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**REPORT FROM THE COMMISSION TO THE COUNCIL  
AND THE EUROPEAN PARLIAMENT**

**on the system of remuneration**

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## 1. INTRODUCTION

The legal basis for remuneration is laid down in Title V (Articles 62 to 85a and 56 to 56b) of, and Annexes VII and XI to, the Staff Regulations<sup>1</sup> of Officials of the European Communities.

The 1991 method was the result of negotiations<sup>2</sup> between the Council, representatives of the Community institutions and representatives of the staff of those institutions.

The *quid pro quo* for the method has been a reduction<sup>3</sup> in remuneration through the introduction of a temporary contribution and an increase in pension contributions. The method is binding on staff and on the institutions until 30 June 2001 and they must therefore see to it that the agreement is complied with.

In 1996, in response to requests from the Council at the time of the interim review provided for in the method, the Commission reached the conclusion that the method had operated correctly, that there was therefore no justification for amending it, and that amendment would go against the commitments entered into by the parties as part of the 1991 agreement.

In December 1998, in response to requests from the Council during discussions on the annual adjustment of remuneration, the Commission agreed to propose a timetable for the presentation of communications and reports required under the reform process. The timetable presented to Parliament by President Santer in January 1999 provides *inter alia* for the presentation of a report on the system of remuneration by 8 December 1999.

This report therefore analyses the current system of remuneration and the operation of the system of adjustment.<sup>4</sup> It is expected to serve as the basis for drawing up, by mid 2000, of suitable proposals<sup>5</sup> in the perspective of the expiry of the current agreement on the method in July 2001.

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<sup>1</sup> Council Regulation (EEC) No 259/68 adopted pursuant to Article 24 of the Treaty establishing a Single Council and a Single Commission of the European Communities.

<sup>2</sup> Within the Concertation Committee.

<sup>3</sup> Reduction in net remuneration resulting from the crisis levy introduced under the 1981 method.

<sup>4</sup> The Commission has asked an outside consultant to carry out a comparative study of the remuneration of civil servants in the Member States and of employees of international organisations and multinational companies. It is due to be completed at the beginning of the year 2000.

<sup>5</sup> At the Cologne European Council on 3 and 4 June 1999, the European Council recalled that "the method of adjusting remuneration and pensions expires on 30 June 2001. It welcomes the Commission's intention of submitting relevant reform proposals in good time and also at the same time explaining its thinking on the reform of staffing policy".

## 2. BACKGROUND

### 2.1. Basic principles

The legal basis in matters of remuneration is provided by the Staff Regulations<sup>6</sup> of Officials of the European Communities. The system for adjusting remuneration, which is governed by Articles 64 and 65 of those Regulations, is based on the following two principles:

- parallel development of the remuneration of officials of the European institutions and that of civil servants in the Member States;
- purchasing power parity between the remuneration paid in the various places of employment and that paid in Brussels (Article 24 of the Treaty).

The rules for applying these general principles have always been established on the basis of consensus so as to prevent conflict.

### 2.2. The history of the method for adjusting remuneration

Since 1971, regular negotiations have led to agreements establishing the rules for applying Articles 64 and 65 of the Staff Regulations.

For many years, the Council has rigorously applied the principle of the adjustment of remuneration in parallel with that in the national civil services through methods laid down in the rules and binding on staff and the institutions.

This procedure, based on detailed and binding methods and enshrined in rules, has avoided annual negotiations and the risk of conflict.

The Council's decisions have, via the following agreements, combined a negotiated and a procedural approach:

- **the 1972 and 1976 Agreements**, which confirmed the parallel adjustment of remuneration as a basic principle;<sup>7</sup>
- **the Concertation Committee**:<sup>8</sup> the Council established the concertation procedure in 1981;
- **the 1981 method**: this was adopted for ten years and coincided with the introduction of a **crisis levy**;<sup>9</sup>

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<sup>6</sup> In particular Title V and Annexes VII and XI.

<sup>7</sup> The 1976 method: "I. Basic principle - The Council considers that the system of adjusting remuneration forms part of a policy aiming to guarantee, in the medium term, that the remuneration paid to European officials moves parallel to average salaries paid in the Member States to the various grades of national civil servants".

<sup>8</sup> The Council, representatives of the Community institutions and representatives of the staff of those institutions.

<sup>9</sup> The 1981 method and the crisis levy came to an end in June 1991.

- **the 1991 method agreement:** the Council adopted **the 1991 method** (Annex XI to the Staff Regulations) for ten years and, at the same time, introduced a **temporary contribution** and increased **pension contributions**.

### 2.3. The 1991 method agreement

The Commission presented a proposal in October 1990. An in-depth technical examination was made of the proposal<sup>10</sup> during the first half of 1991 which was detailed in the report to the Permanent Representatives Committee dated 29 April 1991.<sup>11</sup>

The matter was examined by the Permanent Representatives Committee and by the Council (15 meetings of the Committee, three meetings of the Council (general affairs) and one European Council) and was the subject of various meetings between the Presidency, the Commission and staff representatives. The negotiations resulted in eight days of strikes and other action. The compromise reached in the Concertation Committee was put to the staff in referendums in October 1991.

The Council approved the compromise agreement in November and confirmed its approval by adopting Regulations based on the agreement on 19 December 1991.

The note transmitted by the Permanent Representatives Committee<sup>12</sup> to the Council prior to its decision on 4 November 1991, subsequently confirmed by the Court's case-law, describes the compromise negotiated with the Council and approved by the Council in December 1991 as a "comprehensive solution" which:

- (a) introduces a procedure for adjusting remuneration.<sup>13</sup> It is binding on all parties and is valid for ten years, from 1 July 1991 to 30 June 2001;
- (b) reduces the level of remuneration through two additional components, i.e.:
  - a temporary contribution<sup>14</sup> applicable, from 1 January 1992 to 30 June 2001, at a gross rate of 5.83%<sup>15</sup> on that part of the remuneration exceeding the minimum remuneration;

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<sup>10</sup> Three meetings of an *ad hoc* working party, with a report to the Permanent Representatives Committee on 8 February 1991, and five meetings of the Working Party on the Staff Regulations.

<sup>11</sup> Doc. 5926/91, STAT11, FIN124.

<sup>12</sup> Doc. 9012/91, STAT37, FIN372.

<sup>13</sup> Annex XI to the Staff Regulations.

<sup>14</sup> Article 66a of the Staff Regulations.

<sup>15</sup> The temporary contribution entails an average reduction of about 2.9% in net remuneration for an unmarried non-expatriate official.

- an increase in the staff contributions to the pension scheme from 6.75% to 8.25% of basic salary from 1 January 1993.

