list-style-type: none"> • Fixing of conversion rates • ECU becomes a currency in its own right • Monetary and exchange-rate policy in ECU • Inter bank, monetary, capital, and exchange markets in ECU • New government debt issued in ECU • Corresponding wholesale payment systems in ECU <p><i>Throughout the phase :</i></p> <ul style="list-style-type: none"> • Banks and financial institutions continue the changeover • Public and private operators other than banks proceed with the changeover circumstances permitting 	<p><i>Start of the phase :</i></p> <ul style="list-style-type: none"> • ECU notes and coins introduced • Banks have completed the changeover (retail business payment systems) • Notes and coins denominated in national currency are withdrawn • Public and private operators complete the changeover • Only the ECU is used
1 year maximum	3 years maximum	Several weeks

Part 2 - Role of the different operators

Chapter I

The banking and financial sector

43. This chapter first deals with the main features of the new monetary framework within which banking and financial institutions would operate during **PHASE B** of the reference scenario.

It then examines the adjustments that banks and other financial institutions would have to make to their management and processing methods and the changes that would need to be made in payment systems. The consequences for the financial markets are also examined.

The work done in these fields by the EMI, the European Banking Federation, the AMUE, the EBA and other banking associations has been taken into account. The same applies, of course, to the reports presented by the working party set up by the Commission and chaired by Mr. Cees Maas.

Section 1

The banking sector

44. The banking sector is essential to the introduction of the ECU as the single currency. The reason is simple. Alongside the notes and coins issued by the monetary authorities, the outstanding amount of sight deposits with banks represents a much larger quantity of money. While notes and coins are easily used between individuals as a means of payment, the growing automation of the various types of banking transactions (deposits; loans, foreign exchange, securities, etc.) and of payments by cheque, bank-card and other transfers has prompted banks to introduce increasingly sophisticated computerised processing and payment systems. Replacement of the national currency by the ECU means that banks will have to adapt each of these systems to operate in ECU. This adaptation should follow a coordinated approach in each financial community.

By adapting their computer systems to the ECU, and modernising them at the same time, banks will start from an advantageous competitive position on the international money, financial and foreign-exchange markets in ECU, where the potential for growth will be considerable.

45. The European banking associations have indicated that the banks are ready to undertake the necessary adaptations but are reluctant to carry out major investments without assurances concerning the timetable and irreversibility of the move to EMU, the scenario for introducing the ECU and the launching of the legislative back-up measures.

The purpose of this Green Paper is to help dispel these uncertainties.

Banks and the new monetary framework

46. The Treaty requires that the ECU becomes a currency in its own right from the start of **PHASE B**. Until such time as it circulates as the single currency of EMU, the participating currencies remain in existence. This situation has monetary, legal and technical implications for the banks.

47. *Monetary aspects* : the participating currencies and the ECU become perfect substitutes for each other once their conversion rates have been irrevocably fixed. They cease to be distinct currencies and become the different expressions of one and the same monetary reality. Consequently, national currencies become different denominations of the ECU.

For banks, this means that :

- by applying the irrevocably fixed conversion rates, all bank deposits in a given national denomination have corresponding fixed values in ECU and in each of the other national denominations;
- money creation by the banking system in a given denomination should be able to proceed, without any exchange risk, on the basis of assets in other denominations given the irrevocably fixed conversion rates. As denominations, they will no longer be exchanged against each other on the foreign-exchange markets but converted, by way of a simple calculation - the bank cashier replacing the foreign-exchange dealer;
- since the different components of the money supply in EMU are fungible, the ESCB could, in principle, use any denomination, or all denominations simultaneously, to conduct its single monetary policy.

48. *Legal aspects* : from a legal point of view each national currency will continue to exist as long as national monetary legislation designates it as the currency of the country, that is, until its actual replacement by the ECU (see Part 3).

Considering its future role as the single currency, each of the participating Member States should, from the beginning of **PHASE B**, confer legal status on the ECU, i.e. allow residents to use it on the same terms as the national currency.

In addition, banks must be assured that they may rightfully regard the participating currencies and the ECU as different denominations instead of distinct currencies. Thus, if bank liabilities in the national denomination, covered by equivalent assets in ECU, do not constitute an open foreign-exchange position in monetary terms, they should not constitute an open position in accounting or prudential terms either. The ESCB must guarantee banks total convertibility at all times between the national denominations and the ECU at their respective irrevocably fixed conversion rates.

49. *Technical aspects* : lastly, in order for the ECU to be treated materially on a par with each national denomination within a newly established EMU, banks must adapt their information and processing systems such that they can implement the necessary changes.

Banks and the reference scenario

50. Although, at present, the degree of preparation varies from one bank to another and from one country to another, the timetable should enable the banking sector as a whole to carry through the reference scenario, which implies a major initial changeover of the banking sector.

Monetary policy in ECU

51. The changeover in the banking sector would be initiated by the ESCB's monetary policy in ECU, which implies that banks will operate in ECU with the ESCB. Care would be taken such that all banks, whatever their size would have equal access to the ESCB.

Using the instruments available to it, the ESCB will inject liquidity into, or withdraw it from, the banking system with a view to increasing or reducing money creation by this sector or in order to influence short-term interest rates.

In choosing the ECU, the ESCB would use a single "denomination" for the dual purpose of formulating and implementing its monetary policy. Complete transparency and consistency would thus be ensured within EMU, as well as complete neutrality vis-à-vis the national denominations.

52. The choice of the ECU by the ECB would oblige banks to open ECU accounts in its books via the national central banks. These accounts would be consequently credited/debited in line with the monetary policy pursued - addition or withdrawal of ECU-denominated liquidity.

If the use of the ECU were to be limited to transactions between the ESCB and individual banks, the latter would then translate the amounts of such operations in their national denomination - at the irrevocably fixed rate of conversion - and use it under that denomination in all their market operations. Under such a scheme, the ECU would hardly appear on the markets at all.

An ECU interbank market

53. Guaranteeing the credibility of the process by creating a critical mass of ECU activities would involve extending the use of the ECU to the interbank market. It is on that market that, among banks, liquidity is lent/borrowed at standardised maturities. From the start of **PHASE B**, given that conversion rates will have been fixed irrevocably and the **TARGET** system will be available,² the various national interbank markets would merge into one. For reasons of transparency and operational simplicity, the banks should use a single "denomination". This denomination would be the ECU: in particular, this will be essential in ensuring the uniform nature of short-term interest on this market, thus safeguarding a level playing field for the various financial centres.

54. For the banks, this choice would imply that their cash positions are managed in ECU. A Bank's treasury department is the point of convergence for the surplus liquidity of its other departments as well as the source of the funds the latter require. A bank's supply or demand position on the ECU interbank deposit market would depend on the balance of these inward/outward flows. If a bank's other departments continue to operate in the national denomination, an ECU/national denomination interface between them and the treasury department would handle the necessary conversion operations.

An ECU exchange-rate policy

55. A bank's treasury department also manages movements of assets or liabilities in the national currency resulting from the purchase or sale of foreign currency.

² See paragraphs 62 and 63.

The ECU counterpart of ECU/third-currency interventions by the ECB under its ECU exchange-rate policy would quite naturally form part of the banks' cash positions in ECU. Following the ESCB's initiative, banks are most likely to follow suit and proceed exclusively in ECU on the international exchange markets. If so, the national denominations would be withdrawn from the forex dealing rooms, and their value against the dollar would henceforth be calculated by reference to the ECU-dollar rate on the one hand and the national denomination/ECU conversion rate on the other.

Dual indication in ECU and national currency

56. In the dialogue between a bank and its customers, dual indication - in ECU and national currency - of amounts requiring monetary expression would systematically occur in statements, in order to familiarise customers with the future single currency.

Other technical prerequisites

57. Dual indication in ECU and national currency would require banks to make a number of technical preparations. The same applies to systems for the display and printing of amounts (cash registers, payment software, etc.) so that they too can indicate prices or other values in ECU and national currency.

These preparations require a rather long lead time. Consequently, Community rules should be defined as soon as possible :

- the acronym to be used for the single currency in computer programming; it might be convenient to retain the acronym XEU in line with the ISO code;
- the number of digits in which the future irrevocable conversion rates will be expressed;
- the method of rounding to be applied to amounts converted;
- the number of digits which will follow the decimal point for expressing prices.

58. These details are particularly important for the adaptation of electronic payment equipment using plastic cards (debit-credit-prepaid). From the start of **PHASE B**, card terminals would, therefore, be able to indicate the relevant amounts in national currency and in ECU on the tickets issued. This would help familiarise the retail trade and citizens with the single currency, and subsequently simplify the rapid and complete switch-over to the ECU.

On the other hand banks should provide information to their customers on the implications of the single currency for their financial operations. They will have to ensure that their staff is properly trained to cope with the change.

59. According to the reference scenario the banks' final changeover to the ECU would be completed no later than by the start of **PHASE C**, following the changeover plans agreed for each financial centre. The changeover plans may differ from country to country.

