

## **Chapter VIII**

# **Production of the euro banknotes and coins and preparations for the cash changeover**

## **1 Production of the euro banknotes and coins**

Euro banknotes are being produced by the NCBs and by privately and publicly owned companies. Printing is proceeding at the 14 printing works involved in euro banknote production. (The printing works in Greece, a late entrant, started production in the last quarter of 2000.) The volumes required have been revised in the light of Greece's entry to the Eurosystem and of changes in the estimated requirements. It will now be necessary to have available some 14.25 billion

banknotes (including both the launch and the logistical stocks; see Table 14) with a total face value of around €642 billion by January 2002.

The Member States are responsible for the production of euro coins. They are being struck by 15 mints in 11 countries. According to current estimates, the total number of euro coins will be around 50 billion, with a value of close to €16 billion.

## **2 Quality of the euro banknotes and coins**

A database has been established in order to compile quality-related information from the mints and the printing works. This database will be used to provide monthly aggregated data regarding the quality of euro banknotes and coins.

working well and any quality variations which do occur are subject to investigation and careful decision-making within the scope of the established ISO 9000-based procedures.

### **2.1 Quality of the banknotes**

The goal of ensuring a common quality standard throughout all of the participating printing works is a demanding one. The implementation of a common quality system has involved a substantial amount of work and the system has now been confirmed as being operational in all printing works. Work continues on optimising the quality systems. The mechanisms for identifying variations are

### **2.2 Quality of the coins**

The ECB continues to act as an independent assessor of coin quality, carrying out its responsibilities at the mints involved in euro coin production. These responsibilities include supporting the quality system, monitoring of mints via periodic quality audits, and monthly reporting on progress. Progress throughout the year was steady and the ECB did not have to alert the ministers of finance and economy to any quality-related problems.

## **3 Protecting the euro banknotes and coins against counterfeiting**

The implementation of the Counterfeit Monitoring System (CMS) database, which will store technical and statistical data on counterfeit euro banknotes and coins, has proceeded in accordance with the timetable. Following the drafting of the user requirements and the conducting of a feasibility study in 1999, the functional specifications were completed in the first half of 2000. This was followed by the development phase. It is envisaged that the

implementation, testing and acceptance of the CMS will continue until June 2001. A five-month period (July to November 2001) has been allocated for training and corrective measures, if needed. Finally, in December 2001, one month before the issue of the euro banknotes and coins, the CMS database will become operational.

In parallel with the CMS database, the Counterfeit Analysis Centre (CAC) is being

set up at the ECB. The basic activities involved in the establishment of this Centre are the recruitment of its staff – including counterfeit experts and technical and administrative staff – and the acquisition of the required specialised technical equipment. The CAC will be equipped with the instruments necessary for analysing differences between counterfeit and genuine banknotes, particularly in respect of the security features of the euro banknotes.

Contacts with Europol, Interpol and the European Commission have been stepped up

with a view to establishing the communication and collaboration arrangements necessary to ensure an effective information flow for the purposes of preventing and combating counterfeiting.

The ECB, together with Europol and the European Commission, co-operated closely to prepare a draft Council Regulation on the protection of the euro against counterfeiting. The ECB was duly consulted in September 2000 and presented its Opinion in December.

## 4 The Euro 2002 Information Campaign

As part of the preparations for the introduction of the euro banknotes and coins, the ECB and the 12 NCBs of the Eurosystem are conducting a “Euro 2002 Information Campaign”. The campaign has a budget of €80 million. Following a public competition, Publicis Worldwide B.V. was chosen as the agency to assist the ECB with the campaign. The contract was signed in spring 2000 and the campaign is being implemented internationally by the ECB and nationally by the 12 NCBs of the Eurosystem.

The campaign, which is being co-ordinated with similar initiatives prepared by national authorities, focuses on:

- the appearance of the banknotes and coins,
- the authentication features,
- the denominations, and
- the overall changeover modalities.

Three principal channels are being used to deliver these messages: a mass media campaign, public relations and press activities, and co-operation with other groups active in this area (the Partnership Programme).

