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European Commission

INCEPTION IMPACT ASSESSMENT

Inception Impact Assessments aim to inform citizens and stakeholders about the Commission's plans in order to allow them to provide feedback on the intended initiative and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to make available any relevant information that they may have, including on possible impacts of the different options.

TITLE OF THE INITIATIVE	**Uniform rounding rules for cash payments** **(Legislative initiative on uniform rounding rules[1])**
LEAD DG (RESPONSIBLE UNIT)	**DG ECFIN.DDG1.C5 Euro protection and euro cash**
LIKELY TYPE OF INITIATIVE	**Legislative proposal**
INDICATIVE PLANNING	**Q4 2021**
ADDITIONAL INFORMATION	1. Communication on issues related to the continued issuance of the 1 and 2 euro cent coins (COM(2013) 281 final) https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0281:FIN:EN:PDF 2. Report on recent developments as regards euro coins (COM(2018) 787 final/2) https://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-787-F2-EN-MAIN-PART-1.PDF 3. Regulation (EU) No 651/2012 of the European Parliament and of the Council of 4 July 2012 on the issuance of euro coins foresees that the use of different denominations of euro coins and euro banknotes, as currently devised, should be periodically and carefully examined by the competent institutions against the criteria of cost and public acceptability https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0651&from=EN

The Inception Impact Assessment is provided for information purposes only. It does not prejudge the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described by the Inception impact assessment, including its timing, are subject to change.

[1] COM(2020) 440 final: https://ec.europa.eu/info/sites/info/files/cwp-2020-adjusted-annexes_en.pdf

A. Context, Problem definition and Subsidiarity Check

Context

According to Recital 7 of Regulation (EU) No 651/2012 (hereinafter the 'Regulation'), the use of different denominations of euro coins and euro banknotes should be periodically and carefully examined by the competent institutions against the criteria of cost and public acceptability. In particular, the Commission should conduct an impact assessment on the continued issuance of 1- and 2-euro cent coins.

In line with this mandate, the Commission published two contributions on the issuance and circulation of 1- and 2-euro cent coins in 2013[2] and 2018[3]. In its 2013 Communication, the Commission highlighted four possible scenarios in relation to the 1- and 2-euro cent coins, ranging from no change to withdrawing these coins from circulation and introducing rounding rules.[4] The 2018 Report concluded that discontinuing the 1- and 2-euro cent coins would be a possibility to address the disadvantages and challenges identified in the Report[5], identified a need for further analysis of the ramifications of such discontinuation, and formulated two options for discussion:

- Firstly, the possible withdrawal of 1- and 2-euro cent coins from circulation coupled with the swift loss of their legal tender status;
- Secondly, the possible withdrawal of 1- and 2-euro cent coins from circulation through a phasing out combined with the continuation of their legal tender status.

Both options imply the adoption of mandatory rounding rules to the nearest 5-euro cent.

Five euro area Member States already have rounding rules to the nearest 5-euro cents for cash payments: Belgium, Finland, Ireland, Italy and Netherlands. Their experience will be particularly relevant in the impact assessment.

In 2018, in its opinion on the introduction of rounding rules in Belgium, the ECB recommended, "with a view to preserving the unity and integrity of the single monetary area, […] that any rounding rules are established in a harmonised manner at Union, rather than at national level. Accordingly, any mandatory rounding rules on euro coins would appear to call for Union rather than national legislation given that the euro coins are the only legal tender coins in the Members States whose currency is the euro."[6]

Introducing rounding rules to the nearest 5-euro cents for cash payments would lead to the gradual withdrawal of 1- and 2-euro cent coins from circulation as these coins would no longer be needed to make payments.

Against this context, the Commission will update its analysis of the use of 1- and 2-euro cent coins and assess the impact of introducing uniform rounding rules for cash payments in the euro area.

Depending on the outcome of the impact assessment, the Commission will assess the possibility of proposing a legislative initiative on a) uniform rounding rules, and b) possibly accompanied by the discontinuation (stop issuance and withdraw legal tender) of 1- and 2-euro cent coins.

The Commission will take into account in its assessment any relevant studies at European and national level that will become available on the risk of contamination with the SARS-CoV-2 virus and the use of euro coins.

[2] COM(2013) 281 final.
[3] COM(2018) 787 final/2.
[4] In subsequent discussions on the basis of the Commission's report, a majority of Member States were in favour of keeping the 1- and 2-euro cent coins, while examining possible ways of cutting production costs without altering the coins' appearance and parameters. The reduction of production costs has limits. In a context of positive inflation, it generates only temporary effects until production costs exceed face value again and it fails to address the other challenges posed by 1- and 2-euro cent coins: hoarding and loss will continue.
[5] COM(2018) 787 final/2, paragraph 2.8.
[6] CON/2018/41.