#### **2.4. Report on the 1996 mid-term review**

Annex XI provides for a review in 1996, at the end of the fifth year of application, with the possibility of revision on the basis of a proposal from the Commission. The purpose of the objective review was to verify that the principle of parallel development had been correctly applied.

The 1996 mid-term report showed that, over the period 1991 to 1995, the purchasing power of Community officials had fallen in line with that of national civil servants (-3.1%), that the temporary contribution and the increase in pension contributions had further reduced the purchasing power of officials (-4.2 %) and that conflict had been avoided.

In the light of those conclusions and in response to concerns expressed by the delegations, the Council asked the Commission to carry out any necessary studies in several fields<sup>16</sup> (statistical methods, Annex VII to the Staff Regulations, pensions, exception clause<sup>17</sup>) and to send it any appropriate proposals as soon as possible, in particular concerning certain allowances provided for in Annex VII to the Staff Regulations.

In reply, the Commission said that amending the method in any way, when it had achieved its objectives, would have affected both the substance of the final compromise resulting from the 1991 negotiations and the commitments entered into by the parties to it, and that there was therefore no justification for any proposal to amend any of the components of the compromise.

#### **2.5. Other reports relating to the method**

In response to requests from the Council, the Commission presented the following reports:

##### **2.5.1. Report on the exception clause<sup>18</sup>**

In its report SEC (94)1027, sent to the Council on 27 June 1994, the Commission took the view that there was no reason to apply the exception clause because the economic situation had already affected the remuneration of national civil servants and, through the application of the method, had therefore

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<sup>16</sup> Listed on page 3 of document 10815/96 STAT 41 FIN 476.

<sup>17</sup> Article 10 of Annex XI.

<sup>18</sup> Article 10 of Annex XI to the Staff Regulations stipulates that "If there is a serious and sudden deterioration in the economic and social situation within the Community, assessed in the light of objective data supplied for this purpose by the Commission, the Commission shall submit appropriate proposals on which the Council shall act by qualified majority after consulting the other institutions concerned in accordance with the procedure laid down in the second subparagraph of Article 24(1) of the Treaty establishing a Single Council and a Single Commission of the European Communities".

automatically affected the remuneration of officials of the Community institutions.

#### 2.5.2. *Reports on recruitment requirements*<sup>19</sup>

The third report, SEC 99/754 dated 7 June 1999, was sent to the Council and Parliament on 9 June 1999.

The period covered by the report (1995-97) was characterised mainly by the enlargement exercises in Austria, Finland and Sweden. Leaving aside the enlargement competitions, recruitment was reasonably well balanced geographically, although the host countries were heavily represented. Difficulties remain as regards attracting applicants from certain Member States.

#### 2.5.3. *Reports on statistical methods*

The statistical methods were examined in 1994. In 1997, on the basis of that examination, Eurostat presented three reports, on housing parities, consumption patterns and price surveys. In 1998 Eurostat presented a report on statistical methods to the Working Parties on Article 64 and Article 65 of the Staff Regulations.

At the request of the Working Party on the Staff Regulations, the Council's Legal Service issued an opinion, which concluded that *"In adopting annual Regulations adjusting remuneration and weightings, the Council cannot depart from the method laid down in Annex XI to the Staff Regulations for a period of ten years"*.

#### 2.5.4. *Reports on Annex VII*

In 1993, the Commission presented a report<sup>20</sup> to the Council on the provisions of Annex VII to the Staff Regulations and their application. At the Council's request, the figures were updated in 1998.

After completing its work the Working Party on the Staff Regulations presented its conclusions to the Permanent Representatives Committee on 13 June 1999 and proposed:

*"that it repeat the Council's invitation to the Commission to submit any appropriate proposals concerning Annex VII to the Staff Regulations; that, on that occasion, it invite the Commission to take account of the comments and conclusions set out in [the] report; and that it remind the Commission of its*

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<sup>19</sup> Article 2 of Annex XI to the Staff Regulations provides that "The Commission shall produce, before the end of 1992 and every three years thereafter, a comprehensive report on the recruitment requirements of the institutions and transmit it to the European Parliament and the Council. On the basis of this report the Commission shall, if necessary, present proposals based on all relevant factors to the Council after consulting the other institutions within the framework of the Staff Regulations".

<sup>20</sup> Doc. 11555/93 STAT 44 FIN 466.



*undertaking to begin discussions at the earliest opportunity on the method for the adjustment of remuneration".*

The Commission, recalling the special situation arising from its resignation on 15 March 1999, said that it would give its views on the conclusions of the Working Party on the Staff Regulations at the appropriate time.

#### **2.5.5. Reports on Annex X (weightings outside the Community)**

As specified in Annex X to the Staff Regulations, the Commission must send the Council an annual report on the application of Annex X. The most recent report (SEC (1999)1023), dealing with 1997 and 1998, was sent on 29 June 1999.

More recently, the Commission has made a number of changes to the administrative procedures for calculating the weightings outside the Community which will appreciably reduce (by around 50%) the cost of gathering the data required from the year 2000.

#### **2.6. Reports on pensions**

At the Council's request, the KPMG report of December 1998 on its comparative and actuarial study was sent to the Council on 18 December 1998 and has been discussed on various occasions by the Working Party on the Staff Regulations.

The Commission is drawing up a communication on this.

#### **2.7. Situation on expiry of the 1991 method agreement**

The method (Annex XI to the Staff Regulations) and the temporary contribution<sup>21</sup> (Article 66a of the Staff Regulations) apply until 30 June 2001. The increased pension contributions will continue to apply after 30 June 2001.

In the absence of a new agreement for the annual review of remuneration in 2001, the Commission and the Council will to some extent be able to use their discretion in applying Articles 64 and 65.<sup>22</sup>

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<sup>21</sup> The temporary contribution entails an average reduction of about 2.9% in net remuneration for an unmarried non-expatriate official.

<sup>22</sup> Article 64 of the Staff Regulations:

An official's remuneration expressed in euros shall, after the compulsory deductions set out in these Staff Regulations or in any implementing regulations have been made, be weighted at a rate above, below or equal to 100%, depending on living conditions in the various places of employment.

These weightings shall be adopted by the Council, acting by a qualified majority on a proposal from the Commission as provided for in the first indent of the second subparagraph of Article 148(2) of the Treaty establishing the European Economic Community and 118(2) of the Treaty establishing the European Atomic Energy Community. The weighting applicable to the remuneration of officials employed at the provisional seats of the Communities shall be equal to 100% as at 1 January 1962.

Accordingly, the proposal for the annual adjustment to be presented by the Commission for adoption by the Council (by a qualified majority):

- will have to respect the principles of parallel development with national civil servants and parity of purchasing power between Community officials;
- will require interinstitutional negotiations with staff representatives within the Concertation Committee.

