

June 1999

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Recommended Citation

Higgins, Suzanne Wilson (1999) "A Little Less than Euro-Phoric: Understanding the British Response to the Euro," *Against the Grain*: Vol. 11: Iss. 3, Article 11.

DOI: <https://doi.org/10.7771/2380-176X.3904>

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A Little Less than Euro-Phoric: Understanding the British Response to the Euro

by **Suzanne Wilson Higgins** (Marketing Director, Blackwell's Information Services, Hythe Bridge Street, Oxford OX1 2ET, England) <suzanne.wilson-higgins@blackwell.co.uk>

Introduction

In the warm Italian spring sunshine, descending on foot from Casalini Libri to the **Pensione Bencista**, it seemed the most natural thing in the world to accept **Beau Case's** invitation to write an article on the euro from the perspective of a vendor based in the UK—in the European Union (EU) but outside the eurozone. As a member of **Blackwell's Information Services Euro Steering Group**, I have been following the euro debate, UK government policy, and the progress of the eurozone for some time with interest. However, seated in front of my laptop with a variety of euro resources downloaded in PDF and HTML files from various Web sites (see in particular <http://www.europa.eu.int/euro.com> and <http://www.euro.gov.uk>) the magnitude and complex-

ity of this subject has hit me. The advent of the euro is a momentous occasion in European and global history—and will ultimately have a profound effect on business transactions not only within Europe but also on business transactions with any nation that trades with European businesses around the world.

I am drawn to a comparable era in US history around the turn of the 18th to 19th centuries. The federalist versus anti-federalist debate was raging. The formation of a national bank and the advent of a single US currency was being advocated by the ardent federalist and first Secretary to the US Treasury, **Alexander Hamilton** (see <http://odur.let.rug.nl/~usa/B/hamilton/hamilxx.htm>). Today most economists and commentators agree that the dawn of European Monetary Union (EMU) is likely

to have an unprecedented effect upon global currency transactions in the next millennium, and the transparency that a single European currency offers should in time reduce costs and prices in Europe.

Others are reporting in this journal issue on the impact of the euro on vendors and transactions within the eurozone. My task in this article is threefold: (1) to explain the UK government's position on "opting out;" (2) to comment on the impact on UK based vendors; (3) and to summarise Blackwell's policies with respect to the euro.

Of the 15 countries in the EU, there are four countries which have chosen to opt out from third stage monetary union—namely the UK, Sweden, Denmark and Greece. In particular

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the UK and Sweden have decided to opt out of the ERM2 mechanism (i.e. we have opted-out of accepting the euro as our ultimate base currency on the same timetable as the 11 eurozone countries). However, UK businesses trading with suppliers and customers throughout the EU have already implemented plans for making and receiving payments in euro and euro-linked national currencies, as we do with any other foreign currency.

The UK government's position on opting-out

The reasons for the UK's decision to opt out are a mixture of political reality, economic conservatism, and emotional bond to the steadfastness of sterling. It is important to understand what the UK government policy is towards the euro and the likely chain of events that will take place in the near future. The publication *Euro Outline Changeover Plan* issued by the UK government makes this clear:

"The October 1997 statement acknowledged that to share a common monetary policy with other states does represent a major pooling of economic sovereignty. It also stated that if the economic benefits are clear and unambiguous, there is no constitutional bar to British membership of EMU. Because of the magnitude of the decision, Government believes—as a matter of principle—that whenever the decision to enter is taken by Government, it should be put to a referendum of the British people. Government, Parliament and the people must all agree."¹

Democracy is alive and well in the UK. A referendum has been promised to the electorate, which is much like a proposition led ballot initiative in the US. It requires all voters to have a basic understanding of the issue and how the consequences of this decision will effect them. The government and various interest groups are therefore in the throws of "educating" the voting public on this issue and a vigorous debate is taking place in preparation for a referendum that is likely to take place in 2000 or 2001.