60. *The Commission invites banks to reflect and report upon the reference scenario and its technical implications by the end of the year and how this could be translated into a changeover plan for banking and financial communities. In particular, the Commission would welcome reactions regarding the emergence of a critical mass of activities in ECU at the start of monetary union and the time required for the full introduction of the single currency.*

Section 2

The payment systems

61. Payment systems transmit the value of economic activity within and between banks to customers' accounts. These systems are agnostic; they demand a technical (as opposed to economic or legal) reality in the form of recognisable characters with a commonly accepted meaning in their operating environment. National payment systems assume that all values within them are expressed in the national currency and in no other, unless and until modified to recognise a new unit of denomination. Today, the natural frontier of the payment system industry is that of the national currencies, because payment instruments by nature are essentially national. The creation of the single currency, by eliminating these frontiers will :

- modify national approaches in the direction of establishing European means of payment within the monetary union;
- lead to a progressive increase in cross-border flows, the volume of which will remain relatively low compared with domestic markets;
- improve the interoperability of European payment systems which today are heterogeneous.

Large Value Payment Systems

62. The conduct of a single monetary policy in ECU by the ESCB and the emergence of a critical mass of activities in ECU would require the establishment of a European system of real time gross settlement (RTGS) for wholesale payments. TARGET (Trans-European Automated Real time Gross settlement Express Transfer) will be the payment system, specifically designed by the EMI, for the implementation of the monetary policy of the ESCB in ECU. This system will link the existing national RTGS systems to the ESCB. Its use would be compulsory for all payments directly related to the implementation of the single monetary policy. It may also be used by private market operators for processing large value payments. This new payment arrangement operated by the ESCB should enhance technical efficiency, minimise systemic risk and be cost effective. As mentioned in the 1994 Annual Report of the EMI, the operational features of the system will be defined in the course of 1995 by the EMI in close co-operation with EU central banks and other parties such as credit institutions.

63. TARGET will be supplemented at the start of EMU by the ECU netting and clearing system of the ECU Banking Association (EBA). Both will be available for domestic as well as cross-border operations.

However, these systems are designed for wholesale payments mostly consisting of inter-bank operations or treasury and currency transactions of large enterprises. They are not designed for the high volume transactions of the general public and small enterprises.

Retail, or Low-Value systems

64. The problem of conversion to the ECU is more complex for systems which are retail or low value, because they carry a far larger number of payments, from a far greater variety of customers. It is not practicable for these high volume (or "retail") automated

payment systems to operate in two currencies simultaneously. For this reason it is assumed that the banking industry would opt to keep these payment systems in national currency until the final changeover to the ECU at PHASE C. This would have the advantage of giving the banks and payment systems enough time for preparing what is in effect the most technically challenging part of the changeover process, the full introduction of the ECU at retail level.

65. It might nevertheless be possible to anticipate PHASE C in some countries or for some specialised retail payment instruments, e.g. payment cards. The main problem with payment cards moving to the ECU is the adaptation of electronic equipment at the point of sale. However, as soon as a certain number of technical specifications are known in advance (see paragraph 57), a rapid changeover operation can be prepared.

Banking communities might in any case find it attractive to complete whatever steps can be carried out in advance as early as possible, in order to free capacity for dealing with the other tasks involved in the immediate run-up to PHASE C.

Cross-Border aspects

66. Cross border payments are not only characterised by the exchange of currencies, but also by the fact that there is a switch from one payment system to another. However, the technical specifications of national payment systems are different notably for historical reasons. This explains why the 60 or so EU domestic payment systems existing in the European Union, if they interconnect within their home country, are not inter-operable between the Member States. In short, the domestic automated clearing houses (ACHs) of the Member States do not communicate with each other. As a consequence, credit transfers, for example, between Member States have to be processed through the rather time and cost-consuming channel of correspondent banking. The Commission recently proposed a draft Directive to improve cross-border payments. It is also important to accelerate work on the harmonisation of standards, procedures as well legislation on statutory declarations.

67. Two major improvements should be forthcoming immediately as of the start of PHASE B for cross-border payments made within EMU :

- *a reduction in costs* : since an ECU transfer will not involve a foreign exchange transaction, the buying/selling spread will disappear, together with all or most of the associated "exchange commission" fee. As to payments by card holders, similar

cost-savings should be forthcoming as, at the international processing centre, a fixed conversion rate would be applied on any card used within the monetary union.

- *a reduction in payment delays* : the processing of the payment may be accelerated by up to 2 days as the usual "value 2 day" applicable to currency exchange transactions will also lapse. Eurocheque processing should also be adapted along the same lines.

All in all, significant reductions in costs and delays for cross-border payments within EMU could be expected by bank customers of the participating countries, thus bringing these closer to the conditions of efficiency prevailing in national markets and move towards the overall objective of a "payment area" to correspond to the area of the single market.

68. Payment systems operators and users are invited to reflect and report upon the technical implications of the reference scenario by December 1995. On the basis of these consultations, the Commission shall, during the course of 1996, take the measures required at Community level for the smooth introduction of the single currency. Moreover, it is the view of the Commission that the golden opportunity for moving towards the overall objective of a "payment area" which corresponds to the area of the single market should be seized. Inter-operability of payment systems within the EU should therefore be associated to the single currency.

Section 3

The financial markets

69. The establishment of EMU and the introduction of the single currency require an adjustment of the structures and operating methods of financial markets. In addition to that adjustment, it is also important to take account of the impact which financial markets might have on the process of establishing EMU.

Impact of financial markets on the process of establishing EMU

70. The expected market behaviour and the factors which might contribute to market stability will be different before and after the actual start of EMU. Given the duration of PHASE A and B of the reference scenario, it is important that the stabilising behaviour of markets be strengthened so that they can contribute to the smooth functioning of EMU.

In this respect, the process's credibility and the perception of its irreversibility will play a vital role.

71. During **PHASE A**, increased stability of foreign exchange and financial markets can be expected ahead of the irrevocable fixing of exchange rates (start of **PHASE B**). This stability will result from the high degree of nominal convergence achieved between those Member States which are to join the single currency area, and from intensified monetary policy co-operation.

Markets will tend to view these currencies as near-perfect substitutes for one another, and therefore stabilising behaviour can be expected on the part of the markets. Indeed, they will arbitrage any profit opportunities which arise henceforth in terms of significant differentials between comparable instruments in these currency sectors, subject to liquidity premia, differential credit risks and tax treatment.

72. However, exchange rate pressures might still occur in certain circumstances :

- markets may test the credibility of the decision to move to stage three of EMU : if they do not consider this decision as fully credible, for example if the decision is different to that expected by the markets, in terms of timetable and/or participating countries, participating currencies would not be seen by the market as perfect substitutes one for another, and this might result in tensions among the currencies of future participants. Especially in that case, sharp fluctuations in the exchange rates of third currencies (dollar and yen) could affect unevenly the currencies of participating Member States putting strains on the exchange rate relationship between them;
- disturbances in exchange rates of non-participating currencies could result from expectations that they would not continue to adhere to the convergence and non-inflationary policies to which they are committed under the Treaty;
- uncertainty concerning the conversion rates at which the currencies will be fixed irrevocably. Once the date for the start of monetary union is known, operators will make guesses concerning final conversion rates and position themselves accordingly. Such shifts if they occur in a large scale, could push exchange rates significantly away from levels justified on the basis of fundamentals;
- finally, unexpected shocks cannot be excluded even in participating Member States.

73. Credibility is the best means for attenuating such pressures and is primarily based on the continued fulfilment of the convergence criteria. This credibility will be reinforced if markets are convinced that there is a complete consensus concerning all aspects of the decision to move to EMU. This consensus, which should be stated publicly, can only be built on the basis of a strict interpretation of the convergence criteria.

It is up to Member States and national central banks, together with the Community authorities (Council, Commission, EMI/ECB) to develop the best strategy for promoting market stability.

74. During PHASE B when national currency denominations still exist (until PHASE C), markets, in spite of the high degree of convergence among participants, may have doubts about the irreversibility of the EMU process. From this point of view, the shorter the period between the irrevocable fixing of parities and the replacement of national currency denominations by the ECU the better. Hence the importance that the use of the ECU achieves a critical mass of activities as of the start of PHASE B. The more economic agents move to the ECU for their operations, the more credible the EMU process. A critical mass at the start of PHASE B would provide a strong commitment to economic agents given that a significant volume of their operations will be carried out in ECU.

The impact of EMU on financial markets

75. The impact of EMU on financial markets will be different according to the markets concerned: foreign exchange, debt, equity and derivatives markets.

76. Concerning the foreign exchange market of the participating currencies, the main impact has already been described: they will disappear.

77. In the financial markets of the participating currencies, economic convergence and the elimination of the exchange rate risk premium would lead to a convergence of interest rates towards the currency with the lowest rate. This movement, would be anticipated in advance of PHASE A, and would continue after the decision on the move to the third stage of EMU is taken. Prices would adjust on the basis of the rates expressed in the single currency.

78. The start of PHASE B would, according to the reference scenario, require the introduction by market participants of technical changes necessary to work in the new ECU environment in their systems and procedures (quotation, clearing and settlements, delivery, custody). Those changes would have to be completed by the end of PHASE B.

In addition, every effort would have to be made during PHASE B to avoid unwanted volatility, instability, disruptions, delays and other inefficiencies of a technical nature. The best way to achieve this goal would be, for all parties concerned (issuers, intermediaries, stock & derivatives exchanges, International Central Securities Depositories - EUROCLEAR and CEDEL -, National Central Securities Depositories, Custodian banks, and news vendors), to changeover to the ECU (presumably by all participants at the same time) in a co-ordinated fashion. This should be included in the changeover plans established by every country and every financial centre at the start of PHASE A.