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**Article 65 of the Staff Regulations:**

1. The Council shall each year review the remunerations of the officials and other servants of the Communities. This review shall take place in September in the light of a joint report by the Commission based on a joint index prepared by the Statistical Office of the European Communities in agreement with the national statistical offices of the Member States; the index shall reflect the situation as at 1 July in each of the countries of the Communities.

During this review the Council shall consider whether, as part of economic and social policy of the Communities, remuneration should be adjusted. Particular account shall be taken of any increases in salaries in the public service and the needs of recruitment.

2. In the event of a substantial change in the cost of living, the Council shall decide, within two months, what adjustments should be made to the weightings and if appropriate to apply them retrospectively.

3. For the purposes of this Article, the Council shall act by a qualified majority on a proposal from the Commission as provided for in the first indent of the second subparagraph of Articles 148(2) of the Treaty establishing the European Economic Community and 118(2) of the Treaty establishing the European Atomic Energy Community.

### **3. THE SYSTEM OF REMUNERATION**

Remuneration, the legal basis for which is the Staff Regulations applicable to officials of the European Communities,<sup>23</sup> comprises basic salary, family allowances and other allowances<sup>24</sup> less social security contributions, tax and the temporary contribution. It is weighted at a rate above, below or equal to 100%.<sup>25</sup>

Although the system in Belgian francs could have functioned until January 2002, the Council Decision of 12 November 1998 brought forward to 1 January 1999 conversion into euros of the amounts provided for in the Staff Regulations (basic salary, allowances, contributions, taxes, exchange rate applied to remuneration, etc.) and used for calculating remuneration, pensions and other financial entitlements (mission allowances, medical expenses, etc.).

The effect of the changeover on the budget and on emoluments was neutral and did not change the value of officials' remuneration.

Consequently, since 1 January 1999, the remuneration, pensions and other financial entitlements of Community staff have been paid in euros in the eleven participating countries and in national currency in the other four Member States.

All the figures given below are therefore expressed in euros and are valid from 1 January 1999.

#### **3.1. Basic salary**

The basic salary is determined for each category, grade and step as follows:<sup>26</sup>

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<sup>23</sup> In particular Title V and Annexes VII and XI.

<sup>24</sup> Article 62 of the Staff Regulations: "Remuneration shall comprise basic salary, family allowances and other allowances".

<sup>25</sup> Article 64 of the Staff Regulations: "An official's remuneration expressed in Belgian francs shall, after the compulsory deductions set out in these Staff Regulations or in any implementing regulations have been made, be weighted at a rate above, below or equal to 100%, depending on living conditions in the various places of employment".

<sup>26</sup> Article 66 of the Staff Regulations.

Table 3.1

GRADE	STEP								Value of step
	1	2	3	4	5	6	7	8	
A1	10959,87	11542,07	12124,27	12706,47	13288,67	13870,87			582,20
A2	9725,98	10281,53	10837,08	11392,63	11948,18	12503,73			555,55
A3 / LA3	8054,88	8540,83	9026,78	9512,73	9998,68	10484,63	10970,58	11456,53	485,95
A4 / LA4	6766,95	7146,25	7525,55	7904,85	8284,15	8663,45	9042,75	9422,05	379,30
A5 / LA5	5579,02	5909,54	6240,06	6570,58	6901,10	7231,62	7562,14	7892,66	330,52
A6 / LA6	4821,31	5084,37	5347,43	5610,49	5873,55	6136,61	6399,67	6662,73	263,06
A7 / LA7	4150,18	4356,68	4563,18	4769,68	4976,18	5182,68			206,50
A8 / LA8	3670,46	3818,48							148,02
B1	4821,31	5084,37	5347,43	5610,49	5873,55	6136,61	6399,67	6662,73	263,06
B2	4177,30	4373,14	4568,98	4764,82	4960,66	5156,50	5352,34	5548,18	195,84
B3	3503,88	3666,72	3829,56	3992,40	4155,24	4318,08	4480,92	4643,76	162,84
B4	3030,55	3171,77	3312,99	3454,21	3595,43	3736,65	3877,87	4019,09	141,22
B5	2708,91	2823,19	2937,47	3051,75					114,28
C1	3091,03	3215,67	3340,31	3464,95	3589,59	3714,23	3838,87	3963,51	124,64
C2	2688,55	2802,78	2917,01	3031,24	3145,47	3259,70	3373,93	3488,16	114,23
C3	2507,91	2605,78	2703,65	2801,52	2899,39	2997,26	3095,13	3193,00	97,87
C4	2266,09	2357,88	2449,67	2541,46	2633,25	2725,04	2816,83	2908,62	91,79
C5	2089,47	2175,09	2260,71	2346,33					85,62
D1	2361,41	2464,66	2567,91	2671,16	2774,41	2877,66	2980,91	3084,16	103,25
D2	2153,15	2244,85	2336,55	2428,25	2519,95	2611,65	2703,35	2795,05	91,70
D3	2004,02	2089,79	2175,56	2261,33	2347,10	2432,87	2518,64	2604,41	85,77
D4	1889,52	1967,01	2044,50	2121,99					77,49

### 3.2. Allowances (Annex VII)<sup>27</sup>

#### 3.2.1. Family allowances

Family allowances are of a complementary nature: all payments of the same nature received from other sources are deducted from the Community allowance.

**The household allowance**<sup>28</sup> is paid to a married official or other servant whose spouse is either not gainfully employed or whose salary does not exceed the basic salary of a Grade C3/3 official or to an official or other servant who has one or more dependent children.<sup>29</sup>

Article 1 of Annex VII to the Staff Regulations sets the household allowance at 5% of the basic salary.

<sup>27</sup> See also point 2.5.4.

<sup>28</sup> Article 67 of the Staff Regulations, Article 1 of Annex VII to the Staff Regulations, general implementing provisions (adopted on 11 April 1988).

<sup>29</sup> By special reasoned decision of the appointing authority, the household allowance may also be paid to an official or other servant who does not fulfil the above conditions but who does, however, actually assume family responsibilities.

**The dependent child allowance**<sup>30</sup> is a fixed sum per child designed to help the official or other servant cover additional expenditure on the maintenance of a dependent child. The allowance is granted automatically for children under 18 years of age and on application, with supporting evidence, for children between 18 and 26 who are receiving educational or vocational training.<sup>31</sup>

The dependent child allowance is EUR 213.61 per child per month.<sup>32</sup>

The dependent child allowance is of a complementary nature: all payments of the same nature received from other sources are deducted from the Community payment.

**The education allowance**<sup>33</sup> is designed to cover the cost of the regular full-time attendance by a child of an official or a member of the temporary staff at an educational establishment in the country of posting or elsewhere.

