



EUROPEAN COMMISSION

Directorate General XXIII: Enterprise Policy, Distributive Trades, Tourism and Social economy

Directorate D : Coordination of Community measures and concerted actions in relation to Tourism
Stimulation of competitiveness in Tourism

Final report

Conference on the euro and tourism: opportunities and
strategies for businesses

Brussels, 16 October 1998

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ENCLOSURES



EUROPEAN COMMISSION

(Photo)

Christos Papoutsis
Member of the Commission

1. FOREWORD

Aware of the importance of the introduction of the euro for the tourist industry, the European Commission held a Conference in Brussels on 16 October 1998 entitled "The Euro and Tourism: Opportunities and Strategies for Businesses".

The 400 participants working in the many areas of activity related to tourism and the representatives of the banking and financial sectors and government tourist authorities that responded to the Commission's invitation demonstrated the interest in such an event.

Although there has been a satisfactory amount of general information for the public at large, the delay of many operators in preparing for and adapting to the single currency could seriously handicap operators' competitiveness.

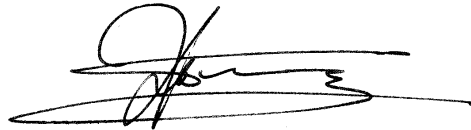
However, the large amount of payments in book money in the tourism industry makes it an ideal sector for seizing the opportunities offered by the current transitional period, in which the euro is circulating only in this form.

Operators in the tourist industry, who are in permanent contact with tourists and work in a very wide variety of fields, are also in a privileged position when it comes to educating the consumer about the euro and the new value scales.

The Conference was prepared by a special working party on the introduction of the euro in the tourist industry, which was set up by the Commission and which submitted its final report as a working document for the consideration of participants. The first version of a guide on preparing for the euro, which was drawn up jointly by the Association for Monetary Union in Europe and the working party, was also distributed to the participants.

A new edition of the guide is currently being produced by the Association for Monetary Union in Europe in conjunction with the Commission and is aimed at providing tourist operators with practical advice in an easy-to-use form whilst still being highly informative.

A summary of the best practices that emerged from the Conference, this publication contains not only the reports of the four Round Tables held at the Conference but also the conclusions which the Commission drew from the discussions and which will determine what measures it will take to facilitate the introduction of the euro for tourist businesses in the months to come.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Christos Papoutsis.

Christos Papoutsis

2. ROUND TABLE REPORTS

2.1. Round Table I Report: Identifying an action plan for tourist businesses

by Claudine Chaspoul, Director of the ESPACES review (Éditions touristiques européennes)

How much will be offered in euros over the next three years? Through the presentation of various experiences in Europe, Round Table I investigated the various attitudes of businesses regarding the euro. Their attitudes can be broadly summarised as follows: some businesses see the euro as an additional constraint, whereas others see it as an opportunity for communication.

Depending on the size of the business and the place it occupies in the tourist sector (carrier, tour operator, hotelier, car hire company, etc.) the problem of the euro can be approached in very different ways.

There are, first of all, the businesses which are doing nothing during the transitional period, and which did not appear on the rostrum. This is the case for many SMEs, which do not always know how to approach the problem of the euro and are bewildered about its implications for them. But it is also the case for larger businesses, such as certain tour operators, which consider that dual display is costly in terms of brochures and paper and that it is of no benefit to them. Their passivity is causing them to get left behind on a commercial level.

Then there are the businesses that give priority to communication about the euro.

Mr Rujis described the experience of the Golden Tulip hotels in the Netherlands, which have provided information on the euro since December 1996. This action is particularly praiseworthy since Dutch banks do not have to accept book money during the transitional period. By means of dual display and with the creation of artificial euros which can be used with some of its commercial partners, this chain of hotels has carried out a fine promotion campaign and achieved an important media coup. The success of this operation proves, if it were necessary, that consumers, in particular young people, are very aware of the euro and that they have high expectations in this area. The experience also

shows that businesses which have an innovative attitude towards the single currency benefit in terms of commercial gain and image.

However, this bonus will probably wear off with time. Once information about the euro has become commonplace, it will no longer be distinctive: dual display, for instance, should fairly rapidly become standard practice for tourism businesses.

Alongside businesses which have decided to provide pro-euro information, there are those that opt for a pragmatic, gradual approach.

Ms Noakes presented the experience of Avis, the car hire company. After analysing the uncertainties regarding supply and demand during the transitional period and the considerable costs involved in the changeover to the euro, Avis decided not to invest in a short-term strategy, limited to the transitional period. This does not mean that it is not doing anything and Ms Noakes described what it was going to do as of 1999. This consisted, in particular, of systematic dual display in brochures. However, the business was not going to accept payments in euros during the transitional period.

Avis therefore preferred to concentrate on adapting its procedures and technical tools, stepping up its efforts as client demand became clearer. It could be expected that as demand became increasingly strong, Avis would speed up the process of introducing the euro.

Finally, there are businesses which have turned the introduction of the euro into a real challenge. Two experiences of this type were presented to us: that of Nouvelles Frontières, whose president, Jacques Maillot, is known to be a committed European, and that of British Airways, which is even more noteworthy since the United Kingdom is not in the pre-in zone.

Christian Rochette explained that since Nouvelles Frontières had to change its reservation system anyway, it had taken the opportunity to completely revise it to cope with both the euro and the year 2000. The system would be operational as of April 1999. It would allow display and billing in the customer's chosen currency (euro or local currency). Nouvelles Frontières was therefore going to be amongst the first businesses in the tourist sector to be technically ready for the euro. On 1 January 2000, NF accounts would change to the euro and, in order to rationalise management, it would also encourage its suppliers to draw up their contracts in euro. As regards its pricing strategy, it felt it was still too early to offer loss-leader prices in euro and would approach these aspects when its customers seemed ready and no longer thought in the local currency.

Conversely, even after 2002, NF computer systems would allow display in local currency, which would enable the operator to answer the question, "That's so much in euros, but how much is it in francs?".

Tom O'Kane presented the experience of British Airways, whose euro project was complicated given the company's size. The project covered the whole company, from general management to the commercial department, including the finance and computer departments. However, it also concerned the whole environment of the company, its relations with its customers, its commercial partners and its suppliers.

Unlike Nouvelles Frontières, which had approached the problem from a technical point of view, British Airways had adopted an approach which started with the customer and then moved on to strategic considerations, before dealing with operational and then technical problems. British Airways felt sure that its customers, in particular those who travelled frequently in Europe, would rapidly become familiar with the euro, with all the consequences that that would have on pricing strategy.

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There were, therefore, many business strategies regarding the euro and they would develop during the transitional period under pressure from customers, suppliers and the respective partners of each . These strategies would very quickly have to go beyond providing information and solving technical problems to deal, as Guillaume Lepecq commented at the start of this Round Table, with the strategic aspects of products and services, prices and distribution. The euro should in particular stimulate advertising on the Internet which, according to the IPK International Institute, today accounts for less than 1% of travel reservations by Europeans, but is rapidly developing, in particular for non-package flights.

To conclude, I would like to repeat Tom O'Kane's comment that by increasing price transparency, the euro will increase consumer power, which will in turn stimulate competition. Consequently, the businesses that are prepared today will be those which have the greatest chance of being amongst the winners tomorrow.

2.2. Round Table II Report: How will tourists react to the euro? What are their expectations?

by Bill Richards, Secretary of ETAG (European Tourism Action Group)

SHORT SUMMARY.

- Novelty – and the forging of the European identity
- Certainty – no more currency fluctuations, but we must not underestimate the fear of change
- Transparency – easy to see and understand pricing throughout the euro-zone
- Tourism personnel – important to ensure they know what the euro means to give confidence to the consumers. This also means that they should have an understanding of the commitments made in the agreement between the tourism industry and the consumer associations.
- Information – important that the visitor is given as much information in advance as possible, especially in the case of 'overseas' visitors for whom this information will be part of Europe's promotion. A concern must also be shown for those with disabilities.
- Dual display – part of the learning process for buyer and seller
- Business travellers – will be the first to live in 'euroland' through their enforced use of book money in the initial stages.
- Walter Leu's SWOT analysis offered some warnings for the future as well as setting out the harvest that can be reaped by the tourist industry from the introduction of the euro.