79. The transition to the ECU of securities markets would be less expensive and faster than in the case of commercial banking business because they do not have to deal directly with final retail customers. Furthermore, within this sector, securities markets are more technology-intensive and are likely to carry out the transition more rapidly and at a lower cost than those relying heavily on paper-based systems. Indeed, they are already used to rapid changes in technology and procedures, and probably have sufficient in-house expertise to incorporate the introduction of the ECU in their periodic adaptations of technology.

80. On the financial derivatives exchanges, some contracts (those related to domestic bonds, local interbank offer rates and intra-EMU foreign exchange) would disappear while others would be created. Contracts related to equities (individual equities or indexes) would presumably acquire greater relative importance. Exchanges dealing with financial derivatives (financial futures and options) are expected to be less affected from the technical view point than exchanges dealing with equities and debt instruments because they are already used to working in a multi-currency environment.

81. *On debt markets*, as the exchange rate risk premium would disappear between participating currencies, remaining interest rate differentials would only incorporate a credit risk and liquidity premium. Since the level of liquidity of the leading ECU debt markets would be higher, a certain reduction of the liquidity premium incorporated in nominal interest rates could take place.

For investors, since one single market would replace various national ones, investment decision will depend almost exclusively on the credit rating and the liquidity of existing issues.

The single currency will create a much larger debt market which will offer increased possibilities in terms of volume, instruments, and lengthening of maturities. On the other hand, certain issuers benefit from a better rating in national currency denominated debt compared to foreign currency debt. This possibility will disappear and therefore Member States concerned will have to adapt their debt management.

The methods of distribution of securities may be modified as a result of increased competition between the banks and other financial intermediaries.

82. For investors, private and public issuers, the move to stage three of EMU will result in a reduction of operating costs. By concentrating on one single currency instead of many, they will no longer bear foreign exchange or hedging costs. The impact for intermediaries will be in the form of a reduction of their operating costs, an increase in competition, and a loss of fees and commissions from foreign exchange transactions.

83. New debt issues by the public sector would be denominated in ECU as from the start of PHASE B, to the extent that it is technically possible. This would give a strong signal to the market of the commitment of public authorities on the introduction of the single currency. However, the issue of ECU denominated debt should not create disruptions in the market and should not have a direct impact on retail activities which would require further adjustments by financial institutions. Therefore the issues which would be most appropriately denominated in ECU at the start of PHASE B would be those addressed to institutional investors, and those maturing after PHASE C. Private issuers could decide to follow a similar path.

84. *On equity markets*, domestic equity instruments will adapt through normal arbitrage adjustments reflecting for each company the possible alteration in foreign exchange exposure resulting from the start of PHASE B. Portfolio management should however tend to become Community-wide and based on "sectoral" analysis within the whole EMU area rather than on "country" analysis. Furthermore, an increase in cross-border flows is to be expected, leading to an increase in liquidity.

85. The main impact on investors will be the reduction of cross-border transaction costs and the elimination of hedging costs vis-à-vis foreign exchange rate risk when investing in non-domestic shares.

86. The introduction of the ECU would encourage companies whose existing financial operations are domestically based to become increasingly active in other Member States. Some companies may decide to list their securities in the stock exchanges of other Member States in order to become more visible to local investors and customers. This reasoning would be applied not only to large companies but also to a number of small and medium-sized companies active in, for instance, border regions.

87. *The Commission invites banks, financial market and payment system operators who will be affected by the introduction of the single currency to reflect upon the ideas and proposals in the Green Paper. The Commission would welcome their views and reactions by the end of the year. Professional associations will have a key role in presenting their conclusions. The Commission suggests that Member States establish an institutional framework for co-ordinating the activities of the actors concerned.*

Chapter II

Public Administrations

88. This chapter examines the many changes needed for the introduction of the single currency which have to be made by public administrations at both the Community and national levels. If they assume the leadership role which is theirs, then public administrations will also act as catalysts, mobilising private sector operators into making the necessary investments. These investments are unlikely to be made if public administrations adopt a wait-and-see attitude about the single currency. The chapter does not provide an exhaustive catalogue of measures required of public administrations. Instead, the main challenges are identified as well as the deadlines by which time the legislative and operational frameworks need to be in place.

Section 1

Public administrations as leaders and catalysts

89. As major currency users, public administrations will have lengthy preparatory agendas. Timely action by them can provide a strong signal to private users that EMU is approaching and that essential government functions (for example taxes and social security) will operate smoothly during the transition process.

They face important challenges at all levels: from the Community and national levels down to state, regional and local bodies. In changing to a single currency, public administrations will need to undertake two types of measures :

- replacing references to national currencies in legislation and administrative notices;
- introducing the ECU for all budgetary operations.

90. The timing of the changeover to the single currency would vary for different aspects of public administrations. The three-phase scenario set out in part I would require that new issues of public debt be progressively denominated in the single currency from the start of **PHASE B**. Most currency users would continue to use national denominations until the final introduction of the single currency at **PHASE C**. It is likely that many aspects of public administrations would continue to operate in national denominations until their "clients" changeover to the single currency, i.e. **PHASE C**.

91. However, some financial institutions and private enterprises may choose to convert all internal operations and accounting to the ECU in **PHASE B**. As a general principle, these private operators should be able to fulfil their legal obligations (tax payments, prudential regulation etc.) in the single currency as soon as they convert their internal operations. This means that relevant areas of public administration would need to be prepared for ECU transactions as of **PHASE B**, implying the need for taking legislative and administrative measures prepared beforehand. The requirement to accept the single currency as of the start of **PHASE B** would relate to a limited number of areas of public administrations and would involve a relatively small number of private sector operators.

Section 2

Community institutions

92. *Altering legislative texts* : some 1600 Community legal texts presently contain references to one or more national currencies. All such references will require modification.³ The large number of texts makes it desirable to adopt a "catch all" Regulation to alter automatically as many of these references as possible. Changes to

³ Examples of legislation requiring such changes include, *Company law* (nominal value of securities). Directive 77/91/EEC of 13.12.76: *Accounting* (bases of conversion into local currency). Directive 78/660/EEC of 25.7.78 : *Insurance* (matching rules). Directives 73/239/EEC of 24.7.73; 88/357/EEC of 22.6.88; 92/96/EEC 10.11.8; Communication 94C360/08 of 17.12.94: *Capital Adequacy Directive* (foreign exchange rules). Directive 93/6/EEC of 15.3.93

Commission Acts should prove easier to undertake than Council Acts which require implementing national legalisation. In any event, all legislative texts will have to be reviewed separately so as to ascertain the changes required.

93. *Introducing the ECU for all Community budgetary activities*, as well as borrowing and lending activities currently conducted in national currencies, should be undertaken at the start of **PHASE B**. Although the basket ECU is currently the unit of account of the Community budget, both revenues and expenditures are wholly or partly realised in national currency values. This complicates project management and imposes some exchange risk on the Community budget. Introducing the necessary legislative changes and reforming administrative practices (such as software, accounting and control systems, currency management) is a major logistical challenge. Nonetheless, using the single currency for the execution of the budget would greatly facilitate the administration of Community policies.

While small compared with national administrations, the scale of measures required at the Community level is extensive, and clearly illustrates that lengthy lead times will be required. The Commission has therefore already established an inter-service working group to examine the implications of the introduction of the ECU.

Section 3

National administrations

94. *Altering legislative texts* : all levels of authority in the Member States would be required to alter references in legislative texts from national currencies to the single currency. The timing of the required changes would vary, but it is evident that some areas of national public administrations would need to be in a position to accept the single currency as of the start of **PHASE B**. National authorities should ensure that the use of ECU is placed on an equal footing to the national currency in **PHASE B** where appropriate. National, state, regional and local authorities might find it useful to adopt the intended Commission approach of a "catch all" legislative act which ensures that all references to national currencies are read as references to the single currency as of **PHASE C**. Separate legislation may be required for rounding, such as for tax allowances and charges for public services.

95. *Introducing the single currency for all budgetary activities* : the challenge facing public administrations clearly depends upon the nature of the particular activity in question and the timing of changeover. After the start of **PHASE B**, public debt would be increasingly issued in the single currency. Major public spending items would also be made in ECU.

96. In addition, some banks, financial institutions and private enterprises could switch over their internal operations to the ECU, after which they would need to be able to conduct financial transactions with public authorities in the single currency. This would mean facilitating the use of the ECU and resolving specific issues, such as accounting rules, which arise from the changeover process. Decisions of this nature should be clear, certain and available well in advance of **PHASE B**. Fiscal authorities will have a particularly important role to play, as outlined in the following section.

97. Major administrative changes will be required to cope with the introduction of the ECU. Among other things, all software, documentation with references to national currencies and internal accounts will require alteration.

The most significant problems will arise in departments making large numbers of low-value payments, engaged in cash handling and dealing directly with the public at large. Social security departments will be particularly affected because they deal with vulnerable population groups which would be adversely affected by any disruption to the normal functioning of public services. Close attention is also required for personal income taxation, with clear explanations provided to the public on the practical implications of the changeover, e.g. conversion into the ECU of tax allowances.

