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ADDITIONAL PROTECTIONS INTRODUCED AT THE TIME OF A EURO CHANGEOVER

INTRODUCTION

3.1 Additional consumer protections that would be applied at the time of any euro changeover include:

- a national communication programme for the euro changeover;
- voluntary codes of conduct specifically covering fair treatment of customers in a euro changeover;
- provision of additional price information, particularly dual price display;
- legislation on how dual price display must be implemented;
- price monitoring; and
- local coordination mechanisms.

These protections are discussed below. Direct controls of prices or price stability agreements, as operated by some euro area countries during their changeover, are not envisaged and the reasons for this are also set out in this section.

NATIONAL COMMUNICATION

3.2 In the event of a changeover, the Government would undertake a national communication programme that would ensure that organisations and citizens were equipped with the information they needed to participate fully in a change of currency. This would include detail of how the consumer protection framework would be established and promoted and details of how individual consumers could gain access to information and support, for example, through a national telephone helpline. Information would be provided about the new notes and coins and the arrangements to withdraw sterling from circulation. Details of the key messages that would be delivered at each phase of a changeover are published in oNCP3.

3.3 In addition to the central programme of information overseen by a Euro Changeover Secretariat (ECS - the coordinating body during a changeover), it would be the responsibility of each organisation to communicate with their customers or other stakeholders to ensure that they were fully informed about the approach to a changeover. The Integrated Communication Plan (ICP) provides information on the communication plans of key sectors and organisations and helps ensure that communication would be coordinated across the economy.

VOLUNTARY CODES OF CONDUCT

Core principles

3.4 During a UK euro changeover, businesses and other organisations would be invited to sign up to set of core principles that would ensure that consumers were treated fairly during a changeover. These were published in oNCP3 (June 2003) and are as follows:

- for amounts displayed in euro and sterling the two figures should be equivalent in value, and it should be clear which denominations and which methods of payment are accepted;
- the official conversion rate must be applied and rounding rules adhered to in all dealings with customers;
- consumers paying in euro or sterling should be treated equally, although a clearly displayed fee might be charged where euro notes and coins were accepted before their formal introduction in the UK;
- accurate, clear and targeted information should be provided to assist consumers with a changeover;
- dual currency information for consumers should be provided, in an appropriate form, for at least the period from euro cash day minus four months until the withdrawal of sterling notes and coin was completed;
- in the operation of this code, the needs of vulnerable groups, such as older people, the visually impaired and those with learning difficulties, should be taken into account;
- staff dealing with customers should be well trained and able to provide consumers with straightforward, accurate and relevant information about how the changeover affected the consumer's dealings with the organisation; and
- organisations wishing to display any logo as a visible sign of compliance to the code must include an approved contact number

Sectoral codes

3.5 In accepting the core principles, certain sectors of the economy have drawn up sectoral codes, which set out in detail how the core principles would be implemented (for retail see Annex D, for transport see Annex E, and for the utilities sector see Annex F). The public sector would show a strong lead to the rest of the economy by adhering to the Public Sector Consumer Code of Conduct (Annex G) and its provisions can now be specified in public sector contracts as appropriate. The Public Sector Consumer Code of Conduct sets high standards and includes a provision that, in converting sterling prices to euro, smoothing of converted euro amounts should be avoided wherever possible, and, if smoothing was necessary for operational reasons, should not disadvantage customers. Draft guidance for the public sector for applying rounding and avoiding smoothing was published in oNCP3¹.

3.6 Further, detailed sectoral codes are in the process of being developed for certain sectors with specific characteristics such as banking, insurance and automatic vending machines and this work should be continued.