Problem the initiative aims to tackle

The reports of 2013 and 2018 identify the following problems:

- 1- and 2-euro cent coins are not circulating efficiently among economic operators, but are mostly hoarded or get lost.
- Retailers (including supermarkets) give them as change to customers but the customers do not recirculate the coins ('one way' use).
- The costs for retailers are high and some reported that purchasing 1-euro cent coins in a roll of 50 units (thus, with a total value of 50-euro cents) can cost up to 1 euro (50 cents additional to the face value of the coins in the roll).
- Continuous issuance of 1- and 2-euro cent coins caused by their high loss rate can have a substantial environmental impact.
- Continued issuance of these coins can have a negative fiscal implication. It is a loss-making activity for a substantial number of euro area Member States because the production, handling and issue costs are higher than the face value.
- Concerns on actual inflation (increase of consumer prices) and perceived inflation should the 1- and 2-euro cent coins be discontinued.
- The costs of withdrawal of 1- and 2-euro cent coins when the legal tender status is withdrawn quickly[7].

In addition, since the elaboration of those reports, a number of additional elements have come to the attention of the Commission, which require further consideration:

- Impact on low-income groups of the population, also considering the diversity in different regions in the euro area of consumption patterns and of purchasing power.
- Impact on revenue for charities, which receive 1- and 2-euro cent coins as part of their revenue, for instance through "fountain coins".
- According to the 2019 Eurobarometer polls, on average 65% of the euro area citizens want to abolish the 1- and 2-euro cent coins (2014: 60%, 2016: 62%).

Basis for EU intervention (legal basis and subsidiarity check)

Legal basis

The introduction of uniform rounding rules would mean that all cash payments would be rounded to 0 or 5-euro cents. Rounding rules would have the effect of gradually withdrawing 1- and 2-euro cent coins from circulation as these coins would not be needed anymore for payments. However, these denominations would continue having legal tender status and as such will have to be accepted by retailers.

Depending on the outcome of the impact assessment, the Commission will assess the possibility of proposing a legislative initiative on a) uniform rounding rules based on Article 133 TFEU in the euro area, and b) possibly accompanied by the discontinuation (stop issuance and withdraw legal tender) of 1- and 2-euro cent coins through a modification of Council Regulation (EU) No 729/2014 which is based on Article 128 (2) TFEU.

Subsidiarity check

The lack of mandatory and uniform provisions for rounding cash payments in euro may result in different practices among Member States and does not achieve a sufficiently integrated framework for

[7] COM(2018) 787 final/2, paragraph 2.8.1.

the single currency. From this perspective, uniform rounding rules could enhance transparency and legal certainty in the euro area.

The efficient euro cash infrastructure in the euro area is hampered, because it leads to accumulation of 1- and 2-euro cent coins stocks on the one hand and a shortage of these denominations on the other hand: in Member States which apply rounding rules stocks accumulate, whereas in Member States which don't apply rounding rules a shortage leads to a continued issuance. In fact, five euro area Member States already introduced rounding rules at national level for cash payments: Belgium, Finland, Ireland, Italy and the Netherlands. Leaving the decision at national level could fragment payment habits and affect the principle, whereby euro cash, including 1- and 2-euro cent coins, are legal tender.

B. Objectives and Policy options

The main objective of the initiative is to assess the efficiency of the use of cash, with a focus on the lowest two denominations, and explore the best way forward.

To achieve the policy objectives, the Commission is considering the following policy options:

1) Baseline scenario: no policy change.
2) A recommendation on:
   a) Introduction of uniform rounding rules.
   b) Introduction of uniform rounding rules supported by discontinuing 1- and 2-euro cent coins.
3) A binding legislative act:
   a) Proposal on introducing uniform rounding rules in the euro area by means of a Regulation.
   b) Proposal on introducing uniform rounding rules in the euro area by means of a Regulation in combination with a modification of Regulation (EU) No 729/2014 of the European Parliament and of the Council of 4 July 2012 on denominations and technical specifications of euro coins intended for circulation with a view to discontinuing the 1- and 2-euro cent coins, including the withdrawal of their legal tender.

C. Preliminary Assessment of Expected Impacts

Likely economic impacts

- On consumers:

  The introduction of uniform rounding rules for cash payments and the discontinuation of 1- and 2-euro cent coins are not expected to significantly affect price stability as:

  - Price transparency, consumer awareness and competition in the retail sector (varying from multi-nationals to SMEs) can be expected to limit the risk to some increase in the general price level[8, 9].
  - Lower costs for cash handling could allow retailers to lower their prices.
  - The experience from Member States that already introduced rounding rules confirms that the practice of rounding cash payments has had no measurable impact on consumer price inflation.