98. *Fiscal authorities* : A key concern for enterprises is the fiscal framework envisaged for the changeover. Fiscal authorities would need to clarify the necessary arrangements well in advance of **PHASE B**, which implies that preparations should begin immediately. Some of the main concerns of enterprises regarding the fiscal framework include :

- *the date from which fiscal declarations and payments can be made in the single currency.* It would be necessary for measures to be in place at the start of **PHASE B**. This applies to all taxes affecting enterprises including customs duties, corporate, withholding and VAT;
- *whether the introduction of the ECU is a taxable event.* Typically, capital investment gains by enterprises on assets denominated in a foreign currency are not taxable until the asset is sold. At **PHASE B**, it would be immediately apparent

whether the investor has registered a profit or loss since a direct comparison can be made between the exchange rate at the time of purchase and the irrevocably locked conversion rate. The question arises as to whether this constitutes a taxable event in which recorded profits would be taxable and losses could be written off;

- *the treatment of administrative errors and delays:* omissions and errors are an inevitable by-product of complicated taxation systems. Fiscal authorities heavily penalise enterprises for mistakes and delays. The introduction of the single currency may increase such occurrences. Fiscal authorities would need to carefully consider the practical difficulties facing enterprises when implementing transition arrangements. Ideally, pre-emptive measures by national fiscal authorities offer the best palliative, in particular the timely and clear presentation of fiscal arrangements for the changeover, organisation of seminars and training courses for accountancy and finance personnel and the provision of assistance to representative organisations (industry association, chambers of commerce) which provide technical assistance to enterprises;
- *arrangements for dealing with the changeover during a fiscal year :* ideally enterprises and accountants would prefer to convert accounts into the ECU at the start of a fiscal year, i.e. accounts for the past year would be closed in national currency, balances would be converted into the single currency using the fixed conversion rates and accounts for the new fiscal year would be opened in the ECU. Fiscal authorities would need to consider arrangements for enterprises which undertake this changeover in the middle of the fiscal year. They should also consider whether some flexibility is possible to allow accounts to be converted into the single currency at a date that is close to, but not actually, the starting day of PHASE C.

99. *The Commission considers that all levels of public administration must assume a leadership role in preparing for the introduction of the ECU. To this end the Commission proposes :*

- *that other Community institutions establish working groups to examine the implications of the introduction of the ECU. These working groups could consider, inter alia, the need for legislative changes and the introduction of the ECU for budgetary operations;*

- *that national public administrations at all levels establish working parties to examine and plan the legislative and administrative measures required to ensure a smooth introduction of the ECU. The progress and findings of such working parties could be reported to the Commission by December 1995 with a view to organising an exchange of views on technical problems encountered;*
- *that public administrations and public utilities, to the maximum extent possible, conduct dual display of prices as a means of familiarising the general public with the ECU as of the start of PHASE B. Examples of where dual pricing displays could be undertaken include bills for gas, electricity, water, fiscal statements, tolls etc. Dual pricing displays might be maintained for some time after the start of PHASE C, even beyond the final withdrawal from circulation of national notes and coins.*

Chapter III

Enterprises

100. This chapter considers the main implications of the changeover to the single currency for enterprises. Particular attention is given to the need to develop strategies for the introduction of the single currency, most notably whether to conduct all or some operations in ECU during PHASE B and how to cope with the physical introduction of ECU notes and coins. The implications of the single currency for core activity areas in enterprises are reviewed (cash handling, sales and marketing, accounting and fiscal activities, personnel).

Section 1

Defining a changeover strategy : a key decision for enterprises

A "single currency introduction strategy" for enterprises

101. By increasing economic stability and removing exchange risk and transaction costs, the single currency will greatly facilitate the functioning of the single market and therefore be of considerable benefit to enterprises. Nonetheless, the actual changeover to the ECU will require adaptations in many aspects of daily business activity. The impact across

enterprises will not be uniform; in each company it will depend upon the scale of cross border activity, the amount of cash handling involved in daily activities and the degree of contact with the general public. Domestic retailers will clearly face different types of problems to multi-national enterprises. Preparations for the changeover will take time to implement and require investments to be undertaken.

102. It is therefore essential that enterprises establish as soon as possible a "single currency introduction strategy". This would ensure that sufficient lead-times are available to implement technical preparations needed for a smooth continuation of normal business operations. Moreover, it would enable enterprises to incorporate changeover investments in ongoing capital investment plans, thus spreading any costs over a longer time period. Finally, it would allow enterprises to identify commercial opportunities which may arise with being an early mover in preparing for the single currency.

The three-phase scenario presented in part 1 would mean that there are two key aspects to a strategy :

- whether to convert all or part of internal accounting and operations to the single currency during **PHASE B**, or whether to wait and make one complete changeover to the ECU at the start of **PHASE C**;
- during **PHASE C**, whether to accept national notes and coins (and if so, for how long), or whether to accept only ECU notes and coins.

These choices will be entirely voluntary, and strongly influenced by market forces. Enterprises require clarity and certainty regarding the changeover process.

The option of an early adaptation

103. Enterprises may find that there are many advantages in choosing to conduct all or part of their internal operations in the single currency before **PHASE C**. In particular, enterprises with large treasury operations may prefer to conduct these activities in the ECU rather than to continue using several national denominations. An early changeover may also prove convenient for companies engaged in cross-border trade and with affiliates or subsidiaries in participating countries. It could, for example, facilitate invoicing, transfer payments and currency management.

Enterprises would, however, be obliged to continue using national currencies for some purposes, notably cash transactions, until **PHASE C**. In such cases, they would need to construct some form of interface between those parts of their activities operating in the single currency and those continuing to operate in national currencies. They would also need to establish appropriate accounting and control procedures as well as to adapt computer software and ensure that staff are properly trained.

Small and medium sized enterprises, companies who mainly operate on domestic markets and retailers are likely prefer to change over to the single currency in one go at the start of **PHASE C**. The advantage of waiting until then is that enterprises would not have to develop transitional systems. Since all accounts and balances will have to be converted from national currency into ECU in **PHASE C** advance preparatory measures will be required.

Coping with the physical introduction of ECU notes and coins

104. Enterprises, and in particular retailers, would face a choice at the start of **PHASE C**. On the one hand, they could completely changeover to the ECU and refuse to accept national notes and coins - but at the risk of encountering technical difficulties associated with changing over all systems in a very short period and of antagonising clients who wish to continue using national currencies for some time. On the other hand, enterprises could choose to accept both currencies for some time during **PHASE C**. Here, other problems would arise. In particular, provision for some form of dual pricing would have to be made, and the facility created for handling two sets of notes and coins (requiring additional slots in tills, cash storage and security measures). Such measures would be costly, particularly if the vast majority of the general public adopt the ECU in a short space of time.

Section 2

Implications of the ECU for enterprises

105. It is important to identify the most important implications for areas of core activity. Those examined below include cash handling and recording activities, sales, marketing, administration and information systems, accounting and fiscal activities, personnel and training.

Cash handling and recording :

106. All forms of recording machines (cash registers, petrol pumps, accounting machines) coin machines (vending machines, ticket dispensers) and note machines (ATMs) will have to be converted from national currency to ECU denomination. Given that there are millions of such devices in use, the development and manufacture of new machines or devices capable of handling the ECU will require significant investments and could involve lengthy preparatory lead-times. It is therefore imperative that producers of cash handling and recording equipment receive, as soon as possible, definitive technical specifications (e.g. dimensions and characteristics of notes and coins, name and abbreviation of currency and sub-units etc.). This should occur even in advance of **PHASE A**, the decision to move to monetary union.

107. The 1994 Annual Report of EMI reports that a considerable degree of consensus has been reached with respect to the number and value of denominations and the boundary between notes and coins. Coins would have a highest value of ECU 2, and ECU 5 would be the smallest denomination of banknotes. Consensus also exists in favour of seven banknotes ranging from ECU 5 to ECU 500. Regarding the appearance of European banknotes, either a completely identical banknote will circulate throughout the single monetary area or they will be identical on one side but contain a limited national feature on the other.

108. It may take some time (up to several months) to adjust all such cash handling devices, in particular vending machines and note and ticket dispensers. Enterprises will need to develop well planned changeover programmes so that a sufficient stock of machines can work in the ECU from the start of **PHASE C**. This will mean beginning the conversion process in the weeks leading up to **PHASE C**. Technical difficulties and conversion bottlenecks would be mitigated if early decisions on the technical specifications of notes and coins allow enterprises to progressively acquire "ECU compatible" equipment as part of their normal investment schedule, e.g. equipment that can recognise (albeit separately) both national and ECU sets of notes and coins.

109. As mentioned above, enterprises which choose to accept national notes and coins during **PHASE C** would have to deal with two sets of notes and coins. This would imply either having separate cash handling and recording equipment for both the national currency and the ECU, or installing equipment which can deal with both currencies simultaneously. Enterprises will have to decide for themselves how best to cope with this challenge. Some difficulties associated with two sets of notes and coins may be reduced through the introduction of new technologies (bar codes, cash registers capable of dealing

with multiple currencies, electronic payment systems) which can make automatic conversions between the ECU and national currency. Again, early preparation is the key to a smooth and cost effective changeover.

