Frequently asked questions: Cross-border payments

The two amendments proposed today to Regulation 924/2009 on cross-border payments aim to reduce the cost of all intra-EU payments in euro and unify the single payment market for consumers and businesses. Today, cross-border payments in euro from non-euro area Member States can be as high as EUR 20 in some countries while equivalent cross-border payments from euro area Member States are very cheap or even free.

Since taking office, a key priority of the Juncker Commission has been to build a deeper and fairer Single Market, which allows people, services, goods and capital to move freely in an economy with an annual Gross Domestic Product of EUR 15 trillion. These excessive costs described above present an obstacle to the completion of the Single Market. Today's proposal will allow all consumers and businesses to fully reap the benefits of the Single Market when they send money, withdraw cash or pay abroad. In addition, the proposal also aims to bring more transparency and competition to currency conversion services when consumers are buying goods or services in a different currency than their own.

With today's proposal, the Commission is delivering on the first two actions of the Consumer Financial Services Action Plan that was published in March 2017: tackling transparency and fees in cross-border transactions.

CROSS-BORDER TRANSACTIONS FEES

What will change for fees charged for euro payments?

The first amendment related to fees for cross-border payments applies to **cross-border transactions in euro** sent or received within the EU. When payment service users (consumers or businesses) make cross-border transactions in euro (credit transfer, card payment, cash withdrawal) these transactions should be charged the exact same price as an equivalent domestic ones in the official currency used in the Member State from where the transaction is sent or received (i.e. the euro for euro area Member States and respective national currencies for non-euro area Member States). This system is already in place in the euro area and the Commission proposes to extend its benefits to non-euro area countries as well.

Cross-border transactions made in EU currencies other than the euro are not covered by this amendment. However, the Regulation already includes an option for Member States to extend the Regulation to other currencies. This option remains.

What is the situation today and how will it change following the amendments?

Today, a transaction in euro within the euro area, i.e. from France to Portugal, costs exactly the same as an equivalent transaction within one

Member State. Depending on the bank, it costs consumers nothing or a few cents to make cross-border payments. This allows euro area consumers and citizens to make transactions across borders with a large number of citizens and businesses at the same cost as they would within their country.

In contrast, a cross-border transaction from non-euro area Bulgaria to euro-area Finland in euro is currently priced between EUR 15 and 24, even if the person transferring money from Bulgaria only sends EUR 10. This means that consumers and businesses in non-euro area Member States face higher fees for payments as soon as they operate across borders. This is a major barrier to cross-border exchanges and is detrimental to the Single Market. Furthermore, this raises issues of equal treatment of citizens and level-playing field for businesses across the EU. Non-euro area consumers and businesses should not have to pay more than their counterparts in euro area Member States when engaging in similar types of cross-border exchanges within the Single Market.

Thanks to the amendment proposed by the Commission, the price of a cross-border transaction from Bulgaria to Finland is expected to decrease, from between EUR 15 and EUR 24 to about EUR 1.

Why is today's proposal limited to euro payments?

In its impact assessment, the Commission explored and evaluated various options of how to lower costs for cross-border payments to and from non-euro area Member States, including the possibility to extend the existing rules to other currencies. However, the assessment showed that this option was not only too cumbersome, but would also result in few benefits.

Specifically, today's proposal is limited to payments made in euro due to a variety of reasons:

- euro transactions benefit from efficient infrastructures and processes that are available to all banks in the EU, directly or indirectly.
- cross-border transactions in euro represent much bigger volumes than transactions in other currencies of the EU. You can pay, send money or withdraw cash in 19 Member States in euro. Transactions in other Union currencies are often effected in one Member State only.
- euro transactions are the same everywhere based on the SEPA (Single Euro Payment Area) standard, e.g. SEPA Credit Transfers, SEPA Direct Debits or SEPA Credit Transfer Instant.
- many banks in the EU, including in non-euro area Member States, have ties with the euro as they either are a subsidiary of a bank head-quartered in the euro area or themselves own a subsidiary in a euro area Member States. Most banks in the EU conduct activities in euro. The contrary would not be true for any other EU currency.

Why is today’s proposal necessary if Member States can already extend the current Regulation to other currencies?

Current rules on cross-border payments require the same fees to be applied to cross-border euro transactions as they are applied to domestic euro transactions. While the Regulation already contains the option for countries to decide to apply the same principle to transactions in their own currency, this only impacts cross-border euro transfers indirectly.