### 4.1 The Mass Media Campaign

The Mass Media Campaign – which will start in late 2001 and run through to early 2002 –

will support the introduction of euro banknotes and coins by providing the general public with information on their appearance and authentication features and on the cash changeover. The campaign will run on television and in newspapers in all euro area countries. The design of the media material and the choice of slots, etc. will be co-ordinated nationally in order to maximise use of the relevant media landscape, as well as to ensure co-ordination of content and media plans with other campaigns, particularly those organised by the national authorities.

### 4.2 PR and press activities

Public interest in the introduction of euro banknotes and coins will grow significantly as 1 January 2002 approaches. The campaign endeavours to maximise this interest and to ensure that accurate information about the banknotes and coins is provided via public relations and press activities. These efforts will contribute to raising awareness about the changeover and to making the public more receptive to the new money. A PR programme is being rolled out over the course of 2001. It includes the “Euro 2002 Information Campaign conferences” – a series of conferences in Eurosystem countries – and a “Countdown to the euro”, which highlights significant countdown dates and involves the

distribution of media kits, etc. to support the PR programme. As with other elements of the campaign, this is being implemented both nationally and internationally.

### 4.3 The Partnership Programme

The aim of the Partnership Programme is to broaden the impact of the Information Campaign:

- by involving partners who can help to accurately inform the public about the changeover;
- by maximising the multiplier effect that these organisations can have; and
- by ensuring an efficient distribution of Eurosystem information on euro banknotes and coins to where it will be most needed, for example, retail outlets.

The public, banking, retail, tourism, travel and educational sectors are some of the key areas involved.

The Partnership Programme is being implemented nationally by the NCBs and internationally by the ECB.

### 4.4 Other elements

A dedicated website was launched at the beginning of 2001 at [www.euro.ecb.int](http://www.euro.ecb.int). It has a central role to play in making comprehensive information available on euro banknotes and coins.

The campaign also focuses on cashiers and police forces, as well as target groups outside the euro area. Specific measures are being taken to help vulnerable sectors of the population.

A number of initiatives have already been undertaken to ensure that comprehensive information will also be made available outside the euro area, with particular emphasis on the accession countries, as well as certain other countries in which the currencies of Eurosystem countries are widely used.

## 5 Changeover to the euro banknotes and coins in 2002

With regard to the cash changeover, a Eurosystem Cash Changeover Co-ordination Committee was established comprising representatives from the ECB and the 12 NCBs. The Committee will have overall responsibility for the co-ordination of the changeover to euro banknotes and coins through to the end of February 2002. It will monitor the preparatory work relating to the issuance of, and changeover to, the euro banknotes and coins as well as establish a Eurosystem-wide information exchange framework in the run-up to €-day and thereafter. Similar committees were established to prepare for the adoption of the euro at the beginning of 1999 and for the transition to the year 2000.

### 5.1 Financial modalities for the 2002 cash changeover

The Governing Council of the ECB has agreed on the general principles of the framework for the 2002 cash changeover.<sup>1</sup> In reaching its decisions, the Governing Council took due account of the major role which credit institutions will play in making the 2002 cash changeover a successful operation. These decisions relate to the following matters:

- frontloading/sub-frontloading,
- the debiting model, and
- coverage of risks.

<sup>1</sup> Guideline of the ECB adopting certain provisions on the 2002 cash changeover (ECB/2001/1), OJ L 55, 24.2.2001, p. 80.

### **Frontloading/sub-frontloading**

The Eurosystem recognises that the shortening of the cash changeover period agreed by the ECOFIN Council in November 1999 will require the active frontloading of euro banknotes and coins to credit institutions and, through the latter, to certain other target groups (i.e. sub-frontloading to retailers, cash-in-transit companies and the cash-operated machine industry).

In the light of this, the Governing Council has approved the start of frontloading and sub-frontloading of banknotes to professional target groups as from 1 September 2001. However, each NCB is free to operate within the maximum lead time in order to meet the needs of frontloading. This also implies that the lead time determined nationally may differ from target group to target group as well as between banknotes and coins. In nine countries the national authorities are providing euro coins to credit institutions as from September 2001 because their bulk makes them more difficult to transport and their lower value means that the risk to credit institutions is lower than for banknotes. Three countries envisage frontloading banknotes at the same time. Most of the other countries will postpone the distribution of banknotes until November or December 2001.

