

THE IMPACT ON THE BANK NOTE INDUSTRY

The Bank of Canada is responsible for the issue of paper currency. Its Department of Banking Operations manages the distribution of notes through its nine agencies across the country; it regulates the level of inventories; and it negotiates arrangements for the production of notes. Two companies in the Ottawa region, the British American Bank Note Inc. and the Canadian Bank Note Company Limited, share equally the annual volume of notes ordered by the Bank of Canada. This system serves all interested parties well.

The impact on the bank note industry of issuing a circulating dollar coin depends very much on the implementation framework recommended. In any event, the Committee recognizes that some adjustments within the industry will be necessary to accommodate changes caused by the introduction of the new dollar.

The one dollar bill has currently the highest volume of circulation. Since this denomination has also the shortest life span, the annual requirement for one dollar notes is by far the largest in volume. According to representatives of the bank note industry the one dollar bill represents approximately 30% of the volume of bank note business. The loss of that particular business will not only be costly for both companies and their employees, but, it has been argued, may well be a costly decision for the Government.

First, productivity improvements may be slowed down. The present series of bank notes are of excellent quality. New production devices and technology have permitted a 20% cost reduction in the past few years. Other initiatives are underway to expand the life expectancy of notes so as to achieve a better quality product. Abandoning one dollar note production will likely delay these improvements.

Secondly, if the volume of notes printed annually is significantly reduced, as it would be in the event that one dollar bills are withdrawn, the unit costs of the remaining denominations will certainly increase. At present there is a price premium for the printing of small quantities in order to reflect the fixed costs involved. Such a premium price could become the new price basis after loss of the one dollar note business volume.