For instance, in line with the current Regulation, Sweden decided to align fees of *cross-border* payments in Swedish krona with *domestic* payments in Swedish krona. This decision in turn positively impacted cross-border payments in euro as banks lowered fees for those types of payments as well. However, so far no other Member State has made use of this option, which continues to render cross-border border euro transactions expensive. These unnecessary costs continue to pose a problem to the Single Market.

The amendment proposed today, namely aligning cross-border euro transaction with domestic national currency transactions, is addressing an issue that had not been directly tackled before. This ensures that all EU citizens benefit from cheaper euro payments.

Why did you not propose this earlier?

The Regulation on cross-border payments dates back to 2001 and 2009. At the time, necessary conditions for the amendments we are proposing today were not yet in place. Payments in euro were neither cheap nor efficient and the Single Euro Payments Area would only fully become a reality in euro area Member States in 2014 (October 2016 for non-euro area Member States). Under these conditions, instead of extending the scope of the Regulation, the rules provided the option for Member States to apply existing rules to other currencies.

However, after conducting further impact assessments and a consultation with stakeholders it has become clear that cross-border transactions in euro from non-euro area continue to pose a substantial problem to the Single Market. This is why the Commission is today proposing to amend the existing rules.

Will your proposal put an additional burden on banks?

The new rules only affect cross-border payments in euro for banks situated in non-euro area Member States. These payments already benefit from an efficient infrastructure and are processed without manual intervention.

Furthermore, the proposal will have a limited administrative impact on banks as they will merely have to adapt their products and services fees documentation, which is already done on a regular basis.

Will consumers be charged more when banks recover the losses from lower cross-border payments fees?

This proposal will incentivise payment services providers across the EU to provide cheaper cross-border payments in euro to the benefits of consumers and the EU economy as a whole.

When similar requirements were imposed on banks in euro area Member States in 2001 payment service providers did not increase other fees. On the contrary, fees for all types of payments continued to decrease in euro area Member States. Furthermore, increased fees on other products and services in order to cover potential losses will be subject to national and EU competition rules, to ensure they remain fair and competitively-priced.

DYNAMIC CURRENCY CONVERSION

What is dynamic currency conversion and how will today's proposal change consumers' lives?

When consumers make card payments while travelling abroad or when paying online, they can often choose whether to pay in local currency or their home currency. When choosing the local currency their bank will convert the amount of the transaction and consumers only know a few days later, when looking at their bank statement, how much the transaction really cost. If consumers decide to pay in their home currency, a payment service provider converts the amount of the transaction on the spot in exchange for a fee. This process is called dynamic currency conversion (DCC). While DCC allows consumers to know immediately how much they have to pay, the use of this service is often more expensive than their bank's.

Today's proposal increases the transparency in this process so that consumers are aware of the costs of currency conversion services applied to cross-border payments in the EU beforehand. The amendment will apply irrespective of whether those payments are denominated in euro or in a currency of a Member State other than the euro.

Specifically, payment service providers will have to disclose the full costs charged to consumers. When consumers are offered more than one option for currency conversion – for instance from their banks' services and dynamic currency conversion services – they will then be able to compare offers and choose the most favourable one. Considering the technical dimension of this provision, the Commission has asked the European Banking Authority (EBA) to define Regulatory Technical Standards (RTS) on this issue.

Why does the proposal provide for a three-year transition period? How will consumers be protected?

The transition period is based on discussions with service providers. Making currency conversion more transparent entails various technical developments, such as updates of software and in some cases hardware changes (e.g. at the Point of Sales terminal). This transition period will allow enough time for the EBA to develop the Regulatory Technical Standards needed and for the market to adapt to these changes.

In the meantime, the EBA will define a transitional cap on currency conversion fees. This cap will protect consumers from being charged fees for currency conversion that are not in line with the service offered. It is too early to speculate on the exact amount of this cap as the EBA will first consult the market and carry out an impact assessment.

Why is the Commission not simply banning Dynamic Currency Conversion, if it is so costly?

Prohibiting an activity that could prove useful for consumers under certain circumstances would be disproportionate. Instead, the Commission's proposal will make it possible for consumers compare offers and take an informed decision. This increase in transparency will ultimately boost competition among payment service providers. If the fees for dynamic currency conversion become more competitive, banks may also provide better rates for their currency conversion services. This might eventually lower costs for consumers.

Action Plan on military mobility: EU takes steps towards a Defence Union

Facilitating the movement of military troops and assets is essential for the security of European citizens, and to build a more effective, responsive and joined-up Union, as identified in the Joint Communication on improving military mobility in the EU from November 2017 and called for in the EU Global Strategy for Foreign and Security Policy. Today's Action Plan identifies a series of operational measures to tackle physical, procedural or regulatory barriers which hamper military mobility. Working closely with the EU Member States and all relevant actors will be key for the implementation of this Action Plan.