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- Adapting to new or different types of money has always been part of the international tourism experience. However, the introduction of the euro is the replacement of a number of currencies with a new legal entity in which all transactions must be fulfilled in the new denomination, and travellers will be united in sharing an important historical event. The new currency will reflect the stability of Europe.
- For the European 'ins' the excitement of living in a 'casino' atmosphere of currency exchange uncertainty is over, no more bargains and no more extra business to be won through independent national currency devaluation. There will also be opportunities for new and innovative products and pricing systems.
- It is important to understand that some consumers will have a fear of the unknown and this should not be underestimated

- There will be many advantages for travellers in the euro-zone of which 'certainty' will be a major factor. There will be an improved ability to contract business in several countries without currency and fluctuating exchange problems.
- Whilst the travel trade may well be dealing in euros as book money during the transitional period, reality will essentially not strike most leisure tourists until the notes and coins are in circulation. The situation may well be different for the business traveller who could be obliged by their companies to file their travel expenses in euro. This will encourage them to request that their credit card transactions are in euros when paying hotel and other travel accounts. This will also be the management of corporate travel budgets, although there will still be currency cash payments during the transitional period.
- Development will lie in the ability to issue vouchers for services throughout the European in-zone (e.g. hotel and credit vouchers, transport vouchers). This will facilitate movement and access. The speed with which the euro becomes accepted will depend on the rate at which the consumer accepts the euro, and a smooth transition will depend on a close co-ordination between all those involved in the tourism process.
- Information: Exchange rates, where to exchange money, what charges might be involved if any. It will be important to encourage a universal clarity in the presentation of prices during the relatively short changeover period. This can be achieved through encouraging adherence to the agreed Six Point Code of Conduct, which has been agreed between the tourism industry and the consumer associations. The visitor will anticipate that staff and personnel met in the course of their travels will be fully trained to answer queries on the euro. This means that dual display should be encouraged to better acquaint and educate the visitor/traveller and win their support for the euro. It is important that the best possible assistance is made available to the handicapped, especially the blind;
- The introduction of the euro presents a unique opportunity for promoting Europe in overseas markets especially as 40% of all world-tourism will take place in the euro-zone. Thus, information (which is critical to the traveller) will also become part of Europe's promotion overseas. Visitors from the major overseas markets tend to 'visit Europe' rather than individual countries. Advance information will be crucial to their enjoyment of a 'new' Europe. However, a strong euro could generate a demand for cheaper destinations outside Europe, attracting European residents and further reducing Europe's share of the world market.

2.3. Round Table III Report: Internal adaptation within businesses in the tourism sector

by Bruno Lefebure, Lawyer, expert member of Groupeuro

The subjects discussed by this Round Table showed the importance for businesses in the tourism sector of preparing themselves as well and as rapidly as possible for the introduction of the euro.

It is important to remember that the tourist sector is certainly a sector of activity that will be very rapidly affected by the euro simply because the European consumer will have an interest in using the euro as a tourist currency.

The contributions confirmed that the size of the business and also the type of management influences the strategy adopted for the changeover to the euro.

Even if it now appeared clear that the largest businesses in the tourist sector had all understood what was at stake, they represented only a tiny proportion of the sector, which would feel the full effects as of 4 January 1999.

It should, therefore, be strongly emphasised that the introduction of the single currency is a genuine strategic issue, especially for small and medium sized enterprises in the sector.

The management methods of SMEs, whether traditional or more modern, will also have great importance on the speed at which the single currency is introduced.

However, since all aspects of a business are affected by the introduction of the euro, this stage should also be used for a review of business management methods.

The introduction of the euro obliges all businesses to review their commercial policies, marketing strategies, relations with suppliers, accounting methods and finances, legal instruments, human resources and computer systems.

A few, non-exhaustive examples

Businesses will have to review their pricing policy both for calculating the actual prices of their products and as regards the dual display of prices on boards and in their promotional campaigns.

A psychologically attractive price in national currency units is no longer attractive in euros.

Staff have to be trained in receiving book money payments in euros.

Software should be checked to ensure that it will accept the euro.

As of when should these businesses change their accounts to euros?

SMEs have to ask themselves all these questions with a view to revising their commercial strategies in the light of their position on a new market which is calculated in terms of hundreds of millions of inhabitants and therefore offers new outlets.

The importance of information should be emphasised.

Information is, of course, available from Commission departments, but it is also available from the relevant departments of national authorities and branches of professional activity.

Businesses must set up their own euro units.

For small and medium-sized enterprises, such a unit will most often consist of one person, i.e. the head of the enterprise.

The latter, despite the workload they already have, will have to gather all the information available on the subject in order to prepare the enterprise as effectively as possible.

He or she will then have to analyse the information and pass it on to the staff.

The participants in the Round Table strongly emphasised the fact that the changeover to the euro was primarily a strategic opportunity rather than a purely operational matter.

Hence the importance for the head of enterprise to analyse what was at stake in this historic change.

In order to help businesses in the tourist sector, the Commission has produced a CD-ROM and a brochure on the introduction of the euro for the tourist industry.

They are available in the eleven EU languages.

Businesses can use them to diagnose their own situations in relation to the introduction of the euro.

Businesses will also find practical examples reflecting real situations which will provide them with models to follow.

The main players in the world of tourism are also taking action in order to be operational in euros as of 4 January 1999.

For instance, the IATA set up a euro taskforce within its Finance Committee in order to consider all the implications of the introduction of the euro for airline companies.

As of 1 January 1999, the IATA will allow its customers to pay either in euros or in the national currency unit of their choice for countries in the euro zone.

This will, of course, have an effect on prices displayed in all the reservation systems.

Very soon, prices will also be displayed both in euros and in national currency units on airline tickets.

In a sector that is already as computerised as the tourist industry, it goes without saying that there are many vital computer-related consequences of the introduction of the euro.

Computers affect all the functions of a business.

Computers have to incorporate the rules adopted at European level in order to function correctly.

The conversion rate fixed irrevocably as of 31 December 1998 contains 6 significant figures. EU regulations define how to convert from one national currency unit to another as of 1 January 1999, how conversions and rounding up should be carried out, etc.

There are many rules which computers and, therefore, software systems have to accommodate.

It is therefore necessary for businesses to check that not only their software but also their hardware will accept the euro.

They may therefore also use the opportunity to check whether their computers can cope with the year 2000.

2.4. Round Table IV Report: Coordination within tourism and with the banking sector

by Max Chatterjee, Commercial Products, Visa International.

Introduction

The travel industry is regarded as one of the fastest growing industries in the world. Cheaper travel and more fluid incomes, coupled with a change in life styles has seen 613m people travelling abroad in 1997 alone. Tourism in the European Union adds 12 % to its output and employs 13% of its workforce.

As a large part of tourist travel is foreign travel, the start of the Euro can be assumed to have a greater impact on the tourism industries than any other sector. Some of the reasons are highlighted below.

- Tour operators currency related costs will disappear. Expenses arising because of interest rate risk, currency conversions and money transfers are estimated to equate up to 5% of the cost of foreign travel. Approximately £2.1bn could therefore be saved annually. Tour Operators will also gain from reduced hedging costs. Currently Operators book capacity 12-18 months in advance, thereby opening themselves up to currency conversion risks.
- Tourists will no longer be burdened by with currency conversion fees and the spread between the buying and the selling rates. Travellers could save up to £1bn a year. These savings may eventually be fed back into the industry through longer and more costlier holidays, thus reinvigorating the industry.
- Tourists travelling to one country within the European Union will more likely travel to others in the Eurozone as currency harmonisation benefits cross border travel.
- The eurozone will attract foreign investment, so long as the Euro remains a strong currency. No doubt, the tourism sector will gain from these inward investments.