3.7 Taking into account the outcome of consultation, we agree that there could be advantages in promoting a simple code of practice, based on the core principles, which many sectors could adopt. This short code of practice could be displayed near points of sale and in information materials about the euro changeover. This would provide clear and consistent messages to the consumer about the way they could expect euro

¹ The Third Outline National Changeover Plan is available from the Government's euro website, www.euro.gov.uk.

transactions to be handled. But in recognition of their specific characteristics, the sectors set out above would supplement this with a more comprehensive code of conduct setting out in more detail how the code of practice will be applied. This would be more important for staff training and reassurance to consumer groups than for general consumer awareness although it could be made available to consumers on request and posted on relevant organisations websites. Where an organisation already subscribes to a code of practice or conduct, euro changeover issues could be incorporated into that existing code.

3.8 Consumer codes of conduct were popular with consumers in the euro area: a survey undertaken in July 2001² indicated that most consumers had greater trust in retailers that agreed to comply with a published code of conduct to protect consumer confidence.

3.9 To be effective, the euro codes would need:

- wide support across each sector and across the economy;
- proactive promotion;
- wide recognition by consumers;
- arrangements to check that those signing up to the euro codes met their requirements;
- consumer confidence that those claiming to support the euro code were adhering to its conditions; and
- procedures for addressing complaints about breaches of the code.

Content and duration of euro codes of conduct

3.10 The aim of the euro codes would be to promote fairness to the consumer, and the provision of relevant and easily understood information, alongside clear and accurate display of sterling and euro values. The euro consumer codes of conduct would ensure a required standard of information provision, including dual display for at least four months before and two months after E day. Display of a logo showing adherence to a euro code would have to be accompanied by an approved contact number for use by consumers if they had any complaints or questions, and the needs of vulnerable groups would have to be taken into account.

3.11 An organisation subscribing to a euro code would be obliged to provide accurate information to consumers about how the changeover would be handled. For example, a bus company would need to inform customers how they could purchase tickets during a changeover and how tickets would be priced. If, during the dual currency period, some ticket machines accepted only sterling and some only euro, this would need to be clearly indicated well in advance of E day. For cash fares paid on boarding a vehicle, the company's policy on giving change would need to be published in advance and well understood – a bus operator might decide to offer change for cash payments in euro only during the dual currency period, to avoid delays.

3.12 The euro codes would require that all staff dealing directly with customers were able to give straightforward and relevant information about how their organisation was dealing with the euro. However, some customers would need additional help and

² Flash Eurobarometer 98/3 "Euro Attitudes (Wave 3) – Euro Zone", EOS Gallup Europe

support from staff, particularly those from vulnerable groups, such as the visually impaired or those with learning difficulties. Complex queries, such as those relating to financial instruments, might need to be referred to experts within the organisation. Arrangements would need to be made by business for this to be done within a reasonable time frame.

3.13 As a minimum, organisations would need to meet the full requirements of the euro codes for the four months before E day and 2 months afterwards. However, in practice it is likely that many organisations would wish to start implementing the euro codes well ahead of this and continue longer if they believed this would help their customers.

Code sponsorship

3.14 In a previous informal consultation, we invited views on which organisations would be best placed to sponsor codes in terms of administering and promoting them, keeping a record of signatories and providing advice on implementation. We particularly invited views on whether a mixture of trade associations and government departments (option 1), a single central government body (option 2) or self-sponsorship by individual organisations (option 3) would be appropriate. In the responses, there was a clear division of opinion between consumer groups who favoured option 2 and business groups who favoured option 1 or 3.

3.15 Further consideration is being given to this issue. If it were to prove possible to develop a single code of conduct that many sectors could adopt in principle, the balance of argument would seem to favour administering the codes through a single, central government body.

Enforcing compliance with codes

3.16 Advice and information for organisations signing up to a euro code, particularly small businesses, would be crucial. It is possible that breaches of the codes or law – particularly regarding the conversion rate – might be the result of genuine mistakes rather than any intent to deceive customers. In the spirit of the Enforcement Concordat - a commitment to business friendly enforcement that has been adopted by the vast majority of local authority and central government - the emphasis should be on enforcers working proactively with business organisations to help them to comply rather than prosecuting failure after the event.