High Representative of the Union for Foreign Affairs and Security Policy and Vice-President Federica **Mogherini** said: *"Promoting peace and guaranteeing the security of our citizens are our first priorities as European Union. By facilitating military mobility within the EU, we can be more effective in preventing crises, more efficient in deploying our missions, and quicker in reacting when challenges arise. It will be another step in deepening our cooperation at EU level, also in the framework of the Permanent Structured Cooperation we have formally launched recently, and with our partners, starting with NATO. For us, as EU, cooperation remains the only way to be effective in today's world."*

Commissioner for Transport Violeta **Bulc** said: *"Our objective is to make better use of our transport network, to ensure that military needs are accounted for when planning infrastructure projects. This means a more efficient use of public money and a better equipped transport network, ensuring a quick and seamless mobility across the continent. This is a matter of collective security."*

Today’s Action Plan builds on the Roadmap on Military Mobility developed in the framework of the European Defence Agency. Concrete actions are proposed in the following areas:

- **Military requirements**: This is the starting point for an effective and coordinated approach to military mobility across the EU. The European External Action Service (EEAS) and the EU Military Staff will develop military requirements, which reflect the needs of the EU and its Member States, including the infrastructure needed for military mobility. The Council is invited to consider and validate those military requirements by mid-2018.
- **Transport infrastructure**: Infrastructure policy and investments offer opportunities for more synergies between civilian and military needs. By 2019, the Commission will identify the parts of the trans-European transport network suitable for military transport, including necessary upgrades of existing infrastructure (e.g. the height or the weight capacity of bridges). A priority list of projects will be drawn up. The Commission will take into account possible additional financial support for these projects in the next multiannual financial framework.
- **Regulatory and procedural issues**: The Commission will look at options to streamline and simplify customs formalities for military operations and assess the need to align rules for the transport of dangerous goods in the military domain. In parallel, the European Defence Agency will support Member States in developing arrangements on cross-border movement permissions.

The Commission, the European External Action Service and the European Defence Agency will work in close coordination with the Member States for the effective implementation of these actions. They will be carried out in full respect of the sovereignty of Member States over their national territory and national decision-making processes. Coordination with efforts under the Permanent Structured Cooperation (PESCO) and the separate PESCO project on military mobility will equally be ensured. Cooperation and consultation with NATO on issues of military mobility will be further pursued in the framework of the implementation of the Joint Declaration to ensure coherence and synergies.

Next steps

The Action Plan is submitted to the EU Member States for consideration and endorsement. The first actions are expected to be carried out in the coming months.

A first progress report on the implementation of this Action Plan will be presented to the Member States by summer 2019.

Background

In his State of the Union Address of 2017, President Juncker stressed the imperative of creating a fully-fledged European Defence Union by 2025.

The EU is already taking necessary steps to enhancing the EU preparedness and crisis response, which requires a smooth, efficient and effective movement of military personnel and assets across the EU and beyond.This Action Plan builds on the [Communication on Improving Military Mobility in the European Union that was adopted on 10 November 2017].

Improving military mobility also became part of the [PESCO commitments], as established in December 2017, and at the project level – with a separate [PESCO project]. It is also a major deliverable under the EU-NATO Joint Declaration.

For more information

[Action Plan for Military Mobility]

[Factsheet: Military Mobility]

[Factsheet: Permanent Structured Cooperation]

[Joint EU – NATO Declaration]

Local leaders support the European Defence Fund

The European Committee of the Regions has adopted an opinion on the ' Proposal for a European Defence Fund ' lead by Rapporteur Dainis Turlais (LV/ALDE), member of the Riga City Council. The diversification of security threats – from armed conflicts to terrorism, illegal immigration and cyber-attacks- is forcing Europe to increase cross-border cooperation on defence. The new fund is to contribute to EU's strategic autonomy and maximise the market potential of the defence industry. The lack of cooperation between Member States in the field of security and defence is estimated to cost between €25 billion and €100 billion annually (European Parliament, 2003). Adopted Friday 23 March, the opinion feeds into the ongoing inter-institutional negotiation, to continue next April with a final agreement foreseen in early May 2018.

The EU's assembly of local and regional leaders has given its support to the **European Defence Fund** (EDF), a new instrument launched by the European Commission in June 2017 to enhance Europe's strategic autonomy and the innovation capacity of the defence industry. The EDF will focus on cross-border cooperation projects. It comprises an Industrial Development Programme and a new co-financing system with Member States to incentivise further cooperation on defence products and technologies.

