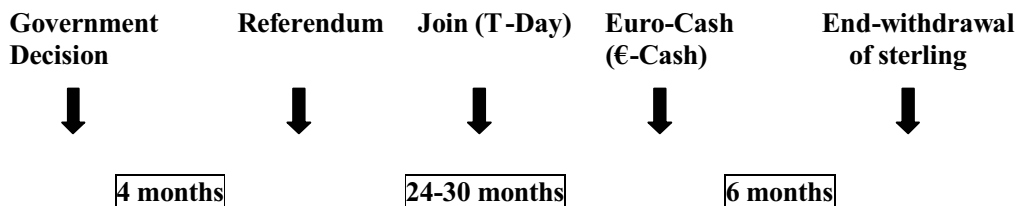




PART TWO

DETAILED EXPLANATION OF CHANGEOVER PROCESS THE ENTAILED IMPLICATIONS

Is the U.K. ever going to use the Euro instead of the traditional Sterling? Is the “*Old Queen of the Seas*” going to give up the strongest currency in the world time memorial? Is the government considering all the possible outcomes and taking the necessary precautions for the Euro preparations? Is the public awareness at the level of understanding the process of transition and what changes will occur? The government current draft on the Euro compatibility describes the following steps for the feasible changeover:



The government will take the decision after a careful planning to recommend membership of the single currency. After 4 months, a referendum will be held to vote “pro” or “against” this decision. If a “yes” vote results in the referendum, then the most important period known as T-Day (transition day) will start operating. During this period, which varies between 24-30 months of completion, the Euro is no longer considered a foreign currency. The businesses will start all the arrangements for the internal conversions, which involves all the electronic transactions and processing internal database. The banks and financial institutions, such as the building societies have two options. They may apply slow changes so that individuals may make transactions at the cashier’s desk or write cheques / withdraw cash at the automated machines in both currencies Euro as well as Sterling. This gives to the individuals a longer period to get used to the new currency, public places to arrange facilities for visually impaired people and assist the elderly ones with the cash administration. France is a good example of these facilities and it shows that it may be more effective than a “big bang”, i.e. overnight changeover approach. Countries like Italy, Austria and the Netherlands came across difficulties in the cash points and a total blackout for a minimum of two hours, in some cases even 1 week. Although it was recovered very quickly, the price management in the shops was not at its best. Consumers were confused with the new pricing system and the changes in value for money. In the Netherlands, the old currency “Guilder” was converted to the rate of 2guilders for 1euro, but the businesses did not convert the prices, simply changed the labelling. Bread, as one of the essentials for example, before cost 80 cents in guilder, and still cost € 0.80 in euro conversion, which means that instead of € 0.40 cents the price doubled. This might happen with the actual prices in the U.K. market, so will the consumers be able to afford it? The average price of bread is £ 0.54, which according to the current exchange rate £ 1.00 for € 1.47, should normally cost € 0.36. If the

price stays € 0.54, then the price is increased by € 0.12. The question arises; ‘what will the Government do if situations like these occur?’ Shall a government body monitor pricing systems in the businesses, deal with the consumers’ complaints and take legal actions if necessary? The bank accounts may be a major problem due to the conversion rate applicable at the time. The Euro may go stronger than Sterling as a result of the U.K. economy saying “yes” to the single currency, and a devaluated sterling reflects into a lower amount of money in the bank accounts, i.e. the deposited money will not be worth as much anymore. How will the government maintain the same inflation rate and still keep a strong economy? Will the accounts’ conversion process be as perfect as in Germany, where the loss from the changeover was 0% due to accurate measures taken by the government in the exchange rate of Deutsche Mark (old currency) into Euro, and the value of euro banknotes in circulation exceeded the value of German Mark banknotes in circulation by 3rd January 2001.

People should be aware of the fact that various departments such as the Inland Revenue and HM Customs and Excise will still consider the EURO as a foreign currency for the purposes of avoiding confusion to the public. The tax services and enquiries will be performed and dealt with in Sterling till the day of the dual circulation period. This stage is called E-cash, which covers up to 4 months where only Euro will be withdrawn at the cash points, but payments at the shops, businesses and public sector such as transport and council services will be available in both currencies. During this time, the Bank of England will be collecting all the Sterling banknotes and coins from all the banks, individuals and businesses, so if you have any personal cash savings at home or lent to somebody, then you should accumulate it all and hand it to your bank immediately to get the converted amount of the same value. All the Sterling banknotes and coins circulating after the end of E-cash phase will be worthless in value for money.