3.17 Where breaches of a euro code were identified, and initial advice to the code signatory was not effective, action would need to be taken to prevent continued breach. Where a company displayed the euro code without adhering to the principles they could be liable to prosecution under the Trade Descriptions Act or enforcement action under the UCPD.

3.18 It would be important for enforcing bodies to take swift and effective action in order to maintain consumers' confidence in the euro codes. Trading standards services and the OFT would play an active part in enforcement.

Provision of price information

3.19 Consumers may be concerned that organisations would use the opportunity of a currency change to disguise price rises. In the first wave euro area countries, many consumers linked the euro changeover to significant increases in prices. However, the actual impact of the changeover on inflation in the euro area was estimated to have been only between 0.12 and 0.29 percentage points within an inflation rate of 2.3% (Eurostat May 2003 No 69/2003). This disparity is mainly explained by a number of significant price increases of certain frequently bought goods and services, for example prices in restaurants and cafes, recreational/sporting services and some staple foods. These are held to be more significant in informing consumers' perceptions of inflation than less commonly purchased items where price rises have been more subdued or prices have fallen.

3.20 In a UK changeover, we believe that the risks of actual or misperceived price inflation could be most effectively mitigated through a combination of dual display price information and price monitoring, alongside consumer education and communication about the changeover. Provision of clear price information enables consumers to make comparisons and provides an effective way of driving competition and controlling prices. For reasons set out below (see paragraphs 3.38 – 3.40), we do not consider that either direct price control or price stability agreements are appropriate responses to these issues.

Dual display

3.21 During the changeover in the euro area, shops and service providers displayed prices in both euro and the national legacy currencies in the months leading up to the currency change and in the period immediately following it. This practice, known as dual display, helped consumers to develop and understand a new scale of values in euro and meant that retailers had to be transparent about any price increases introduced after changeover.

3.22 In the responses to our earlier informal consultation on the CPF, there was a marked difference of opinion between consumer groups and business groups about how this should be introduced in the UK. Consumer groups felt that dual price display should be a mandatory requirement while business groups favoured a voluntary approach.

3.23 In the euro area, nine countries adopted a voluntary approach while dual display was mandatory in three countries (Greece, Austria and Portugal). Regardless of approach, dual display became widespread in all euro area countries by late 2001³. It appears to have made little difference to consumer confidence whether a voluntary or mandatory approach was chosen.⁴

3.24 The euro area experience, considered in the context of the existing UK legislative framework and competitive climate, has led the Government to conclude that a voluntary approach would be preferable. Dual display would be an integral part of the voluntary UK euro consumer codes of conduct (as explained above)⁵.

³ *Flash Eurobarometer 111, "SMEs and the euro", October-November 2001, EOS Gallup Europe.*

⁴ *Third outline National Changeover Plan, June 2003.*

⁵ Legislation on price indications would not prevent businesses implementing dual price display before and after E day although some additional guidance might be needed on how dual prices should be displayed in a way that was consistent with the legislation.

Timing and format of dual display

3.25 Under the core principles for the euro codes, a retailer or service provider would provide access to dual currency information from at least four months before E day⁶, and at least until the end of the dual currency period (2 months after E day). Dual display could be achieved in a variety of ways, and the form it would take and the timing for introducing it would depend on the nature of the business or body providing the goods and services. As a minimum, businesses and other organisations would be expected to display the official fixed conversion rate between sterling and euro at the point of sale or equivalent.

3.26 Flexibility would be needed in the way dual display operated in order to tailor it to the nature of the organisation, the goods or services provided and the needs of consumers. An excess of dual pricing could lead to confusing price information. Basic best practice guidance on dual display would be provided to all retailers well in advance of the dual display period. This would be consistent with the principles set out in the European Commission recommendation on dual display followed by the first wave euro changeover countries (Annex B). The best practice guidance would need to make clear any obligations needed to meet the requirements of price display legislation.

3.27 Whatever options for dual display were chosen in the approach to E day, it would be important that organisations gave clear information on whether or not they would accept euro cash and on what basis⁷.