The Euro will provide an impetus to European travel but it will also cause a shift in travel flows. European travellers stand to gain from the switch to Euros. They will save approximately £1bn per year on currency conversion alone. This all adds up to the notion that tourists will be the final beneficiaries. Greater price transparency and price harmonisation will create greater competition thus creating further savings for travellers.

I Payment Cards

Introduction

Although euro notes and coins will not be introduced before 2002, cardholders will begin to be in a position to transact in euro as from January 1999 when making payments with payment cards. As such, payment cards will be an excellent tool for customers to gradually adapt to the single currency as they will help consumers to familiarise themselves with the euro before the physical introduction of the new currency.

Cardholders will come across the euro in a number of different ways:

- at certain retailers when paying for goods and services
- on transaction receipts generated by card terminals and
- on regular statements issued by the bank.

Cardholders wishing to familiarise themselves with the new currency early on may ask their bank to convert their card account to the euro. Cross-border euro payments within the eurozone will be shown on statements without any conversions from transaction to billing currency. Regular cardholder statements will also include euro equivalents .

Payment cards will facilitate the migration to the euro

The Transitional period (1999-2002) and the final changeover period (January-July 2002) represent a unique opportunity to promote the use of payment cards and increase transaction volumes to the benefit of banks, merchants and consumers:

- Consumers must be told that payment cards will allow them to use the euro and be debited in euro before they will be confronted with all the practical problems of having to deal with a set of new notes and coins. In starting to do so as early as 1999, cardholders can adapt themselves to the new currency and create a feeling of price awareness in the new currency.
- Merchants can price and receive payments in euro, thereby positioning themselves vis-à-vis their main competitors in a price-transparent market;
- Banks can take advantage of the fact that the transitional period allows them to promote the use of payment cards as a convenient payment instrument to make retail payments in euro (be it with credit, debit or pre-paid cards).

One of the reasons for having a long transitional period was to create a critical mass of transactions and a general acceptance of the euro before the introduction of the euro notes and coins. Whilst this is almost guaranteed to take place for wholesale financial transactions, the situation is less clear in the retail market.

Payment cards will also play a facilitating role during the final phase of the euro migration between January and June 2002. During at least the first weeks of the

final changeover period, problems will exist with consumers wanting to pay in National Currency Units (NCU), when retailers will be giving change in euro (or vice versa).

Furthermore, price transparency will become inevitable as banks move to separate costs of each transaction on cardholder statements.

Wide use of cards (especially for small payments, where electronic purse systems will predominate) will help to avoid these practical problems. From the retailer and consumer perspective, card payments involve the same handling process irrespective of their currency. The more cash taken out of circulation and replaced by electronic payments, the easier the physical migration will be.

Handling two currencies in parallel at the retail level will be a massive undertaking for both the retailers and the acquiring banks. Acquiring systems are often designed with the concept of a single 'base currency'. Domestic processing networks will therefore need to be upgraded to enable them to recognise whether the transaction currency is the euro or the national currency. Most domestic processing networks are therefore being upgraded to carry a currency indicator in the transaction message.

Increased Price Transparency On Cardholder Statements

There will be increased price transparency on cardholder statements because of the fact that conversion rates between the 11 participating countries will be fixed.

As far as intra euro-zone transactions are concerned (both the cardholder and the merchant are located in the euro zone), cardholder statements will have to indicate the fixed conversion rate (cross rate or the rates against the euro) separate from any other charges that the issuer may want to continue to charge for processing the transaction.

Point Of Sale (POS) migration scenarios during the transitional period

Three possible scenarios at the POS during the transitional period have been agreed on an industry level. There is total flexibility for merchants/acquirers to operate under each of these. Merchants may switch from one scenario to another at any point in time during the transitional period.

The choice of one scenario over another is determined by different factors

- Consumer preference
- Technical capability of POS equipment and
- Acquirer systems (e.g. dual currency acquiring capability)

In some countries, national bodies may mandate a specific method of implementation and operation.

Scenario 1: Mono Currency Only

Only one currency at a time can be supported by a particular POS in this scenario. The transaction includes only one currency (the NCU or the euro), depending on the configuration of the terminal accepting the payment card. The cardholder has no choice of currency. Under this scenario, only one currency will appear on the sales voucher for cardholder verification.

This scenario results from some of the existing POS equipment for which it may be too costly to upgrade in the short term. In order to avoid confusion and possible cardholder disputes between two currencies in operation, the scheme rules mandate that the transaction currency denomination should be clearly printed on the transaction receipt.

Scenario 2: Mono Currency Only with Advisory Conversion

Under this scenario, the terminal operates in one currency (similar to Scenario 1). However, the cardholder is provided with the countervalue in either euro (if the terminal is operating under NCU) or NCU (if the terminal is operating under euro) for information/advisory purposes only.

The countervalue (in euro or NCU) printed on the ticket issued by the merchant and on the transactions sales slip generated by the POS (either electronically or manually) must be mentioned at the total level (as opposed to the item level) and preferably be printed at the bottom of the receipt (below the usual signature panel as to separate it clearly from the transaction currency).

Scenario 3: Dual Currency capability of Terminal

Under the third and most flexible scenario, the cardholder will have the possibility to transact in either euro or the NCU by using the same POS terminal. The cardholder therefore has the choice of currency. This scenario may be combined with Scenario 2 as the euro or NCU countervalue can be indicated on the receipt. It is envisaged that Travel & Entertainment merchants will be the first to utilise dual currency terminals.

Traditional paper vouchers

Paper vouchers may fall under each of the above described Scenarios. Scenario 2 is less favoured for paper vouchers as it contains a far greater potential for human error. The idea of a different colour voucher for euro paper transactions is preferred method forward by several countries. Cheques are expected to carry a pre-printed currency code.

The Readiness Of Retailers

Less than four months before the launch of the euro, the question remains what the attitude will be of the retailers during the transitional period in terms of POS readiness to transact in euro. Will retailers make use of the entire transitional

period to upgrade their terminals or will the majority of them decide to implement system changes towards the end of 2001?

The situation varies by country. The banks in most countries (like Belgium, Germany, Ireland, Spain, etc.) are of the opinion that certain retail sectors will wish to start early with the euro as a transaction currency for card payments. They plan for an early migration for competitive reasons and in order to avoid a "big-bang" at the end of 2001.

It remains very difficult to predict the speed of transition in the retail sector. A decisive factor will be the attitude of large retailers and consumers. For example, consumers who receive their salary in euros will also wish to spend their money in that currency. The majority of merchants are not expected to offer euro as a transaction currency before 2001. The main merchant sectors expected to offer euro before 2002 are those located in border areas, airports, large international merchants such as hotels, car rentals, mail & telephone order, electronic commerce, etc. The tourism industry will be among the first to publish their prices and accept payments in euro.

Furthermore, it is estimated that the introduction of the euro will facilitate the move towards more on-line transactions by merchants. This will become increasingly more apparent with the introduction of Chip cards.

The agreement recently concluded between representatives of retail and consumer organisations on the display of an official euro label may well provide an impetus to retailers for upgrading their POS systems early on in the transitional period. The label shall distinguish between those retailers simply abiding to a minimum number of euro 'friendly' standards of good practice and those who also accept payments in euro.

The display of the label will signal that the retailer complies with the following commitments: dual display of prices on various categories of goods; correct use of the conversion rates and rounding rules; not charging more when payment is in euro; training staff on the euro; and accepting euro payments by card or cheque.

Payments cards can play an important role in facilitating the migration to the euro. It is now up to the banks and the retailers to make a number of technical changes to the existing infrastructure and inform the general public that they can pay in euros from the 1st of January 1999.

II Internal Bank Developments for The Introduction Of the Euro for Banking Customers

Introduction

The banks have a major role to play in relation to the introduction of the Euro. Generale de Banque has created a Monetary Unit (Cellule Monnaie Unique) to

help implement the new currency within Belgium. The structure of this unit has been formally approved by Senior Management of the bank. They have been given the responsibility to review legal, fiscal, operational and technical implications for Euro implementation.