Sales, marketing, administration and information systems

110. By PHASE C at the latest, references to national currencies would disappear and thereafter appear in ECU. This would require a range of administrative measures, principally :

- *Contract negotiations, invoices, bills, and information systems* would be converted into ECU together with all payments to suppliers and contractors. *Inter alia*, the changeover will require replacing references to national currency in official documents (invoices, receipts), promotional material and computer software. Companies which decide to use the ECU during PHASE B, and/or which agree to accept national currencies during PHASE C, may have to undertake some dual-pricing with the attendant increase in administrative formalities;
- *Pricing decisions* : actual pricing decisions will prove sensitive given that an application of conversion rates is likely to result in awkward ECU counter values. Retailers will need to decide upon convenient ECU prices that do not create hostile reactions. For low-value items, minor rounding can result in large percentage price changes. Ultimately, competitive market forces should limit price increases, and many enterprises may even attempt "rounding down" marketing campaigns. The issue of dual pricing displays is examined in paragraph 122;
- *Advance promotional material* : A specific problem may arise with respect to pricing displays in promotional material. Mail order companies and enterprises dependent upon brochure marketing (travel companies) will face particular difficulties (some brochures are prepared up to 18 months in advance). A difficulty may arise from the fact that conversion rates would not be known until the start of PHASE B;
- *Provision of information to clients* regarding the changeover implications will be essential. While in some cases such explanations will involve a straightforward demonstration of the application of conversion rates with sensible rounding decisions, in other areas enterprises will need to launch substantial information campaigns about such matters as contracts of a long-term nature such as mortgages, pension fund investments, hire purchase and leasing agreements.

111. *Accounting and fiscal activities* : in PHASE C at the latest, all accounts and balance sheets must be presented in the ECU. As set out in Part 2 - Chapter 2, fiscal authorities must establish the precise rules which will apply for the changeover process.

112. *Personnel and training* : enterprises will need to ensure that staff are fully informed and trained about how the ECU will affect their work duties as well as their wages and other terms and conditions (e.g. company pension schemes, reimbursement of expenses). Ensuring that staff are properly trained and understand the changeover process is essential to avoid disruptions to business activity and to facilitate relationships with clients.

The nature and timing of the training will depend upon the tasks involved and the ECU introduction strategy adopted by enterprises. Enterprises having ECU dealings during PHASE B will need to ensure staff are trained even before the start of monetary union. Specialised training could be afforded to staff dealing with financial matters. Particular attention will also need to be paid to staff having direct dealings with the public, to ensure that they can competently respond to customer queries and requests for assistance.

113. Business federations, professional associations (lawyers, accountants, notaries) and unions have a crucial role to play in the training process. For example, they could prepare information packages and videos to be supplied to their members for in-house training programmes. They might consider organising conferences and workshops where interested parties could meet and discuss problems of common concern, and develop mechanisms for sharing solutions to widespread technical difficulties. Public administrations should facilitate such initiatives, by providing background material, information packages and speakers for conferences.

114. *The Commission invites enterprises, representative and professional associations, unions, including organisations representing SMEs, to analyse the implications of introducing the ECU for their particular sector/profession. Working parties in enterprises, representative associations and unions could be established with a view to distilling reactions to the Green Paper, cataloguing the changeover measures required, and listing the legislative and technical decisions required of governments and public administrations. It might be useful for a single currency officer to be appointed in each representative organisation. The Commission invites Member States to facilitate the setting up of such working parties.*

In addition, the Commission suggests that Member States establish a framework for coordinating the activities of private enterprises and organisations. This could avoid duplication of work and encourage the sharing of experiences and ideas. The Commission also proposes that national authorities provide a single contact point for information and assistance on the introduction of the ECU.

Chapter IV

Consumers

115. This chapter deals with the particular challenges facing consumers with the introduction of the single currency. It recognises the difficulties they will face in adapting to a new monetary scale and the need for a major communications campaign which clearly explains the practical implications of the ECU for their daily financial activities. The chapter contains a guide to impact on consumers at all phases of the changeover process.

Section 1

Preparing consumers to make the change

116. It is known from past experience of currency changes in France and the UK that people do not become instantly accustomed to new money. In at least one respect, adjusting to it is somewhat like learning a language - it takes time and practice before it is possible to “think” in the new currency. Preparing consumers to pass smoothly through the changeover will be a very important priority for public policy. Otherwise, that popular support which is a precondition for the success of the whole enterprise will be jeopardised.

The impact on consumers of each phase in the changeover process must be carefully examined and, where necessary, measures taken to protect their interests. Their representative organisations can be expected to be extremely vigilant, but also anxious to overcome suspicions, allay fears and remove difficulties.

For some people, the change will feel almost like a change of identity so accustomed are they to viewing their own currency as a national symbol. National identity is not in peril, however. It is, in fact, being broadened to embrace a symbol of European integration for the many good and practical reasons set out in this Green Paper.

117. The Communications Section of this Green Paper (Part IV) will deal with the importance of communications strategies for winning popular acceptance and support and achieving the technical preparations needed for the transition to a single currency. It stresses the importance of telling consumers as soon as possible about the advantages of a single currency, of reassuring them that the changeover will not be to their disadvantage and with helping them to get used to calculating from national currencies to ECU and back again. It also draws attention to the need to give particular help to vulnerable groups, including the elderly and the visually handicapped. All of these points emerged clearly from the hearings with consumer organisations organised for the preparation of the Maas Report.

Almost certainly, the biggest problem for consumers will be handling conversions and comparing the value of goods. They will lose their sense of prices. In many cases, conversion rates will probably be sufficiently awkward as to make multiplication calculations difficult.

118. To cope with the changeover, consumers will need both time and precise information. The reference scenario presented in this Green Paper certainly would allow ample time for public authorities to prepare and launch information campaigns for consumers. The Commission, the European Parliament, the European Monetary Institute, the central banks and others will have their roles to play in informing consumers and protecting their interests during the transition. But it is the national authorities who will be able to respond best to local needs and concerns that will not be identical across Member States.

Part IV also emphasises the importance of familiarisation exercises, including dual pricing displays on financial statements, fiscal declarations and in retail outlets and “trial runs”, allowing consumers advance use of notes and coins in controlled environments.

It is essential that banks, industry and retailers fully assume their responsibilities in preparing consumers for the changeover. They must mount their own information exercises, especially for explaining to their clients the implications of the changeover for their particular services.

Section 2

The practical impact of the changeover on consumers

119. In the main, consumers would only tangibly experience the implications of monetary union at **PHASE C** when ECU notes and coins are introduced and all transactions are in the single currency. But the world around them will be changing in various ways before then. Here is a guide to some of the things they could expect.

PHASE A - launch of Economic and Monetary Union.

What will be the same?

- everything will be the same for consumers. This would be a period of intense preparation for banking and financial operators but everything in the economic system will continue as before.

PHASE B - Effective start of EMU and emergence of a critical mass of activities in ECU

What will be the same?

- national currencies would still be in circulation;
- bank accounts, mortgages and loans, and all other contracts would still be in national currencies.

What will change?

- reduction in the delay and costs for banking operations within the monetary union;
- ECU financial services to consumers could become available;
- dual pricing of goods and services would steadily appear; thus increasing the transparency of prices across borders;
- cross-border travel will be facilitated;
- conversion tables could be required to be prominently displayed in retail outlets.

PHASE C - Final changeover to the single currency

What will change?

- the single currency is introduced;
- national currencies would be speedily replaced by ECU notes and coins. The two currencies would circulate together for only brief time. This would relieve consumers of the confusion of carrying two sets of notes and coins;
- retailers would be free to accept national currencies, but obliged to accept the single currency;
- consumers will be able to exchange national notes and coins for the ECU for a very long time;
- references to national currencies in contracts will be converted into ECU using the fixed conversion rates without any other changes to terms and conditions. In other words, the principle of continuity of contracts will apply;
- bank accounts, wages, salaries, pensions - the entire cash economy - will be denominated in ECU.

Section 3

Consumer protection

120. The Commission is firmly of the opinion that consumers must not be subject to any special charges as a result of the changeover to the single currency. It is imperative that consumers are capable of undertaking transactions in ECU in confidence. The display of financial balances and prices in ECU is a key element in familiarising consumers.

121. Before **PHASE C**, financial institutions will be allowed to charge an administrative fee for converting bank notes from one Member State to those of another. However, they will need to display charges for services rendered in a transparent manner and not charge for exchange rate cost.

122. Dual pricing displays will play a crucial role in familiarising consumers with the ECU. Enterprises and retailers for commercial reasons would have strong incentives to display dual prices from the start of **PHASE B** onwards, and perhaps continue to do so well into **PHASE C** since they will want their consumers to be confident of conducting transactions in the ECU. Moreover, prominent displaying of dual prices would help relieve consumer suspicions of hidden price increases. Market forces in favour of dual pricing displays would affect all enterprises, even those changing over to the ECU at the start of **PHASE C**.

The question arises as to whether the commercial incentives for undertaking dual pricing displays are sufficient, or whether legislation should be introduced to require them during **PHASE B** and perhaps for a fixed period of time thereafter. It is open to discussion whether Community legislation is required in this regard. The Commission intends to consult all groups of currency users concerned with a view to reaching a consensus on the need for Community legislation to be in place in **PHASE B**, such that appropriate measures could be taken in spring 1996. The subsidiarity principle leaves scope for the Member States to determine binding requirements at the national level.

