

## The 2004-2012 Method: An assessment

### *How our purchasing power has been eroded*

During the eight and a half years period for which the Method for adjusting salaries and pensions (hereinafter : 'the Method') was to be in force according to the 2004 Staff Regulations, there was a significant loss of purchasing power, mainly for staff in active employment.

This loss results partly from the normal application of the rules and partly from the suspension by the Council of the functioning of the Method.

The evolution of our remuneration is determined by the combination of three mechanisms:

1. Our Method rests on the principle of parallel evolution with the purchasing power of national civil servants. For the latter, the 2004 Method used a sample of 8 Member States (BE, DE, ES, FR, IT, LU, NL and UK).

However, this parallel evolution is affected by two other elements, also laid down in the Staff Regulations.

2. On the one hand, a 'special levy', designed to balance 'the advantages for officials of a multi-annual pay adjustment system', has been applied on a basis of calculation which spared pensions and lower salaries. The rate started at 2.50% (in 2004), reaching an upper limit of 5.50% (in 2011).
3. On the other hand, the rate of contribution to our pension scheme has undergone a significant increase during the examined period, from 9.25% (in 2004) to 11.60 % (in 2010).

These three mechanisms functioned normally until 2008, leading, by their combined effect, to a - 3.9% average loss in purchasing power for staff in active employment.

### **Derailing the Method**

In 2009, when the application of the Method should have resulted in a +3.7 % adjustment, the Council refused to apply it. The legal action taken by the Commission against the Council resulted in a judgment of the Court of Justice (Case C-40/10), which restored the full applicability of the Method. Our cumulative loss of purchasing power was thereby reduced to 1.7%.

In 2011 the Council refused, once again, to apply the Method, but this time it had prepared its blow better. The same scenario was repeated in 2012. This time, in the legal action for 2011, the Court of Justice ruled against us. In its judgment in case C-63/12, the Court held that a statement by the Council finding 'a serious and sudden deterioration in the economic and social situation within the Union' was enough to trigger the exception clause (and discard the application of the Method). It was inferred that the same principle was applicable for the 2012 adjustment.

As a result, after the 2004 Method had reached its expiry, the co-legislators (Parliament and Council), acting on a Commission proposal, gave the final blow to our purchasing power (which would have resulted from the normal application of the Method) by deciding an adjustment of 0.0% for 2011 and +0.8 % for 2012 (see the article by Ludwig Schubert in this Agora issue).

On 31 December 2012, the 2004 Method expired. After its natural death (or rather given its natural death), it was solemnly sentenced to death by the Court of Justice in its judgment of 19 November 2013 (Case C-63/12).

And a detail: In 2011 too, the Council refused to adjust our contribution to the pension scheme (which was to be reduced from 11.6 % to 11.0 %). This case (C-453/12) is still pending!

**Result: the governments of Member States were not satisfied with the 'normal' erosion of our purchasing power arising from the austerity policies which they themselves impose on their own civil servants, and which are reflected on us through the mechanism of parallelism, but wanted to go beyond that. This is how we slid into a state of emergency.**