One area that stood out was training . This included both internal staff training and providing information to external customers.

Internal Training

The efficient sale of the new currency starts with internal staff training on various aspects of Euro implementation. Training materials include the following:

- courses, videos, questions & answers (in an electronic format)
- creation of a team of Euro specialists

The banks also looked at the costs associated with internal training in order assess the impact on their bottom line.

External Training

The banks see the introduction of the Euro as a unique commercial opportunity to approach existing and new customers (eg: purchasers, lawyers and IT managers). This will be done through the following methods:

- organise road shows with company testimonies
- Conferences by euro specialists
- Forums enabling the exchange of customer views on the euro
- questions & answers (in an electronic format) on the Internet
- exchange of views with DG10
- provision of Euro collateral

The banks also looked at the costs associated with external training in order assess the impact on their bottom line.

Euro and the public-sector

At a public sector level, the Ministry of Finance (Treasury) has been entrusted with macro-economic issues and the Ministry of Economy (Trade) with euro issues on a micro-economic level. The former deals mainly with larger economic

groups and the latter with SME's and their transition. Key actions undertaken by the Ministry of Economy's Euro Commission include:

- Seminars and presentations targeted at companies throughout the country
- General consumer awareness campaign
- Publication and distribution of a quarterly newsletter
- Internet site and online information update

Study: impact of the euro on companies in the tourism industry

The Ministry of Economy contracted Deloitte & Touche Consulting Group to undertake a study on the Impact of euro on companies in the tourism industry. The main aims of the study were to identify the operational impacts of the euro on firms in the Portuguese tourism industry, through a cost-benefit analysis in the short and medium term, as well as perspectives and strategic challenges which the euro implies.

The wide scope of the study requires the use of various methodologies, namely:

- A study of existing reports and research
- Surveys to all hotels, travel agencies, tour operators & professional associations
- Personal interviews with opinion leaders
- Telephone interviews with main international tour operators to Portugal
- Focus groups with a selection of key decision makers from all targets

Preliminary Conclusions

General issues

In Portugal, tourism will be one of the pioneer industries in adopting the euro, due to its high level of international transactions and dependency on European outbound markets.

The euro has been studied within the Portuguese companies interviewed, only recently, and it is too early to refer to actual company strategies. Larger companies, with frequent international contacts are clearly more ahead in terms of preparation than SME's.

There are significant differences between North European countries, with strong associative leverage and consequent lobbying; and Southern countries, where companies have adopted a more reactive, "wait and see" posture as regards euro legislation, with direct impact on the transition to the new currency.

Operational issues

Companies see some benefits in the euro. These include the following:

- Elimination of international transaction costs
- Elimination of the need for currency hedging
- Process simplification

Changeover costs are inevitable, will occur mainly in the short term, although they are expected to be inferior to the potential mid to long-term benefits. The importance of SME's, who operate on reduced margins in a highly competitive sector, could hamper cost absorption and lead to a price increase for consumers.

Some cost-reduction measures are recommended: a big bang transition as opposed to a gradual one, the reduction /elimination of the dual currency period; and no dual pricing. This will minimise disruption and ensure investment in the short term. There is a general consensus on the need for a complete overhaul and harmonisation of European fiscal policy, especially as regards company tax and VAT, to accompany the euro.

Strategic issues

The vast majority of companies have not yet analysed the strategic impacts of the euro on their business: effects on financing, competition, pricing policy, distribution, and strategic partnerships.

As is the case with companies in Southern Europe, in reality, the transition to the euro in the tourism sector will be gradual and slow for most companies: the SME's will not lead the way, preferring to await reactions and strategic options of the key players: larger tour operators and airlines.

North European tour operators intend to changeover in a big bang scenario, mainly in the Winter 2001/2002. The strategy of Latin market tour operators is more diffuse, with some announcing dual pricing for 1999.

The role of the “out” countries

It is not only the public sectors in the “in” countries that need to prepare for the introduction of the euro. The Greek Tourism office has taken a stance that ensures that the Greek public sector should also prepare for the introduction of the euro. In addition, public bodies in the “out” countries have a role to play in educating the general populace on changes to the national currency and the impact it will have on everyone.

IV Coordinating the changeover to the Euro in the Hotel and Catering Industry

Introduction

The IHA-Hotelverband Deutschland represents more than 750 of the 20,000 hotels in Germany but more than 50% of the turnover of the hotel industry of Germany. Its Members are 2*-5* chain hotels and 3*-5* private owned hotels which are mostly linked to a hotel co-operation.

Multinational Pressure

The Associations involvement with the Euro began with a press release from Siemens HQ in Munich two years ago, where they announced the introduction of the Euro as their accounting currency as of January 1st 1999. It was immediately clear that other multinational companies would follow suit and draw their suppliers in an early preparation and acceptance of the Euro.

Operational Issues

It was clear at that time that the above would have a enormous impact on the German travel market as well as the hotel industry. An increasing number of German business travellers as well as international travellers would demand the billing and payment in an hotel in Euro, because their firms would change their accounting to Euros.

Changing a hotels accounting system to become Euro compatible isn't necessarily the first step in the process as the majority of its purchasing is regional or domestic in nature. However, it became clear that changing technology for double or multi currency capable billing both in the front and back office would facilitate the changeover process.

The association's task was to spread information on these developments directly to the decision makers of its Member organisations to make them sensitive to the problem. The association was invited to create a task force on the euro, consisting of specialists of the various hotel chains and interested private hotels as well as supplier industries such as Arthur Anderson, Micros Fidelio (a world

leader in hotel & restaurant property management systems) and players of the finance sector such as banks and card payment systems.

Marketing Strategy

An aggressive marketing strategy was adopted by the German Hotel industry, as it was apparent from recent surveys carried out by Arthur Anderson that the German hotel market had one of the best cost/benefit relations for customers in Europe due to low prices and a growing capacity. Germany also has the lowest ratio of foreigners to nationals staying in its hotels.

Other than operational and technical aspects of the changeover to the euro, the association had to draw the attention of its Members to the opportunity of euro price transparency to draw incoming tourism to Germany.

Preparatory steps

The association collected all possible information for optimal preparations of its Member hotels. Some of the questions included:

- | | |
|----------------------|--|
| Policy of the hotel: | development of an individual hotel strategy on the implementation of the Euro. |
| Marketing: | How will the distribution effect the demand of dual pricing?
Will there be national or European regulations relating to dual pricing?
If so, what are demands on the hotel sector? |
| Payment methods: | Do Members need to open Euro accounts?
How do we handle DM or EUR bank transfers?
How are the banks preparing for the euro?
How are the card payment companies preparing for the Euro?
How do we accept euro payments via cards?
Does a hotelier need two terminals or can a multi-currency terminal be installed ? |
| Accounting: | Front and back office accounting procedures?
When do we need to change accounting practices to the Euro?
Of what strategic importance is this? |

Customer billing: What will customers demand as far as Euro billing is concerned?

Will the customer be satisfied with Euro totals or will they demand Line Item Detail in Euro along with the NCU?

It was recognised that the hotel industry were going to be more effected than first imagined. It was also alarming that respondents to the survey questionnaire had not recognised the euro as a strategic issue with a fixed time scale.

Working Group

The working group in conjunction with the association, acted as a focal point for all suppliers to identify their needs and develop methods to allow for a smooth implementation to the euro. A 180 page Guide "Hotels and the euro", has been created taking information from a wide variety of sources. The Guide was developed from the information retrieved from the questions such as those above, by the working group and by regional bodies and branches.

As most participants in the working group were specialists in the hotel industry, they were able to disseminate the information about the euro in their own companies. Their degree of preparation is therefore higher than that of private hotels. In order to raise the level of awareness and preparedness among private hotels, 36 seminar tours in 18 towns were conducted for private hoteliers throughout Germany. This allowed the association to answer questions and provide a strategy for the changeover.

The association also supported a Code of Conduct on the introduction of the Euro between the European Consumer Assn and the Assn of the European Tourism Industry. To date 450 Members have accepted and subscribed to the Code of Conduct.