Article 3 of Annex VII specifies the maximum actual education costs incurred by the official or member of the temporary staff covered by the education allowance.

In the interests of streamlined efficient administration most of the educational allowances are fixed sums expressed as a percentage of a maximum amount (EUR 190.90) and vary according to the age of the child and the type of education.<sup>34</sup>

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<sup>30</sup> Article 67 of the Staff Regulations, Article 2 of Annex VII to the Staff Regulations, general implementing provisions (assimilation to dependent child) which entered into force on 1 February 1997 (repealing and replacing those of 1 October 1989).

<sup>31</sup> In addition, any person whom the official has a legal responsibility to maintain and whose maintenance involves heavy expenditure may be treated as a dependent child. It should also be noted that the allowance continues to be paid in respect of a child prevented by serious illness or invalidity from earning a livelihood throughout the period of that illness or invalidity.

<sup>32</sup> Under Article 67(3) of the Staff Regulations, in exceptional circumstances, the amount may be doubled by special decision of the appointing authority where the child concerned is suffering from a mental or physical handicap which involves the official in heavy expenditure.

<sup>33</sup> Article 67 of the Staff Regulations, Article 3 of Annex VII to the Staff Regulations, general implementing provisions (adopted on 1 March 1975).

<sup>34</sup> The official is entitled:

- for a child under the age of 11 attending primary school, to a fixed sum equal to 36% of the maximum amount;
- for a child over the age of 11 attending a primary or secondary school, to a fixed sum equal to 50% of the maximum amount;
- for a child in higher education, to a fixed sum equal to 100 % of the maximum amount.

An amount not exceeding the maximum amount may be paid to officials on presentation of the supporting documents.

Up to double the maximum amount may be paid to officials whose place of employment is at least 50 km from a European school or an educational establishment working in their language which a child attends for imperative educational reasons.

Officials receiving the expatriation allowance and whose place of employment is at least 50 km from an establishment of higher education in the country of which they are nationals or working in their language receive double the maximum amount.

### 3.2.2. *Other allowances*

**The expatriation allowance**<sup>35</sup> is intended to compensate officials and other servants for the costs and difficulties entailed by moving from their country of domicile to their country of employment with the Communities and living in a foreign environment.

It is the only allowance which compensates officials and other servants for costs and difficulties arising directly from their being posted outside their country of origin.

Article 4 of Annex VII to the Staff Regulations sets the expatriation allowance at 16% (4% for officials who do not meet all the requirements) of the basic salary, the household allowance and the dependent child allowance.<sup>36</sup>

**The secretarial allowance**<sup>37</sup> was introduced by a Council Decision in 1965<sup>38</sup> to cope with the difficulties in recruiting multilingual secretarial staff as a result of the significant increases in the salaries for such posts in both the public and private sectors in certain Member States.

The allowance, paid by all the institutions, was initially paid only to secretarial staff of certain nationalities, but since 1971 it has, in accordance with the principle of equal treatment, been paid to all officials and other servants principally carrying out secretarial functions.

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<sup>35</sup> Legal basis: Article 69 of the Staff Regulations, Article 4 of Annex VII to the Staff Regulations.

<sup>36</sup> 1. An expatriation allowance shall be paid, equal to 16% of the total amount of the basic salary plus household allowance and the dependent child allowance paid to the official:

(a) to officials:

- who are not and have never been nationals of the State in whose territory the place where they are employed is situated, and
- who during the five years ending six months before they entered the service did not habitually reside or carry on their main occupation within the European territory of that State. For the purposes of this provision, circumstances arising from work done for another State or for an international organization shall not be taken into account;

(b) to officials who are or have been nationals of the State in whose territory the place where they are employed is situated but who during the 10 years ending at the date of their entering the service habitually resided outside the European territory of that State for reasons other than the performance of duties in the service of a State or of an international organization.

The expatriation allowance shall not be less than EUR 381.61 per month.

2. An official who is not and has never been a national of the State in whose territory he is employed and who does not fulfil the conditions laid down in paragraph 1 shall be entitled to a foreign residence allowance equal to one quarter of the expatriation allowance.

<sup>37</sup> Article 4a of Annex VII to the Staff Regulations: "An official in Category C employed as a copy typist, shorthand-typist, telex operator, varitypist, executive secretary or principal secretary may be paid a fixed allowance. The amount of this allowance shall be determined by the Council in accordance with the procedure laid down in Article 65(3) of the Staff Regulations."

<sup>38</sup> Regulation No 30/65/EEC.

This temporary fixed allowance, originally paid for two years, was regularly extended until the Council made it permanent in 1978.<sup>39</sup>

Since the introduction of information technology, the allowance has, subject to certain requirements, been paid to clerical officers in Category C. Those requirements may vary in the light of the specific role of each institution.

The monthly amount of the secretarial allowance is adjusted each year during the annual review of remuneration. It is currently EUR 99.55 per month for secretaries in Grades C4-C5 and EUR 152.63 per month for secretaries in Grades C3-C1.

### 3.3. Social security contributions and taxes

#### 3.3.1. Social security contributions

**Pension contributions** are set at 8.25 % of the basic salary. They are paid into the Community budget. Officials contribute one third of the funding required for the pension scheme.<sup>40</sup>

**The sickness insurance contribution** is set at 1.70% of the basic salary. Officials contribute one third of the funding required for the scheme, subject to a limit of 2% of the basic salary.<sup>41</sup>

**The accident insurance contribution** is set at 0.1% of the basic salary.<sup>42</sup>

**The unemployment insurance contribution**, equal to 0.4% of the basic salary, is paid only by members of the temporary staff.

#### 3.3.2. Taxes and contributions

Officials are subject to the following:<sup>43</sup>

**Community tax**,<sup>44</sup> imposed at source and paid into the Community budget. There are fourteen rates of tax, ranging from 8% to 45%, each one of which is levied on a separate band of taxable income.<sup>45</sup> The marginal rate of 8% is levied

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<sup>39</sup> Regulation (EEC) No 914/78 of 2 May 1978.

<sup>40</sup> Article 83(2) of the Staff Regulations.

<sup>41</sup> Article 72 of the Staff Regulations.

<sup>42</sup> Article 73 of the Staff Regulations.

<sup>43</sup> Plus taxes at **the place of residence** not related to income from the Communities: VAT, local taxes (taxes for rubbish collection, etc.), property taxes payable by property owners, etc.

<sup>44</sup> Article 13 of Chapter V of the Protocol on the Privileges and Immunities of the European Communities and Council Regulation 260/68.