UK criteria and timetable for euro participation

In the meantime, the UK Government has set out five economic tests that will have to be met before any decision to join can be taken. These are: (1) whether the UK economy has achieved sustainable convergence with the economies of the single currency; (2) whether there is sufficient flexibility in the UK economy to adapt to change and other unexpected economic events; (3) whether joining the single currency would create better conditions for businesses to make long-term decisions to invest in the UK; (4) the impact membership would have

on the UK financial services industry; and (5) ultimately whether joining the single currency would be good for employment.²

These are clearly issues of importance to the UK national interest and politically provide the UK government with five potential reasons for postponing the referendum. However, the government published a possible timetable for changeover—declaring that once the decision is made a rapid implementation plan would kick-in, taking 40 months from decision to withdrawal of sterling. The key stages in the changeover would be: (1) a UK Government decision to join the single currency; (2) a referendum; (3) joining (when sterling would be irrevocably fixed against the euro); (4) the introduction of euro notes and coins; (5) the end of the changeover when sterling would be withdrawn.³

How the changeover in the UK would be different

There are important ways in which we would expect the UK's experience of changeover to differ from that of the participating member states. (1) The obvious, and probably most important

point, is that the euro already exists. This means that (2) for many UK businesses the euro is already a business reality. They have to adapt systems and refine strategies to deal with it. (3) The City would already be dealing in euro. (4) The public sector is already offering facilities in euro. (5) The UK will be able to learn from the best solutions adopted abroad. There will be a wealth of IT experience of euro conversion and real experience of the growth of euro use during the changeover.⁴

The most important point for me is that the euro is already a business reality—systems and strategies are already changing in response to that fact. UK businesses are making pragmatic responses to the introduction of the euro.

The impact of current policy on UK-based vendors

Having covered the UK government policy position above, it is important to look at the real implications for businesses located in the UK. The government documentation has gone into some detail with case studies of specific types of companies focusing on the financial services sector, retailers, multinational companies and subsidiaries, and business services.

Businesses do not like uncertainty—particularly those that involve introducing unplanned costs in response to government regulations and policy changes. The introduction of the euro and the fact that the UK is not implementing conversion to the euro has been a matter of some debate in business circles. It has become an issue to which businesses have responded as appropriate to their competitive positioning in the market and their international trading position. Support from the UK government has taken the form of planning and preparation advice for different business sectors as well as proactive implementation of public sector acceptance of the euro currency for taxation, financial reporting, public sector tendering, etc. The Euro National Changeover Plan focuses on preparation and management:

Preparation for 1999: helping businesses using the euro: The government's policy is that the public sector should not act as a barrier to UK firms that use the euro. All departments will extend facilities currently offered in the currencies of participating countries to the euro. In addition a number of key steps are being taken:

Payment of taxes: From 1 January 1999, businesses were able to: pay all taxes, including National Insurance Contributions, which are made payable to the Inland Revenue, in euro; pay value added taxes in euro; and submit invoices issued in euro for imported goods, in support of customs declarations. Customs & Excise have over 10,000 local tax officers ready to advise businesses on how to pay tax in euro and related issues. In addition to the

above, the Inland Revenue have made a number of technical changes to the tax system required to cope with the introduction of the euro. These changes were the subject of consultation last year. Both departments have produced information about any changes made and services offered. These may be obtained by contacting your local HM Customs & Excise Business Advice Centre or visiting their Website at <http://www.hmce.gov.uk>.

File accounts in euro: Beginning January 1, 1999, companies were able to prepare and file their accounts in euro.

Other statistical returns: The Government Statistical Service was in a position to accept key statistical returns in euro.⁵

With the door open to companies allowing them to trade in euro as appropriate to their business requirements, we have seen more and more surveys trying to monitor exactly what is going on—particularly with

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respect to pricing, invoicing, paying and accounting in euro. Here are results of three such surveys conducted earlier this year:

Financial Times survey of the 50 biggest exporters from the UK found that some companies will be encouraging their suppliers in the UK to use euro. These include, British Petroleum, Rover Group, and Siemens. Other companies will be able to handle euro transactions, and will review their policy towards suppliers in the light of commercial developments.

Central Office of Information survey of small and medium sized enterprises asked companies with trading links with the EU about their plans for using the euro. Their responses were: 37% invoicing clients in euro, 27% accounting in euro, 40%

quoting or estimating in euro, 41% pricing goods or services in euro, 28% asking suppliers to invoice in euro, and 25% paying business taxes in euro.

The British Retail Consortium survey indicated that 44% of larger retailers are planning to pay either some or all of their suppliers in the euro zone in euro from this year.⁶

These results suggest that a significant number of UK businesses are implementing systems and strategies incorporating use of the euro to effectively trade despite the government opt-out policy at present.

Blackwell's Euro Policy

Blackwell's would fall into a couple of industry categories as defined by the UK government documentation on the euro. First as a domestic UK retailer of books, and second, as a multinational business engaged in supplying services and materials to institutions globally. I am writing this article for the (primarily North American) readers of *Against the Grain*, and will therefore focus on the multinational businesses providing subscription services and book services—namely **Blackwell's Information Services** and **Blackwell's Book Services**.