In drafting any binding requirements on dual pricing displays, a balance should be drawn between the interests of the consumer and the costs of developing and implementing dual display systems (all of which will eventually be passed on to consumers). The cost of dual pricing displays largely depends on the scope of its application. For example, it would be costly and complicated to require every reference to a currency to appear in a dual form. This would mean that all products on display would have two price displays: cash registers would also have to display amounts both in national currency and the ECU on a transaction by transaction basis. A less costly option would be to require only totals to be expressed in national currency and the ECU (since this would require only one multiplication calculation to be displayed). A further option could be to require conversion tables to be prominently displayed in all retail outlets. The precise nature of any binding dual pricing requirements should be drawn up on the basis of round-table discussions involving representatives of producers, retailers, public administrations, unions and consumers.

123. Strict legislative rules on rounding will be needed to govern the conversion from national currencies of existing contracts such as wages and bank accounts. Rounding is a common feature in the existing financial system which operates smoothly and without serious problems.

Rounding will be needed to obtain convenient figures for some balances appearing in legislative acts such as income tax allowances, charges for public services and some social security benefits. The relevant authorities will have to decide what rounding takes place on a case by case basis.

The freedom of retailers to use conversion as an opportunity to increase prices should be limited by competition. Overall, the net impact on prices should be limited, with price increases caused by rounding up on some items cancelled out by reductions through rounding down on other goods.

124. Throughout the Green Paper, the Commission has tried to anticipate as many possible of the key problems that consumers will face. However, it relies on their representative organisations to confirm their judgement of the main impacts of the introduction of the ECU. It would welcome comments and any additional information that would be of help in developing policies to ensure a smooth changeover for consumers. The Commission intends to consult all groups of currency users concerned with a view to reaching a consensus on the need for Community legislation obliging dual pricing displays, such that appropriate measures could be taken in spring 1996.

Part 3 - The Legal framework for the ECU

125. The European economies are deeply integrated open markets with highly developed legal systems. The functioning of a complex modern economy, where economic agents are linked to each other by a dense network of financial claims is conditional upon legal certainty. To ensure a smooth introduction of the ECU, authorities both at Community and Member State level must ensure legal certainty which currency users require well in advance of the start of monetary union (**PHASE B**). This implies beginning the preparation of the legal framework, including the adoption of legislation where possible, even before the decision is taken to move to monetary union at **PHASE A**.

This chapter does not attempt to catalogue all the legal measures required for the introduction of the single currency, but rather address the principal issues which form the main aspect of the legal framework. Five⁴ issues in particular need to be addressed as a matter of urgency to reduce uncertainty surrounding the introduction of the ECU, namely :

- the ECU and national denominations in **PHASE B**;
- legal tender;
- continuity of contracts;
- rules for rounding;
- legal issues relating to bank notes.

Section 1

The ECU and national denominations in Phase B

126. Once the ECB conducts a single monetary policy and irrevocable conversion rates are fixed at the start of **PHASE B**, the ECU will exist as a currency in its own right. National currencies will be substitutes, and in fact will no longer be distinct currencies but different denominations of the ECU.

⁴ Legal measures will also be required for the changeover scenario : in the scenario presented in **Part 1**, legislation would be required to ensure that certain operations would be conducted in ECU as of **PHASE B**, e.g. wholesale payment systems.

During **PHASE B**, however, national currencies would continue to exist in the legal sense, and national provisions relating to the currency would remain valid as long as no legislative measures are taken at national or EU level. At the start of **PHASE B**, the basket ECU will be converted into the ECU at the conversion rate of 1:1, and the ESCB may issue the ECU in the form of book money (the issuing of ECU bank-notes requires further legislation).

Article 109L states that the ECU will become a currency in its own right. The ECU and national currencies as substitutes will not automatically translate in the legal sense. It is national currencies which will continue to function as the unit of account and means of payment within national boundaries. In the absence of legislation, the ECU could only be used as a unit of account and a means of payment provided that contracting parties agree and/or national law do not require using the national currency.

127. Community legislation would therefore be required to be in place by the start of **PHASE B** to ensure that ECU and national currencies of participating countries are perfect substitutes in the legal sense, i.e. national currencies would be different denominations of the ECU with changes between denominations being made according to irrevocably fixed conversion rates and not exchange rates. For example, Community legislation would be needed to ensure that bank deposits in ECU, payments in ECU and transactions in ECU would be considered as being equal to transactions in the national currency at irrevocably fixed conversion rates. However, a party could not be obliged to accept payment in ECU (e.g. wages) until **PHASE C**.

Section 2

Legal tender

128. Legal tender is money which a creditor cannot refuse for payment. In all but one Member State, legal tender is limited to national bank notes (and to coins up to a certain amount); cheques, debit and credit cards, fund wires, foreign bank-notes are not legal tender. In the Netherlands, bank deposits too have a legal tender value: payment via credit transfers cannot be refused by the creditor. However, the concept of legal tender is rarely invoked, and does not reflect the functioning of modern economies. It is open to discussion whether the introduction of the ECU will require the harmonisation of the definition of legal tender among participating countries. Nonetheless, in a monetary union some questions of general interest arise :

- notes and coins denominated in national currencies will only enjoy legal tender status in the territory of the issuing country and will not be extended to other countries participating in the monetary union. Therefore, one would not have a right to use notes and coins from one Member State in another Member State from the start of **PHASE B**. ECU notes, when they appear in **PHASE C** will enjoy legal tender status within the entire territory of the monetary union;
- in **PHASE C**, national notes and coins will lose their legal tender status and only ECU notes and coins will henceforth enjoy this privilege. Legislation will be required to ensure that this eventuality occurs. Retailers would be obliged to accept ECU notes and coins as a means of payment, but would retain the choice as to whether they accept national currency notes and coins as of this date;
- statutory provisions in some Member States (e.g. France, Italy) limit the use of bank-notes for certain types of payments or for payments above a certain amount for reasons of public order. Without further action, such restrictions will remain in force;
- decisions on legal tender may have implications on rules governing price displaying in that one would expect prices to be displayed in the currency enjoying legal tender status;
- without additional measures on the legal tender status of coins, national rules on the maximum amount which can be paid in coins would continue to be applicable.

Section 3

Continuity of contracts

129. Provisions exist in the national law of some Member States which allow one contractual party to terminate or modify the terms of a contract or an agreement without the consent of the other contractual party in case of a fundamental disruption in economic factors. Economic operators need to be certain that EMU will not constitute a fundamental disruption in economic factors such that contracts in national currencies and basket ECUs could be unilaterally revoked and would therefore need to be re-negotiated. This "non revocability" principle should apply in all cases.

Continuity and the move to monetary union

130. The move to monetary union will not constitute, either in the legal nor economic sense, a fundamental disruption. Therefore, variations in the value of claims and liabilities stemming from increased monetary stability do not give rise to continuity questions. There are several reasons supporting this conclusion. Changes in the level of interest rates associated with changes in macroeconomic policy have been experienced in many countries and constitute the usual uncertainties associated with economic developments. Participation in EMU, in economic terms has to be seen in the context of a long-standing predictable commitment. The convergence criterion on long-term interest rates ensures that during the run up to the start of EMU, interest rates of participating countries will move close together.

Continuity and introduction of the ECU

131. As long as national currencies maintain their legal existence (i.e. until **PHASE C**), a formal continuity problem does not arise since contracts can be settled in the same currency as before. A different continuity issue, essentially of a technical nature, arises at the moment when the ECU is introduced and national currencies lose their legal existence. However, the moment at which this change occurs depends upon the nature of the contract in question :

- for contracts denominated in basket ECU, the change-over into a legally different currency would occur at the start of **PHASE B**. The Commission has already issued a Recommendation (94/284/EC) concerning the legal treatment of contracts denominated in basket ECU.⁵ As the transformation of the ECU from a basket currency into a currency in its own right (Art. 109g and Art. 109l.4 of the Treaty) will not by itself modify the external value of the ECU, the Treaty establishes that the conversion rate of the basket ECU into the ECU will be 1:1. As a consequence, the unilateral decision of a contractual party to apply a different conversion rate should be considered as a violation of the terms of the contract;

⁵ Regulation 3320/94 of 31.12.94 (OJ L N°350/27) will have to be accordingly amended in order to ensure a transformation of any reference to the basket ECU in Community law to the ECU single currency at the 1:1 conversion rate.

- for contracts denominated in national currency, the conversion would occur in principle at the start of **PHASE C**, but could intervene already at the start of **PHASE B** in those sectors which would use the ECU in line with the reference scenario. Contractual parties would always be entitled to decide by mutual consent, before **PHASE C**, that their contracts must be read in the ECU.

Legislative action

132. Neither the move to monetary union nor the introduction of the ECU constitutes a fundamental disruption in economic factors such that the millions of contracts in existence warrant re-negotiation. Contractual parties will not have legal grounds for unilaterally terminating or modifying the terms of a contract. However, contract law is embedded in national legal systems, and the principles which determine the conditions under which contracts may be revocable are not identical across Member States. The Commission invites Member States to review national contract law provisions with a view to identifying any changes needed to guarantee the uniform application of the principle of non-revocability to the extent that it is related to EMU. Based on this review, a legislative package could be enacted to ensure that the principle of non-revocability is applied everywhere well in advance of the start of EMU even before **PHASE A**. The rules must be the same for all Member States and should therefore be adopted at the EU level and be applicable in all Member States.