<sup>45</sup> Article 3 of Council Regulation (EEC, Euratom, ECSC) No 260/68:

1. The tax shall be payable each month on salaries, wages and emoluments paid by the Communities to each person liable.

on taxable monthly amounts between EUR 82.94 and EUR 1 463.98. The marginal rate of 45% is levied on that part of the taxable monthly income above EUR 5 238.80;

**a temporary contribution**<sup>46</sup> of 5.83% on that part of the remuneration above the minimum remuneration.<sup>47</sup> Introduced as part of the method, it is paid into the Community budget.

### 3.4. Weighting

A weighting is applied to the remuneration of officials posted within the European Union but outside Belgium and Luxembourg in order to compensate for the (positive or negative) difference in the cost of living compared with Brussels. This does not therefore represent an advantage or disadvantage for the officials concerned; it simply guarantees that their purchasing power is equal to that of officials working in Brussels.

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2. However, monies and allowances, whether lump sums or not, which represent compensation for expenses incurred in the performance of official duties, shall be excluded from the basic taxable amount.

3. The family allowance and social benefits listed below shall be deducted from the basic taxable amount:

(a) family allowances: head of household allowance, dependent child's allowance, education allowance, allowance on the birth of a child;

(b) social assistance;

(c) allowances paid on account of occupational disease or accident;

(d) that part of any payment which represents family allowances.

The amount to be deducted shall be calculated, with due regard, where appropriate, to the provisions of Article 5.

<sup>46</sup> Article 66a(1) and (2) of the Staff Regulations:

"1. By way of derogation from Article 3(1) of Regulation (EEC, Euratom, ECSC) No 260/68, a temporary measure regarding remuneration paid by the Communities to staff in active employment, to be known as the 'temporary contribution', shall be applied for a period running from 1 January 1992 to 1 July 2001.

2. (a) The rate of this temporary contribution, which shall apply to the base defined in paragraph 3, shall be 5.83%.

(b) The Council, acting in accordance with the procedure laid down in Article 24(1) of the Treaty establishing a Single Council and a Single Commission of the European Communities after consulting the other institutions concerned, may, if appropriate, in the context of the review provided for in Article 15(2) of Annex XI to the Staff Regulations, alter the rate of the temporary contribution referred to in point (a) on the basis of a report and a proposal from the Commission".

<sup>47</sup> Article 66a(3) of the Staff Regulations: "The base for the temporary contribution shall be the basic salary for the grade and step used to calculate remuneration, minus social security and pension contributions and the tax, before any temporary contribution, payable by an official in the same grade and step without dependants within the meaning of Article 2 of Annex VII, and an amount equal to the basic salary of an official in Grade D4, step 1".



The system used for the salaries of officials posted outside the EU follows the same basic principle of maintaining purchasing power at the level pertaining to Brussels, but features a number of significant differences.<sup>48</sup>

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<sup>48</sup> Firstly, weighting is applied only at the specific request of the official. In most cases, the weighting is applied to a maximum of 80% of the salary.  
Secondly, in calculating the weighting, no account is taken of differences in rents or in the cost of education or medical services, since these facilities are either supplied by or their cost reimbursed by the Commission.  
Thirdly, the method used to deal with rapid changes in prices differs slightly from that used for weightings within the Community.

### 3.5. Budgetary cost of remuneration by institution in 1998 in EUR million

Table 3.2

Expenditure	Commission	Council	Parliament	ESC and COR	Court of Justice	Court of Auditors	Agencies	Total expenditure	% total
Basic salary A1100 and A1000	1160,59	132,94	208,13	11,80	61,12	33,59	42,84	1651,01	102,8%
Household allowance A1101 and A1002	107,88	12,09	18,56	0,82	5,16	3,00	8,79	156,23	9,7%
Expatriation/foreign residence allowance A1102 residence A1001	137,90	18,19	29,44	1,59	9,60	5,32	5,57	207,61	12,6%
Fixed allowance (secretarial) A1103	8,36	1,96	2,29	0,13	0,36	0,19	0,41	13,70	0,9%
Fixed allowances: fixed rate allowance A1143 and entertainment allowance A1003	0,34		0,08	0,03	0,38		0,01	0,83	0,1%
Weightings A1090 and A1190	13,61	1,85	1,21		1,01	0,80	8,42	26,89	1,7%
<b>Gross total</b>	<b>1429,00</b>	<b>167,00</b>	<b>260,00</b>	<b>14,00</b>	<b>78,00</b>	<b>43,00</b>	<b>66,00</b>	<b>2056,00</b>	<b>128,1%</b>
<b>Own resources</b>									
Tax 400	204,99	15,87	24,51	4,00	9,05	4,70	4,75	267,88	16,7%
Pension contribution 401	101,68	11,22	18,26	3,14	4,51	2,59	3,63	145,03	9,0%
Temporary contribution 403	27,17	2,78	4,39	0,73	1,41	0,78	0,83	38,09	2,4%
<b>Total contributions and tax</b>	<b>333,84</b>	<b>29,87</b>	<b>47,16</b>	<b>7,88</b>	<b>14,97</b>	<b>8,07</b>	<b>9,22</b>	<b>450,99</b>	<b>28,1%</b>
<b>Net total</b>	<b>1094,85</b>	<b>137,16</b>	<b>212,55</b>	<b>6,48</b>	<b>62,66</b>	<b>34,82</b>	<b>56,81</b>	<b>1605,33</b>	<b>100,0%</b>

The total cost is thus EUR 1 605 million, i.e. 38% of the administrative expenditure and 1.9% of the Community budget for 1998.<sup>49</sup>

<sup>49</sup>

Administrative expenditure: EUR 4 223.3 million; Community budget: EUR 82 798.9 million (Source: The Community Budget: The Facts in Figures (1999 Edition)).

#### 4. CHANGES IN REMUNERATION IN BRUSSELS AND LUXEMBOURG

The basic principle is that the remuneration of officials of the European institutions must develop in parallel with that of national civil servants in the Member States.

This means that if the average increase for national civil servants in 1998 was 2% below (or above) the national rate of inflation, the increase for Community officials the following year will also be 2% below (or above) the rate of inflation in Brussels.

It should be noted that 89% of Community officials work in Brussels or Luxembourg.

Adjustments are usually made in December, applying retrospectively from 1 July.<sup>50</sup>

In order to apply this principle in accordance with Article 65 of the Staff Regulations and Article 1 of Annex XI<sup>51</sup> to the Staff Regulations, the Council carries out an annual examination of the remuneration of officials and other servants of the Communities on the basis of a report from the Commission.

The Statistical Office of the European Communities (Eurostat)<sup>52</sup> draws up the report in agreement with the national statistical institutes in the Member States on the basis of information supplied by the national departments concerned. Eurostat is therefore the source of all the information in connection with this chapter.