Blackwell's has several US subsidiaries located in New York, New Jersey, and Oregon who trade in and financially report their transactions in US dollars—this will continue to be the case. Our UK company will manage—as has always been the case—the full range of global currency transactions, including the euro.

Blackwell Limited is a UK-registered parent company, and our accounts will continue to be produced and submitted in UK pounds sterling for the foreseeable future—i.e. unless there is a change in government policy which might require a different approach. However, our operational systems are able to make pay-

ments to publishers, issue quotations, invoice customers, and accept payments either in euro or in the associated local currency of choice. Suppliers or customers in the eurozone will be able to receive business transactional information in either currency or in both currencies (which have a fixed exchange rate relationship). We currently do not intend to quote euro prices to customers outside eurozone, but will respond to this request if required.

Blackwell's trading partners are adopting a variety of approaches to the euro and pricing. Blackwell's services are closely linked with the pricing policies set by trading part-

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ners—so this is an important consideration.

Journals publishers who financially report within eurozone are typically quoting subscription year 2000 prices both in euro and their respective local currency (which is a fixed exchange rate). Some European book publishers have already started dual pricing in 1999. Most are planning year 2000 price lists and catalogues in dual currencies. A few publishers have gone straight to euro only pricing—for example Dox for subscription year 2000 but this is the exception. Publishers such as Elsevier have published their intention to introduce euro pricing in parallel with Dutch guildler pricing for subscription year 2000, and plan to switch to euro only pricing for subscription year 2001. This will not effect the US dollar price or the potential introduction of other currency prices such as the Japanese yen.


Publishers who financially report outside of eurozone are typically continuing with their domestic preferred currency only. Blackwell's

would expect multinational publishers to move into trading in euro when European multinational and subsidiaries in other industries make the switch.

It is likely that the demand for euro billing and settlement will gradually increase in the period up to "E-Day" in January 2002 when euro cash is in circulation and the other eurozone currencies are withdrawn.

In conclusion

The UK government is preparing for the euro decision, and UK businesses are implementing euro system changes and new business strategies as appropriate to their business needs. Blackwell's, like other UK based vendors, is monitoring pricing policies and activities in the information industry. We are all responding to our customers' expectations as some move towards euro billing and settlement. The focus for the UK has been to prepare for change and to address some of the difficult issues through the democratic process—which for us includes frank and open debate in the press.

While euro-phoria has not gripped the UK, a slow and steady, pragmatic response to the introduction of the euro has been quietly taking place. 

NB: *Suzanne joined Blackwell's in 1995 to work on electronic publishing projects, and later assumed responsibility as Director for Marketing and Product Development. She is now Director for Marketing, Electronic Services and Publisher Relations. Prior to joining Blackwell's, Suzanne was Director of Reed Interactive, part of Reed International Books Limited, a Reed Elsevier company. Having completed an MBA in 1986, she entered the international publishing world, commissioning business publications for Heinemann and later initiating electronic journal development for Butterworth-Heinemann. Suzanne also holds degrees in music history and marketing.— BC*

Endnotes

1 Made by the UK Chancellor of the Exchequer—an elected Member of Parliament appointed by our Prime Minister as a Cabinet member to define and implement fiscal policy.

2 Extract from the *Euro Outline National Changeover Plan*, H M Treasury, p. 4.

3 Ibid.

4 Ibid., p. 5.

5 Ibid., p. 14.

6 Extract from *Getting Ready for the Euro*, second report February 1999, H M Treasury, p. 21.

7 Ibid., p. 9.

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Conversion between Sterling and the Euro, HM Treasury UK Government paper 1997.

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Resources

Practical Issues Arising from the Introduction of the Euro, quarterly publication by the Bank of England, Public Enquiries Group, Bank of England, Threadneedle Street, London EC2R 8AH, tel 0171 601 4012, fax 0171 601 5460, <http://www.bankofengland.co.uk/euro.htm>.

Euro Retail (1998), available from Pia Kystol Sorensen, British Retail Consortium, 5 Grafton Street, London W1X 3LB, tel 0171 647 1500, fax 0171 647 1599, <info@brc.org.uk>.

Euro preparation guide for retailers, the Association for Monetary Union in Europe, 26 Rue de la Pepiniere, 75008 Paris, fax +33 1 45 22 33 77, <info@amue.org>, <http://amue.lf.net>.