Summary

Through due diligence, the association has ensured that major hotel IT suppliers can provide the German hotel industry with euro capable IT packages. 80% of members have already asked for an option to install these packages in their hotels. So as January 1st 1999 approaches, almost every member will be able to provide euro billing and pricing to customers and also accept payment in euro's. Most hotels will be able to handle invoices in euro. Members of the association see the euro as a unique chance to increase the attractiveness of Germany as a travel destination.

Some issues still remain, namely rounding differences, however these will hopefully be solved through the Ministry of Finance at the end of the year.

3. CONCLUSIONS.

3.1. Commercial and marketing strategies in relation to the euro

The various contributions showed that the introduction of the euro is considered in terms of commercial strategy mainly by the big operators in the tourist industry, such as major travel agents, tour operators and carriers, even those from pre-in countries.

In other sub-sectors of the tourist industry, some operators and in particular SMEs so far appear to have adopted a more wait-and-see attitude, which is sometimes encouraged by the local policy of the financial sector. This attitude may either result from the perception that the euro is simply one more currency to administer or that the single currency is an inevitable political decision that is the source of new charges.

This state of affairs could create considerable delays in preparations for the euro and handicap the sector's competitiveness.

3.2. Demand

The second Round Table highlighted the fact that demand and expectations regarding the introduction of the euro are already considerable both on the part of the tourist consumers who wish to be able to pay for tourist products and services in euros as of 1 January 1999 and on the part of the administrators of large accounts, who are requesting their travel agents to change their large business travel accounts to the euro as of 1 January 1999.

Tourists from non-member countries also have high expectations of the advantages of the euro, particularly if they are from an already well-informed public.

3.3. The euro will therefore be a source of development opportunities for businesses that are able to meet early demand

Such a *pro-active attitude* of course requires the definition of a suitable commercial and marketing strategy, but this is not enough.

Tourist businesses must avoid creating or reinforcing the expectations of tourists by a commercial attitude that is not matched by internal adaptation measures on the same scale.

In fact, while a pro-active commercial strategy requires *de facto* the adaptation of all the business' external functions, namely invoicing, payment and marketing, businesses cannot for long ignore the need to adapt their internal functions accordingly, such as accounting, computers, tax and social security accounts and of course the training of staff.

An efficient, profitable pro-active attitude requires, therefore, the *simultaneous adaptation of both the external and internal functions* of the business.

3.4. Finally, the changeover to the euro of a tourist business, more than businesses in any other sector, cannot be achieved alone

Two obstacles may in fact make the changeover more difficult for tourist businesses:

- their size: over 90% of tourism businesses are SMEs; the small size of the major part of tourist businesses makes their adaptation to the euro more difficult because of their limited human and financial resources and also restricts their negotiating powers *vis-à-vis* their economic and financial partners;
- the hybrid, disparate nature of the sector, which comprises a wide variety of activities and also includes many activities linked directly or indirectly to tourism, e.g. the retail trade, local craft industries, cultural enterprises, etc.

Coordination between all the players in the tourist industry therefore appears more than necessary in order to overcome these structural handicaps and enable the sector to cope with the challenge of the euro.

Coordination is necessary first of all *within the* sector itself, for example between the businesses in a particular chain of products: between tour operators, travel agents, carriers and operators at the place of destination such as hoteliers and car hire companies. The choice of the time of changeover for each link in the chain and the level of preparation of each will, of course, influence the strategic capacity of each business.

This situation is even more marked in the case, current in the tourism industry, of franchise networks where the strategic choice by the franchiser of when to make the changeover cannot ignore the need for simultaneous, coordinated preparation of the franchisee.

Given the high level of payments in book money, which are the only means of payment during the transitional period, *coordination* is particularly necessary *with the sectors* which are the essential partners of businesses in the changeover to the euro, namely *banking and the related sector of payment systems*.

Cooperation between all the parties concerned and particularly with the banking sector is essential if tourist businesses are to draw up a strategy for adaptation and changeover to the euro. The financial sector will, in accordance with the Regulation on the legal framework of the euro, play the fundamental role of converter between national currencies and the euro and provide the products and services essential for invoicing, accepting payments in euros and managing the businesses' cash flows.

It appears fundamental to determine the conditions under which tourists and tourist operators have access to modern means of payment by book money in euros from the beginning of the transitional period and without technical or financial restrictions, particularly in transnational use.

Such coordination, both internal and external, does not, however, require the creation of new, specially designed bodies; the sector's trade associations, tourist offices, chambers of commerce and public authorities at all levels should be able to assume responsibility for this.

4. FOLLOW-UP TO THE CONFERENCE

The European Commission is determined to continue its efforts to assist the tourist sector and achieve a smooth, beneficial changeover to the euro.

In order to achieve this, it is open to the comments of all representatives of the sector and tourist consumers, as it has been throughout recent months.

The provision of practical, highly informative material for operators, such as the preparatory guides for tourist businesses and SMEs in general, has been an essential element in the Commission's approach.

The use of local networks that are already well integrated in the business world, such as the Euro Info Centres (EIC), is another fundamental component since it simplifies the dissemination of technical material, the exchange of best practices and coordination at local level.

The Commission will continue to promote the preparation of businesses in the tourist industry and to encourage the best practices identified at this Conference.

4.1. It is to this end that the Commission will support the publication by the AUME of a second revised and improved version of the guide on preparing businesses in the tourism industry for the euro (focusing on tourism SMEs), which will include the conclusions of the Conference.

Some 150 000 copies of the guide will be available in the eleven Community languages at the beginning of 1999.

4.2. In 1999, the Commission will encourage also initiatives designed to promote the introduction of the euro, in particular the use of means of Payment in euros during the transitional period.

ENCLOSURES.

**I. Final report of the working group « euro and tourism ».
(working document for the conference)**

II. List of members of the working group « euro and tourism ».

I. Final report of the working group « euro and tourism ». (working document for the conference)

Note to the reader.

This report is the result of the Euro-Tourism Working Group's meetings in Brussels between March and June 1998. It does not imply any commitment from the European Commission or its services.

The reader is reminded that such an exercise has its limitations. In particular, the report reflects data supplied to the group by all participants and supplemented by information from the Commission's departments. Where reference is made to other sources, these are stated in footnotes.

Within these limitations, the objective of the report is to take stock, as comprehensively as possible, of the opportunities for and strategic intentions of businesses in the tourism sector in the context of the euro's introduction. It further sets out to highlight problems yet to be solved, as well as possible synergies and the coordination efforts which are required between tourism operators and all the partners of such enterprises.

1. INTRODUCTION.

The work carried out by DG XXIII's Tourism directorate on the introduction of the euro in the tourism industry is set in the general context mapped out by the European Commission's Recommendations on preparing for the practical aspects of the single currency's launch. These relate to bank conversion charges¹, dual pricing², monitoring, dialogue and information to facilitate the transition to the euro³.

This non-legislative approach is based on consultations with all players involved in preparations for the euro and on the work of the working parties set up as a result of the May 1997 Round Table.

¹ Commission Recommendation 98/286/EC of 23 April 1998 on banking charges for the conversion to the euro, OJEC of 01.05.98, L 130/22.

² Commission Recommendation 98/287/EC of 23 April 1998 on dual pricing, OJEC of 01.05.98, L 130/22.

³ Commission Recommendation 98/288/EC of April 1998 on dialogue, monitoring and information to facilitate the transition to the euro, OJEC of 01.05.98, L 130/29.

The Commission Communication on the information strategy for the euro refers to tourism as "*a particularly interesting sector for the introduction of the euro. Businesses operating in this area can very usefully contribute to the information on the practical and specific aspects of the euro*".⁴

By way of preparation for this conference entitled "The euro and tourism: opportunities and strategies for businesses", the Commission has organised three meetings (since 26 March 1998) of a working party known as the "Euro-Tourism Working Group" in order to determine the conditions under which the tourism sector can tackle the period of transition to the euro in the most appropriate and profitable way, particularly with regard to implementing the Commission's recommendations on preparing for the practical aspects of the euro's introduction.