##### 4.1. Changes in the purchasing power of national civil servants (specific indicator)

In order to respect the principle of parallel development, the difference (positive or negative) between the adjustment to the remuneration and inflation must be the same for Community officials and national civil servants.

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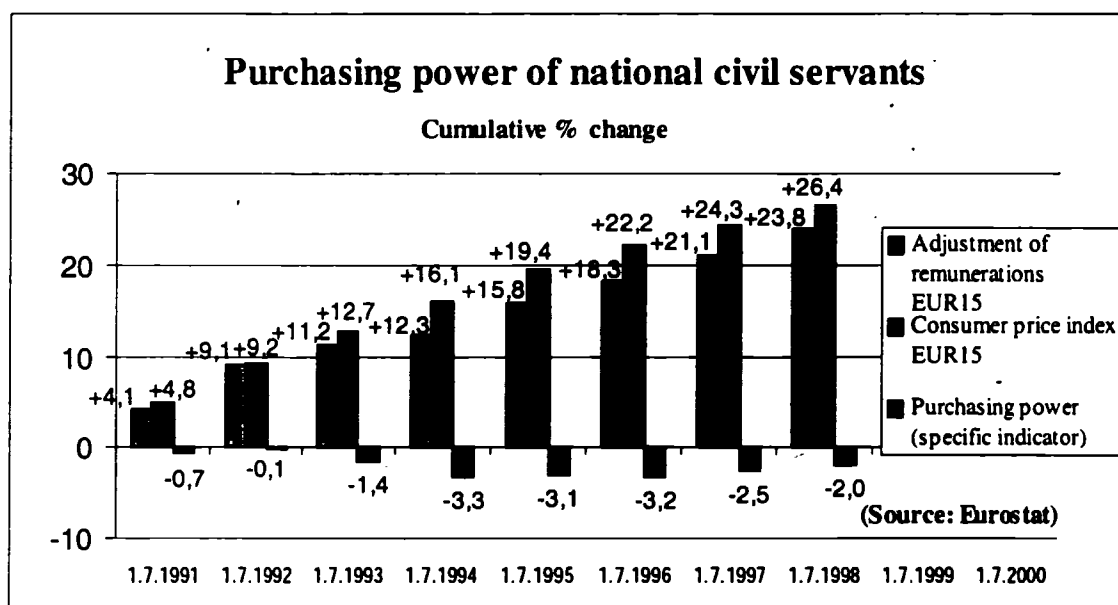
<sup>50</sup> Article 3(1) of Annex XI to the Staff Regulations lays down that "With effect from 1 July and pursuant to Article 65(3) of the Staff Regulations, the Council, acting on the Commission proposal and on the basis of the criteria set out in Section 1, shall take a decision before the end of each year adjusting remunerations".

<sup>51</sup> Article 1(1) of Annex XI to the Staff Regulations lays down that "For the purposes of the review provided for in Article 65(1) of the Staff Regulations, the Statistical Office of the European Communities - hereinafter called the 'Statistical Office' - shall draw up every year before the end of September a report on changes in the cost of living in Brussels, the economic parities between Brussels and the other places of employment in the Member States, and changes in the purchasing power of salaries in the national civil services, hereinafter called 'changes in purchasing power'. The reference period for these data shall be the 12 months preceding 1 July of the year in which the review is carried out".

<sup>52</sup> Article 11 of Annex XI to the Staff Regulations specifies that: "It shall be the task of the Statistical Office of the European Communities to monitor the quality of basic data and statistical methods used to work out the factors taken into account for the adjustment of remunerations. In particular, it shall make any assessments or carry out any studies required for such monitoring".

The following table shows that between 1991 and 1998 the purchasing power of national civil servants in the Member States of the European Union fell by an average of 2.0%.

Table 4.1



Annex XI specifies<sup>53</sup> how Eurostat must measure the change using the **specific indicators**, which reflect changes in the purchasing power<sup>54</sup> of civil servants in each central government of the Member States.<sup>55</sup>

The method to be used, along with the rules for its practical application, is laid down<sup>56</sup> by the Working Party on Article 65 of the Staff Regulations. The Working Party is composed of representatives of the Member States and is chaired by Eurostat.

All calculations are based on the data sent to Eurostat by the relevant departments of the national administrations in the Member States relating to the remuneration of central government staff on 1 July of the current year.

The following table<sup>57</sup> shows that changes have differed greatly from Member State to Member State.

<sup>53</sup> Article 1(4) of Annex XI to the Staff Regulations lays down that "For the purpose of measuring the percentage change, either upward or downward, in the purchasing power of salaries in the national civil services, the Statistical Office shall, on the basis of information supplied by the national departments concerned, calculate specific indicators reflecting changes in the real remuneration of civil servants in each central government during the reference period".

<sup>54</sup> Nominal increase less inflation.

<sup>55</sup> EU average weighted according to total emoluments.

<sup>56</sup> The data are for a sample population, relating as a rule to the first and last steps of the main grades. Figures are provided for unmarried staff and married staff with two dependent children.

<sup>57</sup> Since 1994, the specific indicator has taken account of the situation in Finland, Austria and Sweden.

Table 4.2

<b>Change in the purchasing power of salaries of civil servants in central government in the Member States</b>					
Specific indicator 1990-98					
(1)	(2)	(3)	(4)	(5)	(6)
Country	Weighting in 1998 (%)	Net remuneration (%)	Cost of living (%)	Purchasing power (%)	Weighted effect (%)
B	3,9	+21,3	+19,5	+1,6	0,1
DK	1,8	+24,6	+17,8	+5,7	0,1
D	28,4	+17,9	+23,2	-4,3	-1,2
GR	2,1	+66,9	+129,8	-25,2	-0,5
E	4,4	+29,8	+39,1	-6,6	-0,3
F	22,8	+18,7	+17,1	+1,5	0,3
IRL	0,8	+48,3	+20,3	+23,1	0,2
I	16,0	+27,3	+38,2	-7,7	-1,2
L	0,3	+46,8	+19,9	+22,6	0,1
NL	3,0	+18,3	+23,0	-3,9	-0,1
A	2,1	+7,8	+6,4	+3,1	0,1
P	2,6	+63,6	+54,8	+5,7	0,1
FIN	0,7	+13,7	+4,2	+9,1	0,1
S	1,4	+7,3	+5,3	+1,9	0,0
UK	9,8	+35,2	+28,6	+5,3	0,5
<b>EUR 15</b>	<b>100,0</b>	<b>+23,8</b>	<b>+26,4</b>	<b>-2,0</b>	<b>-2,0</b>
<i>EUR12 until 1.1.1995 then EUR15</i>					
<i>Example Germany : (5) 117,9/123,2 = 95,7 ; (6) -4,3 x 28,4/100 = -1,2</i>					

(Source: Eurostat)

A total of ten Member States (in particular Ireland and Luxembourg) gave their civil servants an increase above the rate of inflation and five Member States (in particular Greece) an increase below the rate of inflation.