With regard to the different target groups, all countries acknowledge the need to supply credit institutions with both euro banknotes and coins prior to 1 January 2002.

In addition, 11 countries will provide the retail sector with euro coins and in particular low-denomination euro banknotes prior to €-day (sub-frontloading). This is due to the fact that, unlike banknotes, coins are generally brought into active circulation by the retail sector, rather than by credit institutions. With regard to the cash-operated industry and in view of the need to load machines with coins prior to €-day, seven countries will sub-frontload coins to this sector, while the other five are considering this option.

According to the ECOFIN Council statement made in November 1999, euro coins can be provided to the general public in the second half of December 2001. The supply of euro coins to the general public is currently envisaged in ten countries. However, there are no plans at this stage to provide coins to the general public in two countries, because these countries take the view that the possible benefits of supplying the public with euro coins do not outweigh the distribution costs or the risks associated with early circulation.

### **Debiting model**

The Governing Council agreed on a debiting model which will adequately reflect additional cash holdings of credit institutions resulting from the 2002 cash changeover. The debiting model, which is simple and easy to implement, will not interfere with the relationship between credit institutions and their clients. Thus:

- euro banknotes and coins frontloaded to credit institutions or their appointed agents shall be debited in their respective accounts with the NCBs, at face value, in accordance with the “linear debiting model”, i.e. one-third of the frontloaded sum on 2, 23 and 30 January 2002 respectively;
- euro cash delivered to and returned by credit institutions as from 1 January 2002 is to be debited/credited in accordance with current practice; and
- cash denominated in national currency units and returned to credit institutions as from 1 January 2002 is to be credited in accordance with current practice.

### **Coverage of risks**

The Governing Council has approved the following scheme for the coverage of risks:

Frontloaded euro banknotes shall remain the property of NCBs until the end of December

2001. In the event that arrangements for the retention of ownership are not considered by NCBs to be legally feasible or legally enforceable, eligible assets can be provided as collateral for the NCBs' rights with regard to frontloaded euro banknotes. Such assets may also be provided as collateral in parallel with arrangements for the retention of ownership.

Eligible assets shall be provided to NCBs by the close of business on the last business day of 2001, at the latest, as collateral for the amounts of frontloaded banknotes and coins delivered on or before 31 December 2001.

All assets considered eligible collateral for Eurosystem credit operations or other such assets as may be approved by the Governing Council upon the proposal of an NCB are eligible as collateral for frontloading and sub-frontloading. Cash in the form of a deposit on a dedicated account, remunerated at the same rate as applied for minimum reserves, or in another form deemed appropriate by the NCBs, can also be provided as eligible collateral.

NCBs shall ensure that credit institutions cover at least the risk of loss resulting from the destruction, theft or robbery of frontloaded banknotes and coins, which remain the property of NCBs, by taking out insurance policies or by any other appropriate means. The conditions for frontloading take no account of the credit institutions' own risk insurance, which remains their sole responsibility.

In order to ascertain compliance by credit institutions or their appointed agents with their obligations regarding the prevention of anticipated public use of the frontloaded euro banknotes, and with the sole purpose of verifying the presence of the frontloaded banknotes, NCBs may ensure that auditing and inspection provisions are included in any statutory or contractual arrangements drawn up for frontloading.

Any breach by the credit institutions or their appointed agents of their obligations,

including, but not limited to, putting the euro banknotes into circulation or acting in a way that is conducive to putting them into circulation before 1 January 2002, shall be deemed to damage the Eurosystem's objective of a smooth cash changeover and shall be subject to the payment of contractual or statutory penalties, as appropriate, to be required by NCBs in an amount proportional to the respective damage.

In turn, the credit institutions will be required by NCBs to include provisions in their sub-frontloading contracts with retailers that provide an equivalent level of protection.

Eligible assets shall be provided to NCBs as collateral from the moment of sub-frontloading and for the amounts of sub-frontloaded banknotes and coins until discharge of the guaranteed obligations.

## **5.2 Cash changeover in markets outside the euro area**

Given that the euro in fiduciary form will be put into circulation as from 1 January 2002 every effort should be made to ensure the smooth introduction of and changeover to the new currency, in order that customers requiring euro banknotes can obtain them in an efficient manner. In the light of this, it is also very important to proactively address the issue of the international changeover and to adequately prepare both the markets and the public located outside the euro area in order to keep costs and disruptions to a minimum.