The working party was composed of representatives from the tourism sector, leading businesses operating bookmoney payments (cheques or payment cards), the banking sector and the tourism administrations of the Member States. Secretariat services for the group were provided by the Commission.

This overall exercise also forms part of the Commission's general activities to promote employment in and the competitiveness of the tourism industry, and is based on the following two considerations:

1. *Tourism is the sector liable to derive the greatest and most rapid benefit from the introduction of the euro.*

This sector is already globalised to a large extent (one-third of services exported) and used to handling various currencies. With the euro, exchange commission will be eliminated in intra-European tourism (in the euro area) and the free movement of visitors from non-EU countries will be facilitated by the reduction in the number of currencies needed to visit countries in the euro area.

In addition, while cash payments still remain important in the tourist industry as elsewhere, tourism is the sector in which bookmoney payments (plastic cards, travellers' cheques, Eurocheques, etc.) is most widespread; it is estimated to account for over 50% of expenditure. This should facilitate the early changeover to the euro by tourism companies, given that the euro will be available only in scriptural form during the transition period.

Survey results show that 28.1% of European holiday-makers use credit/debit cards when booking their holidays, while 36.5% do so at their holiday destinations⁵.

⁴ Commission Communication on the information strategy on the euro, COM(1998)39/4 du 23 janvier 1998.

⁵ Source: DG XXIII Eurobarometer 1997-1998 - facts and figures about Europeans on holiday.

2. *Tourism is the ideal sector for the introduction of the euro.*

The tourism sector ought to benefit rapidly from the introduction of the single currency. It also provides the ideal setting in which to facilitate the transition to the euro for consumers.

In 1997, 50.9% of Europeans went on holiday, of whom 43.6% travelled to another EU country. The proportion of Europeans who spent their holidays in another European Union country can thus be estimated at 22.19%⁶. Spending by tourists in EU Member States other than their countries of residence amounted in 1997 to ECU 146 billion (excluding transport services).

A large number of European consumers are, therefore, likely to have their first real contact with the euro during their holidays, an ideal time to familiarise themselves with the new single currency and the new scales of value which it entails. Amongst other things, a tourist who knows the value of the euro in his own currency will no longer have to calculate the conversion from local currency if prices are displayed in euros.

It is therefore becoming increasingly likely that there will be a high demand for tourist services in euros from 1999, particularly for reasons of convenience for the tourist-consumer.

This possibility is reinforced by the fact that some large companies have announced their intention to pay employees in euros from 1999, that some major carriers should display in 1999, prices in both euros and the national currency, and that most banks have declared that they will offer their customers payment instruments denominated in euros from 1999.

The tourist sector must therefore avoid a bottleneck caused by insufficient or late preparations, and ensure that it does not find itself in a position of being unable to meet the potentially high level of demand for services priced in euros during the transitional period, thus missing the opportunity to transform what consumers save on currency-exchange charges into extra demand.

2. EURO-DENOMINATED PAYMENTS IN THE TOURISM SECTOR DURING THE TRANSITION PHASE.

2.1 Various means of payment in euros during the transitional period.

On 1 January 1999, the euro will become the currency of the participating EU Member States, and national currencies will be regarded as non-decimal subdivisions of the euro.

Initially, however, it will only be possible to use the euro in scriptural form (bank transfers and remittances, cheques, payment cards, etc.).

The arrival of the euro will not entail any change to payment instruments which are not tied to a specific currency (Eurocheques, payment cards). Only specified-

⁶ Source: DG XXIII Eurobarometer 1997-1998 - facts and figures about Europeans on holiday.

currency instruments (preprinted national cheques, travellers' cheques, etc.) will need to be changed. All the same, payment terminals will have to be adapted.

During the transitional period, therefore, a distinction will have to be drawn between the consumer's money of account and that of the retailer: the money of account can no longer be implicit during the transitional period but must be explicitly chosen by the parties; previously, national currency was always the money of account (= implicit money of account); during the transitional period the money of account will be, as a matter of choice, either the national currency or the euro (= explicit money of account).

Operators in the euro zone must therefore prepare to cope with the following means of payment during the transition phase:

- payment cards (credit cards, debit cards...);
- bank transfers;
- euro-denominated national cheques;
- Eurocheques (except NL⁷);
- euro-denominated travellers' cheques.

With only sluggish progress having been made in terms of their interoperability, electronic cash cards have not become the major instrument they might have been for the introduction of the euro. Nevertheless, the European Committee for Banking Standards (ECBS) has announced that it will soon have completed its work on defining a standard for a multi-currency "electronic purse". However, the practical introduction for the european consumer is put at three to four years.

The cross-border acceptance of "national" cheques drawn up in euros is likely to encounter difficulties sometimes due to the absence of a euro clearing system. In France cheques in euros should be printed on special forms, which could increase acceptance problems.

⁷ Survey by Europay International, 16 June 1998.

Euro-denominated Eurocheques also present problems of acceptance by the banking sector and therefore by retailers in France and Italy. It seems, however, that the French banks, who do not distribute Eurocheques, will accept Eurocheques denominated in euros from 1999. Europay-France has confirmed the possibility of drawing up Eurocheques in both euros and FF in France from the beginning of 1999. Clearing centres will handle these cheques separately. Italian clearing centres will work in national currency for as long as possible but should be able to handle Eurocheques in euros coming from foreign banks. Although their use is in decline, travellers' cheques will be one of the first means of payment to be available in euros as from 1 January 1999. AMEX, VISA and Thomas Cook have asked the ECBS to impose a standard in Europe. Thomas Cook has confirmed that euro-denominated travellers' cheques with a common clearing standard will be available from 1 January 1999.

2.2. Switchover of payment card schemes.

N.B.: The term "payment card" refers to any debit, credit or delayed payment card. As far as cross-border payments are concerned, there is nothing to distinguish transactions using these cards. Only at the end consumer/issuing bank interface is a distinction made between credit and debit card.

All operators of payment-card schemes have stated that they are prepared to process interbank payment-clearing transactions in euros as from 1 January 1999. The conversion charges levied by card scheme operators on member banks for intra-European operations were dismantled at the end of 1997 in anticipation of the introduction of the euro.

Essentially, it is the commercial strategies of member banks which will determine whether means of effecting and receiving payments in euros will be made available.

2.3. Provision of bookmoney means of payment.

The problem of making euro-denominated means of payment available to operators and tourists arises in respect of both specified-currency cheques (some national cheques) and card payment systems. In the case of the latter, terminals will have to be adapted.

The terminal-network situation varies appreciably across the EU Member States⁸. While it will be easy to adapt the most recent terminals by downloading software allowing the acceptance of payments in euros, older terminals will have to be replaced or modified on site. In rare cases, it may be necessary to operate two terminals - one for euro-denominated and one for national-currency transactions.

During the transitional period cardholders will encounter one of three different scenarios when they actually make a purchase using their payment card :

- a mono currency terminal, where all transactions are processed entirely in one currency, whether it be the national currency unit or the euro ;
- a mono currency terminal, where the transactions are processed in the national currency unit with the euro equivalent displayed for information (or vice versa) ;
- a dual currency terminal, where the cardholders select their preferred transaction currency, either euro or national currency unit.

The suppliers of terminals and software may vary both from one Member State to the next and within the same Member State: some terminals are supplied by or belong to the operator's bank or to a national banking consortium, whereas others are supplied by the telecoms operator or a software producer.

Card scheme operators and banks alike have been unable to forecast the level of provision of card-payment instruments or the conditions for such provision.

In the Netherlands, the banking sector has decided not to permit euro-denominated payments by card before the end of the transitional period (1 January 2002)⁹. This situation could change, however.

The "euro-tourism" Working Group has been informed by the sector of travel agents concerning the cost of using card payment systems. In some cases, the cost appeared to the sector to be prohibitive and discriminatory for small-sized operators who make up by far the greater part of the tourism sector. While this issue goes beyond the scope of the euro's introduction, it may have an impact on these operators' acceptance of card payments both during the transitional period and thereafter. Within the travel agency sector, there has apparently been a shift towards ending affiliations with payment-card schemes.