3.28 In the response to our earlier consultation, some consumer groups were concerned that the proposed period for dual price display was too short. The code would set a minimum requirement but some sectors might wish to extend this to meet the needs of their organisation or their customers. For example, retailers may prefer to introduce dual display six months or more before E day to avoid introducing the change during the busy Christmas shopping period. In this case, retailers would phase in the level of dual display over this period: for example, they may wish to start well ahead of the four-month period by displaying general conversion tables and supporting information, and then move to dual display of individual key prices nearer to E day. Similarly, organisations might wish to continue dual display after the dual currency period and the codes would not prevent this. For example, financial service companies that produce annual statements might wish to continue dual display for a full year after changeover. The oNCP3 says that it would be best practice for companies that communicate only annually with their customers to communicate the euro equivalent of the sterling price at least once before E day and the sterling equivalent of the euro price at least once after E day. But requiring a longer period in all the codes could be counter-productive. An important psychological aspect of the changeover would be to change the public mindset so that over a period of time, consumers naturally think and calculate in euro. A long period of dual display after the changeover would be likely to delay this mental shift.

⁶ Following consultation with stakeholders, the Government has concluded that the optimal date for E day would be 6 April in the relevant year.

⁷ After E day, organisations would be required to accept cash payments in euro.

Legislation on the presentation of dual price display information

3.29 In the euro area, price conversion was covered by EU regulations (See Annex C). The Commission have confirmed that, in the legislation to allow new entrants to join the euro, there is no need to change these regulations. Government therefore anticipates that similar regulations would apply during a UK changeover and that the official conversion rate would be applied to six significant figures (for example, EUR 1=£0.654321). The result would then be rounded to the nearest cent. This is known as the legally equivalent value. These regulations would provide protection against organisations displaying prices in sterling and euro but not using the legally equivalent value. Before E day, the display would also have to make clear whether euro was accepted and which methods of payment would be accepted.

3.30 From the time that the UK entered EMU, when the euro-sterling exchange rate would be irrevocably fixed, all conversions would have to apply the official, six significant figure conversion rate. For example, a ready meal costing £5.99 would be priced at €9.15 (using a fictional rate of EUR 1 = £0.654321) under dual display. If the retailer decided to reduce the price of the meal to €8.99, to set it at a psychological price point, the dual display would show £5.88. Similarly, if the retailer decided to increase the price to €9.99 then the dual display would show £6.54.

3.31 The table below shows when the legal and voluntary provisions set out in the framework would apply by reference to the time periods defined in annex A.

	From T	From RT	From E Day	From S Day
Legal obligations	Pricing in sterling. Must accept sterling. If accepts euro, must display transparent information about prices in euro and any handling charges.	Pricing in sterling. Must accept sterling. If dual price display offered, must conform to EU rules.	Pricing in euro. Must accept euro and sterling (but no obligation to give change in sterling). If dual price display offered, must conform to EU rules.	Pricing in euro. Must accept euro. Should not accept sterling.
Possible voluntary offerings	Acceptance of euro.	Acceptance of euro. Dual price display.	Dual price display.	Dual price display.

Price monitoring

3.32 The changeover to the euro raises a number of statistical issues about price monitoring. Eurostat compiled a “regular purchases” price index as part of their research into explaining the persistent gap between perceived and measured inflation, the former as measured by opinion surveys and the latter as shown by the Harmonised Index of Consumer Prices (HICP). They have suggested that an effective way of

addressing the issue, at least in the short-term, would be to compile and publish an additional HICP special aggregate, reflecting price changes for regular and out-of-pocket purchases. An index for regular purchases could then be presented for the EU, euro-zone aggregates, and for individual countries including the UK. As shown in the earlier HICP studies on euro-changeover effects, such an index can explain a good part of the gap between the HICP and consumers' perceptions. Related approaches have been followed by some other EU countries, for example in Austria and more recently in France (certain supermarket products). The proposal will be taken forward in the HICP Working Party that is attended by the UK Office for National Statistics (ONS). In principle, this information could be used for a number of purposes: to inform consumers, as an indicator and early warning of problem markets and as an indicator of sectors that may warrant more detailed investigation and study. The information might be of use to the ECS, OFT and CTSA as well as consumer groups.