"This is about Europe being a united global player and a strong security and defence actor. The US spends 3.3% of its GDP on defence while we only reach

1.3%. If we want peace we need to be strong. There are no Member States smaller or weaker than others. There is just one EU, united, strong and powerful. The European Defence Fund must succeed and support Member States, regions and entrepreneurs in achieving this goal", said Rapporteur Dainis Turlais (LV/ALDE).

Local leaders consider essential that the new fund gives specific support to SMEs, in particular those developing dual-use technologies – for both civil and military use – as they are an outstanding opportunity for jobs and growth. This reinforces the need for the EDF to give specific support to strategic domains, from robotics, to space technologies, including navigation systems and high performing computing.

Cities and regions request that the EDF work programme allocates 20% of the overall budget to cross-border participation of SMEs. Members defend that consortia with a larger number of participating SMEs are given priority. Equally, award criteria should include additional points for consortia in which several undertakings and Member States are involved.

The Assembly of local and regional representatives requests to carefully examine whether contractors really come from the EU. The main contractors and sub-contractors must be EU-based and undertakings must be at least half-owned by EU Member States or natural or legal persons, and must be effectively controlled by European capital. The management and actual control of these companies must be locatable in the European Union, recalls the CoR.

The Fund includes two strands: research and development-acquisition. Members have requested the European Commission that the €500 million foreseen for 2019-2020 within the defence and industrial development strand are exclusively drawn from unallocated margins in order not to penalise already budgeted programmes.

In line with the **#CohesionAlliance** , the fund "must not reduce allocations for cohesion policy in any way", Members insist.

On EDF's research branch, EUR90 million are foreseen until the end of 2019 with EUR25 million having already been allocated in 2017 for projects in the areas of naval environment and soldiers systems.

To ensure sufficient transparency in the management of the EDF, which may be operated by the European Defence Agency, the CoR requests the European Commission to take example of the functioning of EU executive agencies, which are responsible to the European Parliament and not to the European Council exclusively.

The opinion of the European Committee of the Regions feeds into the ongoing inter-institutional negotiation which will continue next April with a final agreement to be reached early May 2018.

Background:

The lack of cooperation between Member States in the field of defence and security is estimated to cost annually between €25 billion and €100 billion

(EPRS, European Parliament, 2013). 80% of procurement and more than 90% of Research and Technology are run on a national basis (European Defence Agency, 2014). Up to 30% of annual defence expenditures could be saved through pooling of procurement (Munich Security Report, 2017).

In November 2016, the Commission adopted the European Defence Action Plan, which sets out measures to achieve greater European defence cooperation and support the competitiveness of the European defence industry.

A core proposal of the European Defence Action Plan is the establishment of a European Defence Fund to support investment in joint research and the joint development of defence equipment and technologies.

The European Defence Fund has two strands:

- **Research** : The research aspect of the Fund is already delivering. Starting in 2017, the EU will for the first time offer grants for collaborative research in innovative defence technologies and products, fully and directly funded from the EU budget. Projects eligible for EU funding will focus on priority areas previously agreed by Member States, and could typically include electronics, metamaterials, encrypted software or robotics. This will be financed with:

€90 million until the end of 2019, with €25 million allocated for 2017. A call for proposals is being launched today for projects in the areas of unmanned systems in a naval environment and soldiers systems. The signature of the first grant agreements is expected by the end of this year.

€500 million per year after 2020. In 2018, the Commission will propose a dedicated EU defence research programme with an estimated annual budget of €500 million making the EU one of the biggest defence research investors in Europe.

- **Development and acquisition** : The Fund will create incentives for Member States to cooperate on joint development and the acquisition of defence equipment and technology through co-financing from the EU budget and practical support from the Commission. Member States may for example jointly invest in developing drone technology or satellite communication, or bulk buy helicopters to reduce costs. Only collaborative projects will be eligible, and a proportion of the overall budget will be earmarked for projects involving cross-border participation of SMEs. The EU will offer co-financing with:

€500 million in total for 2019 and 2020, under a dedicated defence and industrial development programme proposed today.

€1 billion per year after 2020. A more substantial programme will be prepared for post-2020, with an estimated annual budget of €1 billion. The programme will leverage national financing with an expected multiplying effect of 5. It could therefore generate a total investment in defence capability development of €5 billion per year after 2020. (Source: EC).

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PM must back Lib Dem NHS funding scheme

Although it is a step in the right direction for Theresa May to take a long-term approach to funding the NHS, it is not clear whether the government will commit to new revenue streams to fund the health service.

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