It should be noted, however, that the changes in four Member States (Germany, France, the United Kingdom and Italy) account for 77% of the final result.<sup>58</sup>

#### 4.1.1. Comparison of changes in the gross specific indicator and the control indicator

In accordance with Annex XI,<sup>59</sup> Eurostat calculates each year a control indicator showing the variation in purchasing power of per capita emoluments in the national civil service.

<sup>58</sup> Article 1(4)(a) of Annex XI to the Staff Regulations: "To establish gross and net indicators for all the Member States together, the results per country shall be weighted by the total emoluments of central government civil servants as shown in the most recent statistics published in the national accounts.

<sup>59</sup> Article 1(4)(d) of Annex XI to the Staff Regulations: "Besides the specific indicators, the Statistical Office must submit control indicators in the form of data on real per capita emoluments in general government and in central government, drawn up in accordance with national accounts definitions.

As this indicator is expressed in gross terms, it is compared not with the actual specific indicator, which is expressed in net terms, but with the gross specific indicator.

Column [2] of the following table shows the ratio between the real emoluments per official in 1998 and 1990. Column [3] shows the ratio between the real gross remuneration per official at 1 July 1998 and remuneration at 1 July 1990. Column [4] shows the percentage difference between the two ratios.

**Table 4.3**

<b>Changes in gross purchasing power 1990-98</b>			
(1)	(2)	(3)	(4)
<b>Country</b>	<b>Control indicator</b>	<b>Gross specific indicator</b>	<b>% difference</b>
B	+28,5	+5,1	+22,3
DK	+14,1	+0,4	+13,7
D	+3,4	+1,4	+2,0
EL	-1,4	-21,4	+25,4
E	-3,1	-6,1	+3,3
F	+6,5	+2,5	+4,0
IRL	+39,7	+18,2	+18,2
I	+1,0	-7,1	+8,7
L	+13,0	+20,9	-6,5
NL	+27,0	-2,6	+30,3
P	+44,2	+7,4	+34,2
UK	+53,2	+4,8	+46,2
<b>EUR 15</b>	<b>+11,9</b>	<b>+0,4</b>	<b>+11,5</b>

(Source: Eurostat)

The gross specific indicator and the control indicator are, by definition, different and it is only natural that their values should differ. Changes in the control indicator are determined not only by variations in collective labour agreements but also by intrinsic factors (changes in the average age of the reference population, promotion to higher categories, etc.) and by changes in incidental salary components such as overtime payments, productivity incentives and early retirement compensation.

Moreover, certain factors distort the statistical comparability of the two indices (the quality of the sample used to calculate the specific indicator, differences in the reference populations, part-time work, employers' social security contributions, etc.). The deflator used for the control indicator is the consumer expenditure deflator in the national accounts. The deflator for the specific indicator is the national consumer price index.

A study undertaken in 1995 by Eurostat to take a more detailed look at France, Italy, Germany and the United Kingdom shows that if the notional and statistical differences between the gross specific indicator and the control indicator are eliminated, the two indicators show a practically parallel development.

#### **4.2. Brussels cost of living**

Since 1991, at the Council's request, inflation in Brussels has been measured using a composite index<sup>60</sup> which consists of the following:

- 75% of the joint index<sup>61</sup> produced by Eurostat which measures the change in the cost of living for staff of the European institutions in Brussels;
- 25% of the Brussels consumer price index produced by the Ministry of Economic Affairs which measures the overall cost of living in the Belgian capital.

The joint index is derived from the price index, taking into account the structure of Community officials' expenditure in Brussels and the movement of the rents they pay.

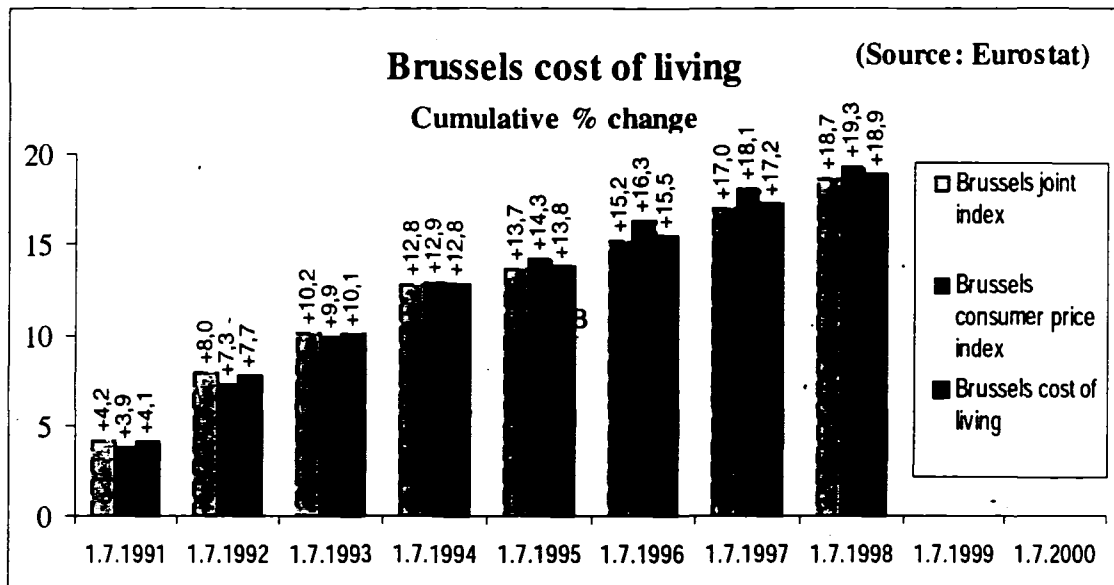
These two indices are accordingly very similar, as can be seen from the following table:

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<sup>60</sup> Article 3 of Annex XI to the Staff Regulations.

<sup>61</sup> Article 1 of Annex XI to the Staff Regulations.

Table 4.4



The cost of living in Brussels thus rose by 18.9% (75% x 18.7% + 25% x 19.3%).

### 4.3. Adjustment of gross remuneration

Since 1991 national civil servants have seen a loss of purchasing power (-2% on average for EU-15). Applying the principle of parallelism in the method has automatically transposed this loss to the salaries of Community officials.