- On businesses:

  The introduction of uniform rounding rules for cash payments and the discontinuation of 1- and 2-euro cent coins could have the following impact:

[8] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52013SC0175&from=da
[9] https://www.bundesbank.de/en/publications/reports/studies/coins-study-710104

- For the cash industry (blank producers, mints, cash-in-transit companies etc.), a loss of business could be expected.
- For retailers and commercial banks the effects might be positive determined by the decrease in costs of cash handling.

- On public finances:

  Moreover, positive fiscal implications are expected as the issuance of these denominations is a loss-making activity for a substantial number of the euro area Member States (production, handling and issue costs are higher than the face value).[10]

Likely social impacts

The introduction of uniform rounding rules for cash payments and the discontinuation of 1- and 2-euro cent coins might have a social impact on certain groups and differ across the EU.

In order to determine the social impact from different perspectives, a consultation will take place in the framework of targeted surveys, the open public consultation and a Eurobarometer survey.

The impact assessment will clarify if there are also specific categories of people who would like to keep the 1- and 2-euro cent coins in circulation, and for which reasons.

Likely environmental impacts

The introduction of uniform rounding rules in the euro area for cash payments and the discontinuation of 1- and 2-euro cent coins are expected to have a positive environmental impact:

- An important annual reduction of steel and copper required for the production of 1- and 2-euro cent coins ready for circulation;
- Environmental savings related to a lower need for transportation of coins required throughout their lifecycle, from production to circulation to end of life;
- Environmental savings of water and chemicals used in the production of coins;
- No residual waste (including wastewater) to be recycled because of discontinuing the production of these coins;
- Environmental savings through less coin packaging (paper, plastic);
- Limited usage of extensive energy and logistics for the separation of the very thin copper layer from steel.

Likely impacts on fundamental rights

There would be no foreseen impact on fundamental rights.

The potential introduction of rounding rules and discontinuation of the 1- and 2-euro cent coins would not have any impact on the possibility to pay in euro cash (coins and banknotes).

Likely impacts on simplification and/or administrative burden

The introduction of uniform rounding rules and discontinuation of the 1- and 2-euro cent coins would practically mean a lower number of euro coin denominations (6 instead of 8).

[10] In general, seigniorage income from issuing one-euro cent coins is negative, given that procurement costs alone already exceed the face value of the coin. Fiscally speaking, issuing this denomination is a loss-making activity for Member States. During the stakeholder consultation in 2017, most euro area countries reported that the procurement cost of two-euro cent coins still lies below their face value.
https://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-787-F2-EN-MAIN-PART-1.PDF

This would lead to a simplified handling of cash.

D. Evidence Base, Data collection and Better Regulation Instruments

Impact assessment

An impact assessment is necessary to support the preparation of a possible legislative proposal on the potential introduction of uniform rounding rules for cash payments in the euro area and a potential discontinuation of 1- and 2-euro cent coins. The estimated target date for completing this process is Q4 2021.

Evidence base and data collection

The planned impact assessment will build on the results of the Commission's contributions from 2013 and 2018 and on extensive consultations.

The Commission aims at an in depth and comprehensive analysis and holistic fact finding in relation to the possibility to introduce uniform rounding rules and to discontinue the issuance of the 1- and 2-euro cent coins.

In that respect, the Commission will thoroughly assess inter alia:

- Production, issuance and processing of 1- and 2- euro cent coins
- Environmental impact
- Impact for retailers, cash handlers and banks
- Consumers interest
- Social inclusion
- Impact on prices

Consultation of citizens and stakeholders

The preparation of the impact assessment will follow all necessary procedural steps in accordance with Better Regulation guidelines.

The Commission will carry out a public consultation, will consult targeted stakeholders via EU Survey, carry out a Eurobarometer survey, and will possibly organise a workshop.

The targeted stakeholders include:

- Euro area and non-euro area Member State authorities being the legal issuer of euro coins
- Euro area National Central Banks
- European Central Bank
- Euro area Mints
- Professional Cash Handlers Associations
- Commercial Banks Associations
- Retailers Associations
- Consumers Associations
- Ministries of environment and environmental experts
- Environmental non-governmental organisations
- Blanks producers
- Non-governmental organisations on social inclusion, charities, budget management
- Ministries competent for social inclusion issues.

Will an Implementation plan be established?

Not applicable.