So, will the U.K. finally be a strong foundation pillar in the European family or will still refer to it as “*the Continent*”? Time as usual will be the best indicator!

Diana Syziu

PART ONE



SHOULD WE ACCEPT €...



... OR KEEP OUR £ ?

Is the Euro a better solution or should the U.K. stay out of the single currency? What may be the possible consequences of either option? One of the major questions is whether the U.K. will still be able to maintain a stronger currency than the Euro in the long run. If the people of the U.K. vote against the single currency, then there is a possibility of Sterling become weaker because of a strengthening of the European common market as a result of recent and ongoing extension with new countries joining in. The Eastern applicant countries are accompanied by great potential for the western investments for various reasons, such as cheaper labour force, lower standards of living and economic potential in farming, mineral resources and tourist attractions. This will affect the U.K. economy by conceivably reducing the profits of British investments or affiliated companies/agents, which export their goods in those countries, or import their products in the U.K.

In a very short period, Euro became stronger than the U.S. dollar and will remain so by a larger margin due to the slow elimination of the American investments in the post-communist countries of the Eastern block. After full membership in the EU in June 2003, the economies of these countries will trade mostly with the EU countries and Euro will become their currency in a few years time. So, will the U.K. economy lose influence in the European market and trade mainly with ex-colonies or Commonwealth countries? Whatever the changes in the European market will be, the import will still play the most important role in the U.K. economy and it needs to be consistent. If the U.K. does not join the Euro now, it may be forced to do so in later years, as the expansion of the EU will eventually make Euro stronger and equivalent to Sterling, which will have a major impact on the U.K. economy by leading to a rapid devaluation of the British Sterling. In a scenario like this, there will be a higher redundancy, increase in prices and lower personal & business profits. At the moment, there is a large number of British companies trading or having offices in the European countries where Euro is the operating currency. They reveal many facilities and mainly a transparency in pricing, which has encouraged them to scrutinise the real cost of their services to the European clients. Shall this be considered as an advice to join the European monetary union; are there any advantages of the common currency? Apart from the price transparency, which has already shown to be effective, the individuals will use single money and the same banknotes & coins as the rest of the EU. They would not need to travel in Europe using different money avoiding the confusion, exchange rates and difficulties especially with the visually impaired or elderly people. The business of tourism in general will be easier to flow, create new links with various European travel agents, apply less exchange rates with countries

outside EU in order to establish associations and develop tourism in unseen tourist spots & attractions.

The Euro gives access to the investors in every sector of economy, which will increase the profits and create new job vacancies; therefore, the U.K. economy will be less affected by the changeover and keep its control over foreign industry. This is one of the key points in the government current programme of joining the EMU as it is considered to amount to one of the disadvantages of joining the Euro, but if very careful precautions and plans are taken by the companies in the early stages on all the sectors of economy, it will be easier to overcome any obstacles or complications occurring during the transition period.

There will be loss in profits, an increase in prices. This may cause problems and confusion in the first few months during the changeover. Will the personal accounts be able to cope with the new changes; will the businesses afford the cost of the products and labour force? There might be an argument that the exchange rate of Sterling into Euro is more advantageous than the rest of the European countries, but there will a number of factors, which will influence the pricing & cost system, such as the exchange rate at the time, price stability and precautions from fraudulent retailers who may take advantage of currency change and speculate.

Will the U.K. lose its identity and just be another European country, but reigned by the Queen & ruled by the Parliament? The British history dates back to times of radical changes of specific importance for European and world politics, so it will be very difficult to give up traditions established by a glorious revolution, which has proven its efficiency for 4 centuries. In addition to that, every country will be having their national symbols on the banknotes and coins, by which a person will be able to identify it and trade with it like every other Euro.

Now that all these questions have been answered and complications of having to deal with in twelve currencies & countries have gone, it should prove even simpler for U.K. companies and public to prepare and accept the Euro trading.

Diana Syziu