2.4. Conditions for use and acceptance of bookmoney payments.

⁸ The current payment terminal network can be split into three categories : the very old single currency tpos which need to be changed and will be replaced during the transition period by tpos which will only be able to switch once and for all to the euro at the end of the period ; more modern tpos which permit dual pricing of the total amount (on the receipt and sometimes on the screen), but only for information purposes without allowing the possibility of choosing the payment currency ; and lastly, the more sophisticated tpos which permit not only dual pricing but also the choice of payment currency.

⁹ Survey on Domestic Payments Changeover Scenarios, Fédération européenne de Banques, Brussels, 8 January 1998.

Acceptance of payments in euros by tourist operators depends on several factors:

- demand from tourists;
- willingness on the part of the operator who sees such acceptance as a way of seizing a commercial opportunity;
- provision by the financial sector and software and terminal suppliers of means of payment in euros (see 1.3 above).

The operators of the main credit card schemes perceive the euro as an opportunity to increase the share of sales accounted for by credit cards. They regard payments by credit card from 1999 onwards as a question of strategy, not as a technical problem.

No assessment has been made at European level of demand for payments in euro. A poll conducted by the banking sector in France indicated that 43% of consumers would like to be able to make payments in euros as from 1 January 1999.

A survey carried out by Europay, however, indicates a much more gradual tendency both on the supply side and in terms of expected transaction volume¹⁰.

It should be mentioned that the associations representing tourism at the European level and grouped together under NET (ECTAA, HOTREC, ETOA, IRU, EFCO) are signatories to the agreement between representatives of consumers and those of certain commercial and service sectors at the European level. This agreement provides for the optional acceptance of payments in euros; companies which comply with all 6 obligations under the code of good conduct (see text in annex) will be able to use a logo indicating that consumers will be able to obtain prices and to pay in euros.

2.4.1 Situation in the issuing industry.

2.4.1.1 Travel agents.

Where a travel agent offers dual pricing, the sector representatives at the European level (ECTAA, declaration during negotiations on the code of good conduct « traders – consumers ») have declared themselves willing to accept payments in euros.

2.4.1.2 Related services

So far, the car hire sector has not prepared itself to receive payments in euros from private individuals, even though dual pricing will be applied in respect of hire rates and rental contracts.

2.4.2 Situation in the accepting industry.

2.4.2.1 Hotels.

¹⁰ Survey by Europay International, 16 June 1998.

This sector, which traditionally receives most of its payments in the form of bookmoney money - by way of bank transfers, payment cards or cheques - has come out in favour of accepting euro-denominated means of payment as from 1 January 1999.

2.4.2.2 Related services.

Up to 1 January 2002, payments by the end consumer will be accepted in national currency only by the main operators (members of ACRISS).

3. CONTRACTS BETWEEN TOURISM OPERATORS.

There are four types of contract between tour operators, travel agents and firms at the destination.

A distinction has to be made between tour operators and direct providers of tourist services, depending on the respective geographical location.

A final point concerns the adaptation of CRS/ SIR.

3.1. Contracts between operators in the euro zone.

Until the year 2000, contracts already negotiated will be concluded in local currency, the conversion rates not having been known at the time of negotiation.

By way of reminder, contracts between tour operators and destination-based operators are sometimes negotiated two years in advance. Some tour operators have by now already concluded their contracts for the summer 2000 season and are currently negotiating those for the 2000/2001 winter season.

3.2. Contracts between operators in the euro zone and operators in non-participant Member States (pre-INS).

These contracts will probably continue to use the local currency.

3.3. Contracts between operators in the euro zone and operators in non-Member countries.

The reference currency for many countries is currently the US dollar.

3.4. Contracts between tour operators outside the euro zone and operators at euro-zone destinations.

These contracts are concluded in local currency.

Japanese TO contracts for tours to Paris, for example, are denominated in French francs.

At present, tour operators tend to accumulate currency reserves and anticipate exchange rate fluctuations, which may therefore become an integral part of the profit margin. This applies particularly to tour operators with low profit margins and a large customer base.

Thus, for example, a German tour operator has been able in the past to make allowance on the pricing side for a possible depreciation of the peseta, while a

Spanish operator working with Germany has been able similarly to anticipate an appreciation of the deutschmark.

The arrival of the euro may therefore radically change the pricing structures of some tour operators.

3.5. Contracts between tour operators and air carriers.

These contracts are often concluded in US dollars. Except for staff costs, most expenses incurred by air carriers (landing fees, fuel and maintenance charges, etc.) are in US\$. Other contracts provide for payments in local currency.

3.6. *Computerised Reservation Systems (CRS).*

A euro mission has been in existence within the IATA Financial Committee since 1996, and IATA has sent a recommendation to its 259 airline company members for a gradual introduction of the euro. It is based on a consensus and is not therefore binding, unlike other rules issued by the organisation:

- As from 01.01.99 IATA airline company members will be able to offer their private and business clients the possibility of paying for their transport, (whether for passengers or freight) either in euros or in the national currency of participating Member states.
- Companies will also be able to choose to what extent they wish to accept payments in euros from reservation systems so as to give enough time to companies not in a position to guarantee acceptance of euros and national currencies from 01.01.99 time to adapt their internal systems.

This recommendation is to the effect that consumers be offered the choice of tickets denominated in euros or in the national currency in which tariffs are notified to members.

The tariff structure will be maintained in the national currencies until 31 December 1999 at the latest, and converted into euros at 1 January 2000.

The CRSs of IATA members have been associated with the work of the “euro” mission since its inception. Their tendency is to accept the IATA recommendation. Technically, the solution adopted will be the use of 2 screens, with the possibility of switching from one screen featuring the national currency to another using euros.

Amadeus has announced that it will be able to respond to demand as from 1 January 1999. Amadeus GTD will give travel agents the choice of operating in either euros or the national currency, with an over-ride function. A screen switch will give instant tariff comparisons. Informative pricing can be given worldwide for air and certain other products. However, Bank Settlement Plans will only permit airline ticketing in euros within the euro zone in the first instance.

Despite the establishment of a task force at Amadeus level, there appears to have been little reaction within the sector other than from leading travel agents.

4. TOURIST SERVICES PRICED IN EUROS DURING THE TRANSITIONAL PERIOD

The term "service priced in euros", as used in this report, refers to any service provided by a company that has an external euro-handling capability.

This may, therefore, relate to a previously existing or new service whose price is posted (converted or established) in euros and for which, as a minimum requirement, the euro is displayed to the consumer as currency of payment.

In this sense, the provision of services priced in euros does not necessarily mean that a company must already have adapted its internal arrangements to the euro. Indeed, Article 8 of the Regulation on the legal framework for the introduction of the euro prescribes that any debtor of a sum in national currency to be paid by the credit of a bank account will be entitled to settle up in the euro, and that banks will be obliged, to convert incoming payments¹¹.

In practice, tourists will be able to pay for purchases in euros and the operator may accept euros without either party having a euro bank account or accounting capability.

Finally, the situation of franchisees is worthy of particular note insofar as their commercial strategy is determined by the franchisor. It is the latter who will largely decide the operator's strategy in terms of transition to the euro.

4.1. Situation in the issuing industry.

4.1.1 Travel agents.

Travel agents will meet the demands of their customers.

Tour operators are taking steps to ensure that they can offer products in euros and in the national currency from 2000. Some tour operators intend to market products in euros from 1999.

¹¹ Council Regulation (EC) 974/98 of 3 May 1998 on the introduction of the euro, OJEC L139, 11/05/98, pp. 1-5.

In relation to business travel, large companies are ready to manage their accounts and budgets in euros and have requested the necessary adaptations by their agents.

On the holiday travel side, small retailers are willing but are not yet as advanced in their preparations as the large companies.

Adaptation of CRSs:

As from 1999, CRSs will normally be able to handle reservations in either euros or national currency (see 1.2.2) by means of two windows on the reservation screen which can be opened as required according to the currency of transaction requested by the client.