The Governing Council of the ECB has adopted the following measures which will help to ensure the smooth launch of euro banknotes and coins outside the euro area:

- credit institutions which are counterparties for monetary policy operations within the Eurosystem will be allowed to distribute frontloaded euro banknotes to their branches, or headquarters, as appropriate, located outside the euro area;

- credit institutions with their main place of business inside the euro area will be allowed to sub-frontload euro banknotes to their subsidiaries which are also credit institutions and located outside the euro area; and
- credit institutions with their main place of business inside the euro area will be allowed to sub-frontload to other credit institutions which have neither their registered nor their head office inside the euro area.

The financial modalities applicable to frontloading/sub-frontloading are those outlined under section 5.1 with the exception that credit institutions will only be allowed to start distributing euro banknotes to markets outside the euro area as from 1 December 2001. In addition, outside the euro area, it will not be possible to sub-frontload euro banknotes to any third parties whatsoever.

Apart from these steps, the Eurosystem is exploring additional measures in the first half of 2001, including the direct involvement of central banks outside the euro area.

### **5.3 Duration of the dual circulation period**

In practice, the actual speed of the cash changeover will depend on the response of the public, on the capacity of the various parties involved and on existing national infrastructures. The longer the cash changeover period, the higher the dual cash handling costs to be borne by the credit institutions and the retail sector will be. In the light of this, a consensus has emerged in favour of shortening the period of dual circulation considerably from the maximum of six months decided by the EU Council in 1995.

In eight Member States the dual circulation period will last until the end of February 2002. Some countries have opted for a dual circulation period which is shorter than the maximum two months agreed by the ECOFIN

Council. In the Netherlands the guilder will cease to be legal tender on 28 January 2002. Germany has decided to withdraw legal tender status from its national banknotes and coins at the end of 2001, but this legal “big bang” is accompanied by a commitment on the part of the different sectors concerned to accept the Deutsche Mark at least until 28 February 2002. In Ireland (subject to government approval) and France national banknotes and coins will cease to be legal tender on 9 and 17 February 2002 respectively.

Details of the national changeover plans can be found on the Eurosystem’s official euro website at [www.euro.ecb.int](http://www.euro.ecb.int) in the section “Getting ready for the euro”.

### **5.4 Exchange of national banknotes at national central banks**

Euro banknotes and coins will not be issued until 1 January 2002. In the meantime, banknotes in the euro area continue to be in the national currencies. During the transitional period, to ensure substitutability between the national currency units, the exchange of banknotes denominated in the national currencies of the euro area is governed by Article 52 of the Statute of the ESCB. This means that each NCB will, at least in one location in the respective country, ensure that banknotes of other participating Member States can be either exchanged against national banknotes and coins or, upon request, credited to an account with the institution effecting the exchange if the national legislation provides for this. In both cases, exchange will be at the respective par value. The Governing Council has decided to extend the current Article 52 arrangements beyond 2001 until the end of March 2002. In this case, national currency units will be exchanged against euro.

Some 500 NCB branches throughout the euro area have continued to be involved in the exchange of non-national euro area banknotes. Banknotes repatriated under this

arrangement to their respective issuing countries were worth a total value of €9.3 billion and amounted to 169.7 million banknotes in total.

### 5.5 Adaptation of ATMs, currency sorting and accepting machines

In May and September 2000 centralised test weeks for the manufacturers of banknote-accepting and processing machines were organised under the supervision of the ECB in Neu-Isenburg, near Frankfurt. The goal was to offer companies an opportunity to test the euro banknotes in order to gain basic information which would be of assistance in adapting the machines and sensors to the euro banknotes. In total, 55 companies participated in the tests. On the basis of the analyses of the test results, the company

representatives were generally satisfied with the machine-readability of the euro banknotes.

**Table 14**  
**Number of euro banknotes to be produced by 1 January 2002**  
*(in millions)*

Belgium	530
Germany	4,342
Greece	597
Spain	1,924
France	2,240
Ireland	222
Italy	2,380
Luxembourg	46
Netherlands	659
Austria	550
Portugal	536
Finland	225
<b>Total for the euro area</b>	<b>14,251</b>