133. Another legislative package must be enacted before the final changeover to the single currency which would include :

- references to national currencies in all contracts shall be read as references to the ECU implying there will be no changes in the terms of contracts. Likewise, references to a national currency in laws and regulations and all documents shall read as references to the ECU. Such legislation would also remove any need to include continuity clauses in contracts;
- a rule that the conversion rates adopted at the start of monetary union shall be used for the conversion of national currency into ECU amounts.

134. In those sectors, which would be converted in ECU according to the reference scenario as from the start of **PHASE B**, this legislative action should be taken in due time.

For third countries, the recognition of the ECU as the successor to the national currencies at the fixed conversion rates ("lex monetae") can be expected, as well as the recognition of the continuity of the other terms of a contract ("lex obligationis") such as coupon rates, interest rates and other ancillary obligations.

Further examination will be necessary before it is possible to judge whether in certain cases it might be necessary to have additional legislation, for example to oblige contractual parties to inform their counterparts about the new denomination of a contract.

Section 4

Rounding

135. The transition from a monetary regime with many national currencies to one with an ECU will inevitably raise questions related to the rounding of amounts expressed in currency units. Rounding already prevails in the present regime: for example, exchange rates used in small transactions are usually expressed with fewer significant numbers than for wholesale transactions. Questions of rounding seem to be settled in the present regime without the need for extensive legislation. However, in the transition to the ECU some specific questions could arise and require clarification.

Legislation will be required to guarantee the application of conversion rates subject to mandatory rounding rules (e.g. all long term contracts such as mortgages, wages, conversion of financial balances). Legislation may also be required to ensure an application of conversion rates whenever dual prices are displayed. Decisions on rounding issues are required as a matter of some urgency. In particular, enterprises and banks need to have certainty even before the start of PHASE A.

Section 5

Legal issues relating to bank-notes

136. While the technical preparation of bank-notes is a competence of the EMI, and the issue of bank-notes will be a matter for the ESCB, some legislative measures may be required. It would fall to the Commission in conjunction with the ESCB to make legislative proposals :

- the legal protection of bank-notes against counterfeiting;
- rules on the unauthorised issuing and use of monetary tokens (stamps, coins, notes or other instruments capable of being used in payment in place of coins or bank-notes authorised by law);
- replacement of mutilated or destroyed bank-notes;
- various issues related to the withdrawal of national bank-notes and the introduction of ECU notes;
- although not strictly limited to bank-note law, a further issue relates to whether specific legal protection needs to be given to the name of the single currency against abusive use.

137. *Economic operators demand that complete legal certainty be established well in advance of the start of monetary union, PHASE B. Hence, preparations need to begin well before PHASE A, the decision to move to monetary union. The Commission therefore proposes that Member States report by December 1995 on legislative changes required to ensure that the single currency can be used on the same basis as national currency as of the start of PHASE B. Based on these submissions, the Commission intends to present draft proposals for the legal framework required at the Community level by spring 1996. These proposals will cover the issues raised in this chapter, but particular attention will be given to the status of the single currency and the continuity of contracts.*

Part 4 - Communications

Two primary objectives : winning popular support and stimulating technical preparations

138. The purpose of any communications strategy is to transmit relevant, verifiable information in an organised, coordinated way in support of certain objectives. Organised in support of public policy, such a strategy makes an essential contribution towards transparency, public education and democratic debate. It is not about manipulation.

It is safe to say that the transition to the single currency cannot succeed without the support of clearly defined communications strategies for the Union as a whole, and for individual Member States. Their core objectives will be to win popular support for the single currency and to stimulate and encourage the necessary technical preparations throughout the private sector of the economy. Achieving them depends on successfully implementing a number of supporting strategies.

The changeover to a single currency would be a dynamic process divided into the three phases already described in this Green Paper. During these phases, some communications objectives would remain constant, others would become less important. Stimulating technical preparations in the banking sector, for example, would clearly be less of a priority towards the latter part of **PHASE B** because the sector would be well into its transition programmes.

139. There will, of course, be several communications policies devised and implemented by public authorities, including the Commission, the European Parliament, the Member States, central banks, the European Monetary Institute and, once it is set up, the European System of Central Banks. Efforts will be needed to ensure that these are complementary and mutually reinforcing which means that important questions of organisation, sharing of responsibilities, resources and timing need to be addressed.

Member States actions will be crucial because they must take responsibility for the main public information and communication initiatives directed at their citizens. Although the Commission will have an important role, the subsidiarity principle, as well as differences of culture, language and styles of communication reserve a central role for the Member States.

Chapter II

The Communications Challenge

Section I

Doubts and lack of information

140. There is evidence of doubts among the Union's citizens in the likelihood of EMU and lack of information of what the transition to a single currency would involve. According to the Maas Group, there is not a great deal less doubt among important partners whose cooperation in preparing for the changeover is essential to its success.

EMU tends to lack credibility for a number of reasons which include :

- low awareness that the commitment is embodied in the Treaty on European Union;
- consequently low awareness that 1997 is an objective for the single currency and that 1 January 1999 is an effective legal deadline for those Member States which fulfil the necessary conditions;
- the balance of media comment in many Member States had given the impression that upsets in the Exchange Rate Mechanism over the last three years made EMU less likely;
- economic performances in a number of countries still fall short of the convergence criteria;
- outside of the corporate sector, belief in EMU among influential elites has seemed uncertain and wavering and neglectful of its very positive aspects.

Communications policies cannot remedy all of these weaknesses, but they can seek to create a climate of more informed opinion about a single currency. And after the key political decisions are taken, they can help to mobilise support and action.

Section 2

Uneven support

141. Available poll evidence, shows a declining belief among the population in all Member States (except Sweden, Finland and Austria, for which there are no equivalent data) that a single currency will be in use by the year 2000. In June 1991, 64% thought so. By June 1994, only 51% believed in the prospect - a slender overall majority. In Denmark, Germany, Greece and the UK, believers were in a minority while they were exactly 50% of the sample in Portugal.

Other poll evidence shows very high proportions (more than a third of Europeans) never having heard of the ECU and strong resistance to its use as a single currency in Austria, Denmark, Germany and the UK. Just over half of all respondents want to know more about its advantages.

Those able to identify advantages thought that it would benefit companies most and strengthen Europe in global competition. Just over 46% thought that the ECU would help to deal with future economic problems.

Nevertheless, if one takes into account that almost six Europeans out of ten declare themselves "quite" or "very much" in favour of the single currency, then popular attitudes across the Union (of 12) as a whole are encouragingly positive, (although rather less so in some particular Member States). This is fertile ground upon which to build efforts to educate the public about the advantages of a single currency and about what to expect during the transition.

Chapter III

Tasks for a Communications Strategy

142. The twin objectives of winning popular support and encouraging technical preparation will be equally important throughout the period beginning with the publication of this Green Paper and culminating in the introduction of notes and coins. They will not, however, require equal commitments of effort and resources at every stage of the changeover because of the nature of the transition exercise.

Although the public must be helped to understand what is going on and why from the very beginning, the first priority, at least until the start of **PHASE B**, is to encourage and stimulate the necessary preparations in the banking and finance sectors and by public administrations. After that, as the (non-cash) use of the ECU widens to include private companies, and even some individuals, and as the date for the substitution of the new notes and coins approaches, communicating with the public at large will take precedence.

Moreover, a successful technical changeover in the financial sector is bound to have a positive impact on popular perceptions of the single currency.

The Communications tasks can be best discussed in relation to the reference scenario timetable outlined in this Green Paper, beginning with a preliminary period opened by the publication of this Green Paper.

Section I

From the Green Paper until the start of PHASE A

143. This Green Paper is a first step in dealing with the communications tasks and objectives set out below. Recognising the need for a broad mobilisation on the communications front, the Commission will organise a **Round Table** in the autumn on objectives and strategies for achieving them. Those invited will include representatives of the European Parliament, Member States' administrations, the European Monetary Institute, the media, the banking and financial sectors, trans-border companies, consumers and trade unions. The aim will be to launch coordinated campaigns from the beginning of 1996.

At the same time, the Commission is making special efforts to ensure that the key messages in this Green Paper reach their targets. These efforts will include publication in the autumn of a brochure designed for a mass audience. It is also examining how it will satisfy the growing demand for information which is likely to follow publication of the Green Paper, and the final decisions on the changeover scenario.

144. In this phase, the two main tasks are :

- mobilising key currency users to begin technical preparations for the transition. This category includes banks and finance houses, traders of financial instruments, accountancy and insurance companies, large companies involved in cross-border trading, public administrations and utilities, vending machine operators and users;
- informing the general public on the advantages of the single currency and responding to demands for information on the transition.

These tasks imply the following communications objectives :

for stimulating technical preparations :

- to convince key users that the Treaty objective of a single currency will be achieved. This will encourage them to invest in preparing for the changeover;
- to create a sense of urgency about launching preparations;
- to ensure that the technical requirements for the changeover are understood and accepted by those concerned;
- to allay anxieties about the feasibility of the changeover.

for informing the general public :

- to explain the advantages of the single currency;
- to explain the main lines of the changeover scenario;
- to promote acceptance of the single currency as equivalent to the strongest national currency;
- to allay anxieties about the impact of the changeover on pensions, savings, bank accounts etc.