Once the euro or the national currency has been opted for, all operations generated by the CRS will comply with the choice made (re transaction in euros, see above).

4.1.2. Tour operators.

Club Méditerranée has announced that it will accept payments in euros as from January 1999.

Havas Voyages has announced that it will operate dual pricing as from the beginning of 1999.

Nouvelles Frontières is to display national-currency and euro prices as of Easter 1999 (summer/autumn 1999 brochures) both on paper and electronically (Minitel/ Internet), and will accept payments in euros

4.1.3 Carriers.

SNCF (F) has announced that, together with its partner SMEs, it will systematically display prices in French francs and euros from 1 January 1999.

As far as customer relations are concerned, SNCF is scheduled to operate dual pricing and accept payments in euros by bank card and cheque from 15 March 1999.

Air France will denominate its prices and salaries in both currencies from 1 January 1999. Measures are being taken to accept euros from January 1999, and tickets will be issued in francs or in euros, at the request of the consumer¹².

¹² ITB Berlin 1998, 7/11 March 1998, Katja Hassenkamp, "The euro and the French tourism industry", press release.

4.2 Situation in the accepting industry.

4.2.1. Hotels.

For the most part, the hotel industry has stated that it is ready to price its services in both national currency and euros as from 1 January 1999.

The Choice hotel chain is advising its partners to introduce a dual-display system at the end of 1998 for room rates and related services.

The Envergure (Campanille, Première classe) hotel chain intended to publish new hotel guides featuring dual pricing before the 1999 summer holidays.

Having tested artificial euros at its Zeist (NL) establishment since 1996, the Golden Tulip Group (NL) extended the pilot project to cover all its hotels and inns (76) in the Netherlands as from 1 May 1998. These artificial euros can be used in restaurants, hotels, bars, cinemas, theatres, etc. throughout the Group's chain in the Netherlands, as well as in Dutch branches of AVIS.

4.2.2 Related services.

ACRISS, the association of tourist car rental companies, has announced that customer information published by its members will include pricing in euros as from 1 January 1999. It will be possible to draw up euro-denominated invoices on demand, but car-hire transactions with the end consumer will be carried out in national currencies until 2002.

5. DUAL PRICING.

Note: except in the Netherlands and Finland, it will be possible - on the initiative of the banks - for amounts paid by card to be posted in both national currency and euros (on the payment terminal or the receipt) during the transitional period¹³.

5.1. Situation in the issuing industry.

5.1.1. Travel agents and tour operators.

ECTAA (EC Travel Agents) has signed the "retailers/consumers" code of good practice on dual pricing and on information relating to the euro. It provides for the posting of a certain number of prices in both national currency and euros.

Companies complying with this European code of good practice qualify for a "euro label". Tour operators and travel agents can avail themselves of a provision allowing an exception to dual pricing for the 1999 summer

¹³ Survey on Domestic Payments Changeover Scenarios, Fédération européenne des Banques, Brussels, 8 January 1998.

season, as some companies produce catalogues/price lists one year in advance.

Most operators in the sector are set to operate dual pricing on invoices. For technical reasons, this is not possible on air tickets, but the currency to be shown will be chosen by the customer when a reservation is input via the CRS.

However, some major tour operators have already announced that they will feature dual pricing in their catalogues for the 1999 summer season (see above).

5.1.2 Related services.

Dual pricing will apply in the transition period in respect of rates and rental contracts of car-hire companies (see above).

5.2 Situation in the accepting industry.

5.2.1 Hotels.

For the most part, the hotel sector is set to operate dual pricing for all services available in hotels, in parallel with acceptance of euro payments (see above).

5.2.2 Related services.

Dual pricing will apply in the transition period in respect of rates and rental contracts of car-hire companies (see above).

6. CONCLUSIONS AND FOLLOW-UP - CONFERENCE ON "THE EURO AND TOURISM: OPPORTUNITIES AND STRATEGIES FOR BUSINESSES", BRUSSELS, 16 OCTOBER 1998

Objective.

The Commission's objective regarding the introduction of the euro in the tourism sector is to encourage businesses - particularly SMEs - to prepare for the single currency by promoting synergies between all sectoral players during the transition period. This will help the sector to define coordinated strategies for the changeover to the euro during the transitional phase.

As a forum for exchanging views and experience, the conference on "The euro and tourism: opportunities and strategies for businesses" will be geared to identifying the best practices deemed likely to assist the transitional-phase players in the tourism sector in defining efficient and profitable changeover strategies.

Content.

In continuation of the approach developed by the "euro -tourism Working Group", the conference will focus on four Round Tables.

The first Round Table will seek to assess the portfolio of euro-denominated services which tourism operators will offer in the market place during the transitional period, especially at the beginning of that period in 1999.

This strategic potential will be analysed and highlighted in relation to the strategies of operators in the principal subsectors: tour operators, hotel companies, tourist car rental firms and carriers. In particular, the advantages of a proactive approach to the introduction of the euro will be examined, as will the conditions required to prepare the external corporate functions that make a proactive approach possible.

The second Round Table will examine the potential demand for euro-denominated services during the transitional period - and the implications for tourism enterprises. This relates not only to demand on the part of consumers but also to that emanating from key corporate clients with major business travel accounts. Special attention will be devoted to the potential attitude of non-EU tourists towards the introduction of the euro.

The third Round Table will single out the essential steps involved in adapting internal business functions to the euro and possible ways of accomplishing this task. Attention will focus in particular on the adaptation of Computerised Reservation Systems (CRSs) and the migration of tourism companies' data-processing systems.

The fourth and last Round Table will set out to identify potential sectoral synergies likely to facilitate the task of defining changeover strategies.

Coordination - an essential ingredient for a successful transition to the euro in the tourism sector.

A good changeover strategy is one which brings all the partners of an enterprise into play. It is essential, therefore, that operators do not regard data relating to their euro-transition strategies as confidential. Rather, such information should be perceived as having to be shared so as to make possible a coordinated strategy for transition.

In particular, the fourth Round Table will endeavour to analyse and define the role which a company's financial partners (banks, payment-system operators) might assume in enhancing euro-transition performance in terms of the sector's competitiveness.

The Euro-Tourism Working Group saw the exchange of information as an important part of a tourism enterprise's relations with its financial partners.

This exchange of information in a spirit of partnership between bank and tourism enterprise is the driving force behind the sector's ability to develop coordinated euro-transition strategies enabling tourism operators to take full advantage of the opportunities opened up by the single currency.

The many and varied activities of the tourism sector and the numerous parties involved make coordination between all the players in the transitional phase all the more necessary. Public authorities must reflect on the coordinating role they may be called upon to play in the tourism sector's changeover to the euro.

The introduction of the euro in the tourism sector may help to detect obstacles to the proper functioning of the internal market.

The transparency brought about by the introduction of the euro has already thrown the spotlight on the extra charges which tourists have to bear when making transnational - as opposed to domestic - card payments. The importance of this type of payment in the tourism sector has already been underlined (see above).

Payments by card must be distinguished from other types of transfrontier payments (by bank transfer), in that they are the only ones for which an efficient and inexpensive international clearing system exists - in contrast to the costly "correspondent banking system". What is more, the operators who provide this clearing have given an assurance that conversion charges levied on member banks for intra-community operations have been dismantled in anticipation of the introduction of the euro.

II. List of members of the working group « euro and tourism ».

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M. Pierre Hautain	Diners Club
M. Léon Peeters	ECBS
M. Christoph Baert	Europay International
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Ms. Sue Chaplin	Thomas Cook
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Mr. Max Chatterjee	

Tourism industry :

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Mme. Rita De Landtsheer	EMILG
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M. Constantin Garlas	IHA Hotelverband Deutschland
Ms. Caroline Ofoegbu	AIT/ FIA
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Representatives of the Member States :

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Mme Viviane Jacobs	Office de Promotion du Tourisme de la Communauté française
Mr Jan Praet	Vlaams Commissariaat Generaal voor Toerisme

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