### **Why Luxembourg is worse off**

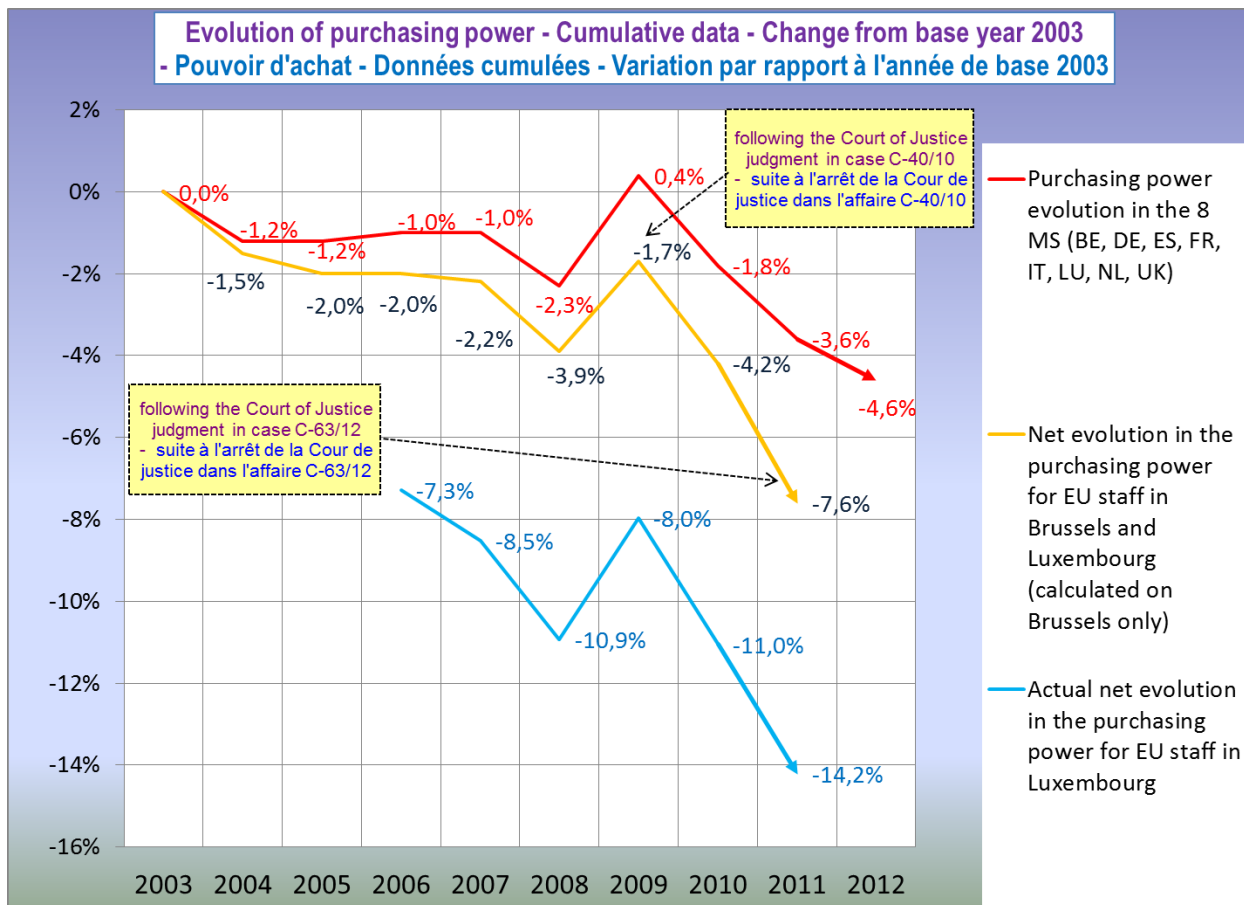
This growing erosion of purchasing power, which, at the time of writing, has not been fully quantified, applies in fact to Brussels. For Luxembourg, second place of employment for the EU Institutions and Agencies, the loss is much more significant.

In Luxembourg, there was at one time a **weighting**, which was lower than that of Belgium. Since 1 October 1970, Luxembourg has been aligned with Belgium. This alignment came as a success for the claims of the trade unions in Luxembourg. The Method adopted by the Council Decision 81/1061 of 15 December 1981 formally and definitively set the weighting for Belgium and Luxembourg at 100%.

The reform of the Staff Regulations (Regulation 723 /2004) was even more drastic, providing that *'no correction coefficient shall be applicable in Belgium and Luxembourg'* (Article 3 (5) of Annex XI of the Staff Regulations).

As if they wanted to convince themselves of the validity of this arbitrary arrangement (expression of a 'political will' , as we used to say ), the co-legislators of the 2014 reform have repeated it, this time in the body of the Staff Regulation, by adding a reasoning :

*'No correction coefficient shall be applicable in Belgium and Luxembourg, having regard to the special referential role of those places of employment as principal and original seats of most of the institutions'* (Article 64, third para., of the Staff Regulations).



This provision, by which the co-legislators intended simply to enhance their rule, far from making up for the arbitrary character of the 'Brussels = Luxembourg' postulate, expressly set out, in the operational part (!) of a Regulation, as a reasoning, the **'political will'** of the Member States, which we knew already anyway, while the weighting's purpose is purely **economic**: restoring equivalence in the purchasing power of staff assigned to different places.

And as the Staff Regulations expressly preclude the existence of a correction coefficient for Luxembourg, the real purchasing power in Luxembourg continues to evolve, despite the statutory dogma, in a reverse direction to the cost of living. Figures coming from sources external to Eurostat show that, compared to Brussels, the cost of living in Luxembourg was higher by 10.2% in 2013.

This anomaly enshrined in the Staff Regulations is a persistent source of unrest and gives rise to some absurd situations, which we will examine on a future occasion.

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