3.33 Official information on national price trends in the UK is gathered by the ONS on a monthly basis and this information is used to compile the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). These provide overall indicators of inflation but also provide a breakdown of price changes for particular categories of goods and services. The ONS carefully analyses the price information it currently gathers to detect signs of changes in inflationary trends. The impact of inflationary trends on different groups is important and price increases in particular sectors or areas of the country would be of special concern if they were to have a disproportionate effect on vulnerable citizens or communities, such as those on low, fixed incomes. In this connection, the information gathered for the RPI also provides the basis for the quarterly Pensioners Index, which uses the same price indices as the RPI but is weighted to reflect the expenditure patterns of pensioner households mainly dependent on state benefits. In principle, ONS could build on its regular price collection exercise in order to address other groups of potential concern.

3.34 As well as compiling price indices for the UK as a whole, the ONS conducts periodic surveys of regional price levels. In the event of a euro changeover, these surveys could be carried out more frequently. This information could be used to detect any differences in regional behaviour as detected in a shift in the disparities in regional prices.

3.35 Information on price trends during a changeover both nationally, regionally or in specific sectors, could play an important part in providing reassurance to consumers as well as highlighting areas of priority for more detailed price monitoring and investigation.

Local coordination mechanisms

3.36 "Euro observatories" were set up in six euro area countries to monitor the introduction of the euro and the fairness and transparency of associated business practices. The Commission recommended that observatories act at local level to provide information, feedback, mediation and assistance to citizens. A euro observatory was typically composed of representatives from business and consumer interest groups directed by a regional or local government agency – often a trading standards equivalent.

3.37 Our previous informal consultation invited views on whether observatories should be set up specifically to monitor treatment of consumers during a changeover, or whether we should rely on existing agencies to perform these functions. There was general agreement that whatever was established should operate at a local level in order

to be really useful for consumers. We therefore do not propose the establishment of regional level consumer structures. Responses were divided between supporting the establishment of new observatories and relying on existing agencies. Given this, we propose the use of existing agencies operating at local level. Local authorities (probably through trading standards services) should consider what local coordination and communication mechanisms would be most appropriate for their area, building on their existing partnership arrangements with business and consumer groups.

Direct control of prices

3.38 A strongly interventionist approach to dealing with the risk of actual and perceived inflation would be to directly control all price increases or prices thought to be most at risk. But Government policy in recent years has moved from direct regulation of prices towards an emphasis on action via the competition authorities to ensure that markets are working properly, supported by measures to provide accurate and useful price information for consumers.

3.39 In the event of a euro changeover, the high degree of competition within most retail sectors, together with government publicity, price monitoring and price information provided by retailers under the euro consumers' code should be sufficient to protect consumers and direct control of prices is not contemplated.

Price stability agreements

3.40 In several euro area countries, business entered into voluntary agreements to maintain price stability, that is, not to raise prices for a specified period. These agreements tended to operate three to four months either side of E day. Price stability agreements were intended to dissociate normal price increases from E day, so that consumers would not perceive market price increases as being euro related. However, European Commission data suggest that the perception that businesses took advantage of the changeover to raise prices was not mitigated by price stability agreements: two of the countries that had price stability agreements (France and Germany) also had the highest perception of price rises.⁸ In practice, media and consumer groups claimed that price increases that occurred before or after the period of the agreements were due to the introduction of the euro. On this evidence, it would appear that price stability agreements did not promote consumer confidence. There was little or no support for the idea of price stability agreements from our previous informal consultation and we do not propose their use.

⁸ The third outline National Changeover Plan, June 2003 drawing from Eurobarometer 121 January and March 2002.