

5 The development of the euro banknotes and the preparations for the cash changeover

5.1 Origination and procurement (February to September 1998)

The final designs and the technical specifications for the euro banknotes were approved by the EMI Council in February 1998. Intensive work then began to convert the detailed draft designs into the origination material. The final dies, films and files were exchanged between printing works to enable printing plates to be manufactured from a single origination source. Production of the pilot series was ready to start in September 1998. In parallel with this, negotiations were held with the suppliers of raw materials and security devices to ensure that the ECB was not only able to guarantee continuous sources of supply, but that it would also be able to avoid becoming tied to any single supplier. The Governing Council of the ECB formally decided that the euro banknotes would not bear any national symbols.

5.2 Pilot series (September 1998 to February 1999)

The printing of the pilot series involved producing several million banknotes under normal operating conditions. The aim was to check the compliance of the origination materials with the current specifications and to establish a preliminary basis for a quality management system.

According to the decision of the Governing Council, each NCB will be responsible for procuring its own launch stocks. In other words, each participating NCB is free to decide where its national supply of euro banknotes will be printed. There will be no centrally organised pooling, although NCBs are, of course, free to enter into their own bilateral or multilateral pooling arrangements if this facilitates their production work.

The Governing Council agreed that the participating NCBs could release their printing orders on the assumption of a

production volume of 13 billion euro banknotes, this figure being subject to annual review. These banknotes represent an amount of around €600 billion.

5.3 Protecting the euro banknotes against counterfeiting

Given that the euro banknotes can be expected to be widely used, since they will circulate not only in the euro area Member States but also in many other countries, it can also be assumed that counterfeiters will take a great interest in them. The Governing Council has therefore decided on measures which will be taken in order to prevent counterfeiting, to monitor any counterfeiting activities and to assist the law enforcement authorities in bringing counterfeiters to justice.

First, the euro banknotes will be protected against counterfeiting by means of the incorporation of effective security features. In this context, "effective" means that, on the one hand, counterfeiters should find the euro banknotes difficult to reproduce and, on the other, counterfeits should be easily identifiable by different users, for example cashiers, the general public and banknote-accepting machines.

The euro banknotes will be equipped with a wide range of advanced security features. These features include the following:

- visually recognisable features which can be identified easily by the public, such as watermarks, security threads, intaglio printing with tactile properties and foil elements;
- visually recognisable features which can be checked using simple devices, such as UV fluorescent features and microletters; and
- covert machine-readable features which can be checked both in banknote-

accepting machines and in banknote-sorting machines.

The second area of the ECB's activity in respect of anti-counterfeiting measures relates to publicity, information and educating the public.

Third, the Governing Council has decided to establish a database to store the technical and statistical data in respect of counterfeit euro banknotes and coins. The relevant data will be made available to all 15 EU NCBs and to the respective law enforcement bodies involved in combating counterfeiting. As an important part of the envisaged information system on euro banknote counterfeits, it has also been decided to set up a central ESCB counterfeit analysis centre, which will carry out a technical analysis of euro banknote counterfeits, classify them, and feed the relevant technical data into the database.

5.4 The logistics of the changeover to the euro banknotes and coins in 2002

With a view to ensuring that the changeover to the euro banknotes and coins starting at the beginning of 2002 takes place both smoothly and successfully, the logistics of the 2002 cash changeover clearly need to be determined well in advance to enable all those concerned to start the necessary preparations in good time. In practice, the actual speed of the cash changeover will depend not only on the behaviour of the general public, but also on the capacity of the various parties involved and the existing infrastructure. The organisation of the changeover is the responsibility of the Member States. In addition, the situation in the individual Member States varies with regard to several issues concerning the currency in circulation and the logistical infrastructure of the cash supply (e.g. the value of banknotes and coins in circulation in relation to GDP, the extent of the respective NCB's branch network, the density of the network of automated teller machines (ATMs) dispensing

cash and the capacity to convert them quickly to the euro).

Taking account of these differences between Member States, while respecting potentially varying political preferences, the EU Council established a maximum time span for the dual currency period, which may be shortened by national law, rather than stipulating a uniform approach.¹

In order to ensure a smooth cash changeover to the euro, the following two principles should be applied:

- the changeover must be relatively simple and user-friendly to ensure its transparency for all citizens throughout the euro area; and
- the changeover must proceed in a cost-effective manner and aim at avoiding distortions of competition.

In the light of these two principles, it has been decided that the NCBs should harmonise some aspects of the cash changeover within the euro area. With regard to the early distribution of the euro banknotes and coins, the Governing Council holds the view that the possibility of frontloading euro banknotes and coins to the general public is ruled out by Articles 10 and 11 of Council Regulation (EC) No. 974/98 on the introduction of the euro, since it would have the same effect as issuing or putting them into circulation. However, the Governing Council has endorsed the view that frontloading euro banknotes and coins to credit institutions, security carriers and other organisations (e.g. retailers and vending companies) could be considered legally viable if, and only if, legal or contractual arrangements could be implemented in each national legal system to ensure that the euro banknotes and coins would not be put into circulation prior to 1 January 2002.

¹ Article 15 (1) of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro states: "Banknotes and coins denominated in a national currency unit (...) shall remain legal tender within their territorial limits until six months after the end of the transitional period at the latest; this period may be shortened by national law."

Since frontloading to certain target groups will be necessary in order for the cash changeover to run smoothly as from 1 January 2002, the Governing Council takes the view that the NCBs should not debit the commercial banks for the frontloaded banknotes and coins before 1 January 2002. Furthermore, this debiting should not distort competition. Accordingly, the principle of common debiting has been approved. However, a decision has yet to be taken on the exact debiting model to be used.

5.5 Implementation of Article 52 of the Statute of the ESCB

To ensure substitutability of the national currency units between 1999 and 2002, the exchange of banknotes denominated in the national currencies of the countries

participating in EMU is governed by Article 52 of the Statute of the ESCB.²

Since 1 January 1999, in accordance with a decision of the Governing Council, each participating NCB or its authorised agent has been offering, at one location at least, to exchange the banknotes of other participating countries for national banknotes and coins at the official conversion rate. The NCBs may limit the number and/or the total value of banknotes that they are prepared to accept for any given transaction or on any one day.

It is recommended that the NCBs should repatriate the banknotes of other participating countries. To this end, they may repatriate the banknotes themselves, appoint an agent to perform this repatriation service on their behalf or use existing commercial repatriation channels.

2 Article 52 of the Statute of the ESCB states: "Following the irrevocable fixing of exchange rates, the Governing Council shall take the necessary measures to ensure that banknotes denominated in currencies with irrevocably fixed exchange rates are exchanged by the national central banks at their respective par values."