Section 2

From PHASE A onwards

During PHASE A - launch of Economic and Monetary Union

145. During this period, the tasks and objectives above would remain substantially unchanged. However, participating Member States should assume full responsibility for informing and mobilising their own key users and for issuing general information to the public on the legislative and administrative changes they are making.

During PHASE B- effective start of EMU and emergence of a critical mass of activities in ECU

146. After the start of PHASE B, the communications priority would gradually shift in the direction of preparing the public for the replacement of national currencies by the single currency's notes and coins. In the six months or so before this changeover, highly concentrated public education and familiarisation campaigns would be needed. These would include dual displays of prices in national and single currencies and many other approaches set out in the following paragraphs.

During PHASE C - final changeover to the single currency

147. Public education campaigns should continue for some time after the withdrawal of national currencies. Special attention should be given to the needs of the elderly and the visually impaired.

Certain approaches could be pursued at both national and Union levels at the appropriate time during the changeover. These could include :

- every effort should be made to involve representative organisations as communications “multipliers” able to reach large target audiences (consumer groups, trade unions, industry federations, organisations of SMEs, chambers of commerce, professional associations, unions and special interest groups such as the visually impaired);
- special information campaigns targeted on schools could be a particularly effective means of transmitting into the home knowledge of and interest in the single currency. Moreover, children are major currency users in their own right;

- campaigns targeted on the socially disadvantaged who can be reached through their own representative organisations as well as charities and other voluntary groups;
- obviously the media, which will be a major influence on public perceptions and attitudes, must be continuously supplied with high quality written and audio-visual information;
- dual pricing displays could begin as of the start of **PHASE B** and continue for some time after national notes and coins have been removed from circulation;
- special events should be created (competitions, lotteries, sporting events) to stimulate interest in the single currency and to familiarise the public;
- trial runs of the single currency in certain localities when consumers would actually use advance copies of the notes and coins;
- everything possible must be done to make it easy to understand and use the new currency - this means a plentiful supply of conversion tables (with explanations of conversion rates, rounding rules, denominations of notes and coins) and possibly, even a supply of customised calculators (to pensioners, for example) able to convert from national to single currency and back again at the touch of a button.

Section 3

Organisation

148. *At Community level* : it will be necessary to coordinate the communications activities of the institutions in a manner which is clear to currency users. One possibility would be to create a Task Force representing the various Community institutions.

149. Bearing the prime responsibility for information and communications, Member States have several organisational options. They have to decide whether they want a central coordinating body for non-legislative actions or whether to have a number of such bodies at regional and local levels. Having a single contact point would greatly assist private enterprises, representative associations and the general public and could provide a forum for dialogue with all currency users.

If a central coordinator is to be established, governments will have the choice between placing the responsibility within their administrations or delegating the tasks to a quasi-independent "Single Currency Committee", along the lines of the UK body which supervised the conversion of sterling into a decimal currency.

Once they have set themselves precise communications objectives, it is essential that Member States, the Commission and the EMI monitor their progress. This can be measured in a variety of ways, including by means of regular opinion polls. The monitoring task can be shared, but conclusions should be drawn at least twice a year, and more often after the start of Stage Three. Communications strategies should then be adjusted in the light of these conclusions.

150. The importance of well-designed and effective public communications for the success of the switch to a single currency cannot be exaggerated. The Commission intends to underline the priority by organising a Round Table in the autumn of all public and private interests involved in the changeover to discuss objectives and strategies, including organisation and the sharing out of responsibilities.

As a first step and before the autumn round table discussions, the Commission invites Member States to establish a contact point to which currency users can address questions on EMU. This contact point could also receive comments on issues raised in this Green Paper.

Chapter IV

Follow-up to the Green Paper

151. This Green Paper is designed to raise awareness among all currency users about the introduction of the single currency and to encourage interested parties to reflect on the practical implications associated with the changeover.

To this end the Commission wants to encourage all groups of currency users (banks and financial enterprises, those involved with payment systems, public administrations, enterprises and consumers), to reflect upon the implications of the changeover to the single currency. The Commission suggests that they establish working parties where appropriate (e.g. consumer organisations, industry federations, professional associations, unions, working parties in public administrations) to give their reactions to this Green Paper by December 1995.

In autumn 1995, the Commission intends to organised a **Round Table** discussion on communication strategies with a view to launching coordinated campaigns in early 1996.

The Commission invites the Member States, by the end of 1995, to report on :

- progress in reviewing the legislative measures required at the national level for the introduction of the single currency;
- organisational plans for a communication campaign;
- the establishment of working parties in public administrations to examine the administrative changes required for the introduction of the single currency as well as the changes required to existing legislation which refer to national currencies. Member States are also invited to report on plans for establishing a national steering structure for supervising the move to the single currency.

After having received and analysed the reactions to the Green Paper of all groups of currency users and the Member States, the Commission will develop and implement the necessary technical and legislative programmes during 1996. Depending on the area, this will happen in constructive cooperation with the other authorities involved, in particular the Council, European Parliament and the EMI.

Review of the operational conclusions

The Banking and financial sector

The Commission invites banks, financial market and payment system operators who will be affected by the introduction of the single currency to reflect upon the ideas and proposals in the Green Paper. The Commission would welcome their views and reactions by the end of the year. Professional associations will have a key role in presenting their conclusions. The Commission suggests that Member States establish an institutional framework for co-ordinating the activities of the actors concerned.

The Commission invites banks to reflect and report upon the reference scenario and its technical implications and how this could be translated into a changeover plan for banking and financial communities by the end of the year. In particular, the Commission would welcome reactions regarding the emergence of a critical mass of activities in ECU at the start of monetary union and the time required for the full introduction of the single currency.

Payment systems operators and users are invited to reflect and report upon the technical implications of the reference scenario by December 1995. On the basis of these consultations, the Commission shall during the course of 1996 take the measures required at Community level for the smooth introduction of the single currency. Moreover, it is the view of the Commission that the golden opportunity for moving towards the overall objective of a "payment area" which corresponds to the area of the single market should be seized. Inter-operability of payment systems within the EU should be associated to the single currency.

Public administrations

The Commission considers that all levels of public administration must assume a leadership role in preparing for the introduction of the ECU. To this end the Commission proposes :

that other Community institutions establish working groups to examine the implications of the introduction of the ECU. These working groups could consider, inter alia, the need for legislative amendments and the introduction of the ECU for budgetary operations;

- *that national public administrations at all levels establish working parties to examine and plan the legislative and administrative measures required to ensure a smooth introduction of the ECU. The progress and findings of such working parties could be reported to the Commission by December 1995 with a view to organising an exchange of views on technical problems encountered. The Member States could also consider whether a national steering structure for the introduction of the single currency is required;*
- *that public administrations and public utilities, to the maximum extent possible, conduct dual display of prices as a means of familiarising the general public with the ECU at the start of PHASE B. Examples of where dual pricing displays could be undertaken include bills for gas, electricity, water, fiscal statements, tolls etc. The dual pricing displays might be maintained for some time after the start of PHASE C, even beyond the final withdrawal from circulation of national notes and coins.*

Enterprises

The Commission invites enterprises, representative and professional associations, including organisations representing SMEs to analyse the implications of introducing the ECU for their particular sector/profession. Working parties in enterprises and/or representative associations could be established with a view to distilling reactions to the Green Paper, cataloguing the changeover measures required, and listing the legislative and technical decisions required of governments and public administrations. It might be useful for a single currency officer to be appointed in each representative organisation. The Commission invites Member States to facilitate the setting up of such working parties involving enterprises.

In addition, the Commission suggests that Member States establish an framework for co-ordinating the activities of private enterprises and organisations. This could avoid duplication of work and encourage the sharing of experiences and ideas. The Commission also proposes that national authorities provide a single contact point for information and assistance on the introduction of the ECU.

Consumers

Throughout the Green Paper, the Commission has tried to anticipate as many as possible of the key problems that consumers will face. However, it relies on their representative organisation to confirm its judgement of the main impacts of the introduction of the ECU. It would welcome comments and any additional information that would be of help in developing policies to ensure a smooth changeover for consumers. The Commission

intends to consult all currency users concerned with a view to reaching a consensus on the need for Community legislation obliging dual pricing displays, such that appropriate measures could be taken in spring 1996.

Legal framework

Economic operators demand that complete legal certainty be established well in advance of the start of monetary union, PHASE B. Hence, preparations need to begin well before the start of PHASE A, the decision to move to monetary union. The Commission therefore proposes that Member States report by December 1995 on legislative changes required to ensure that the single currency can be used on the same basis as national currency as of the start of PHASE B. Based on these submissions, the Commission intends to present draft proposals for the legal framework required at the Community level by spring 1996. These proposals will cover the issues raised in the Green Paper, but particular attention will be given to the status of the single currency and the continuity of contracts.

Communications

The importance of well-designed and effective public communications for the success of the switch to a single currency cannot be exaggerated. The Commission intends to underline the priority by organising a round table in the autumn of all public and private interests involved in the changeover to discuss objectives and strategies, including organisation and the sharing out of responsibilities.

As a first step and before the autumn round table discussions, the Commission invites Member States to establish a contact point to which currency users can address questions on EMU. This contact point could also receive comments on issues raised in this Green Paper.

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