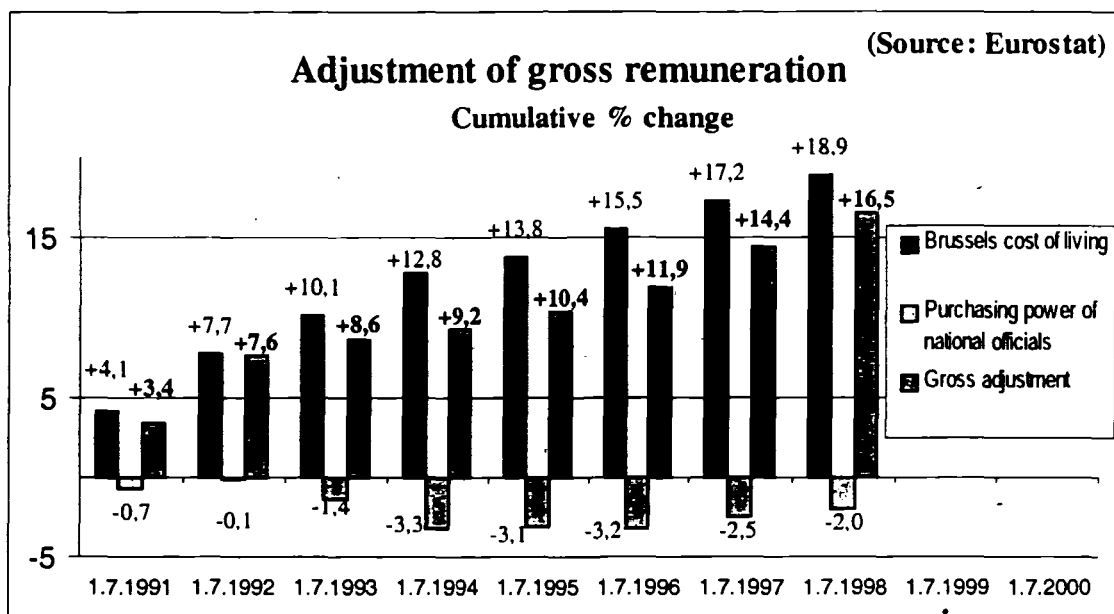
The adjustment of the gross remuneration of **+16.5%**<sup>62</sup> is thus equal to the rise in the cost of living in Brussels (+18.9%), minus the average loss of purchasing power of national civil servants' salaries (-2%).

The following table shows this calculation for each year, together with the aggregate results since 1991.

<sup>62</sup> 98.0 x 118.9 / 100 = 116.5.



Table 4.5



The impact of the economic situation over the period 1991 to 1998 on national civil servants' salaries has thus also been felt by Community officials' salaries in the shape of a 2% loss of purchasing power.

#### 4.4. Effects of the *quid pro quo* for the method

##### 4.4.1. Temporary contribution

The Council introduced a temporary contribution, the level, terms, commencement and expiry dates of which were negotiated in connection with the method. The temporary contribution was incorporated into the Staff Regulations - in Article 66a - and ends at the same time as the method.<sup>63</sup>

The effect of this measure has been an average loss of purchasing power of some 2.9%<sup>64</sup> (from 1 January 1992 to 30 June 2001).

##### 4.4.2. Increase in pension contributions

In the context of the method, the Council considered it advisable, in the interests of equilibrium in the pensions system, to raise the rate of staff contributions to the scheme. In Article 83(2) of the Staff Regulations, the rate of 6.75% was accordingly replaced by 8.25%.<sup>65</sup>

<sup>63</sup> Council Regulation (ECSC, EEC, EURATOM) No 3831/91 adopted on 19 December 1991 introduced, for a period of ten years, a temporary contribution affecting remuneration paid by the Communities to staff in active employment.

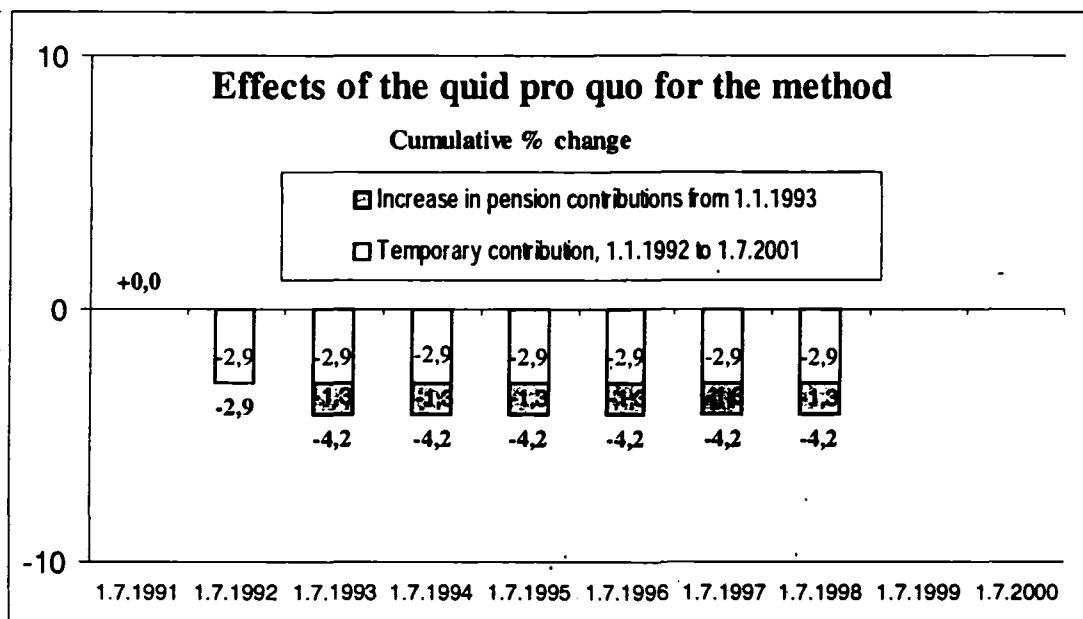
<sup>64</sup> For an unmarried official not eligible for the expatriation allowance.

<sup>65</sup> Council Regulation (ECSC, EEC, EURATOM) No 3832/91 of 19 December 1991.

This measure has resulted in an average fall in purchasing power of approximately 1.3%.<sup>66</sup>

Together the two measures adopted as a *quid pro quo* for the method have resulted in an additional reduction in purchasing power of 4.2%<sup>67</sup> via the temporary contribution and increased pension contributions.

**Table 4.6**



The effect is similar to that of the crisis levy linked to the 1981 method, the difference being that the increase in the pension contributions is not temporary.

#### 4.5. Net remuneration

The result of a gross increase of 16.5% and a reduction of 4.2% as a *quid pro quo* for the method is thus a net increase of 11.6%.<sup>68</sup>

Since 1991 net remuneration in Brussels and Luxembourg has developed as follows:<sup>69</sup>

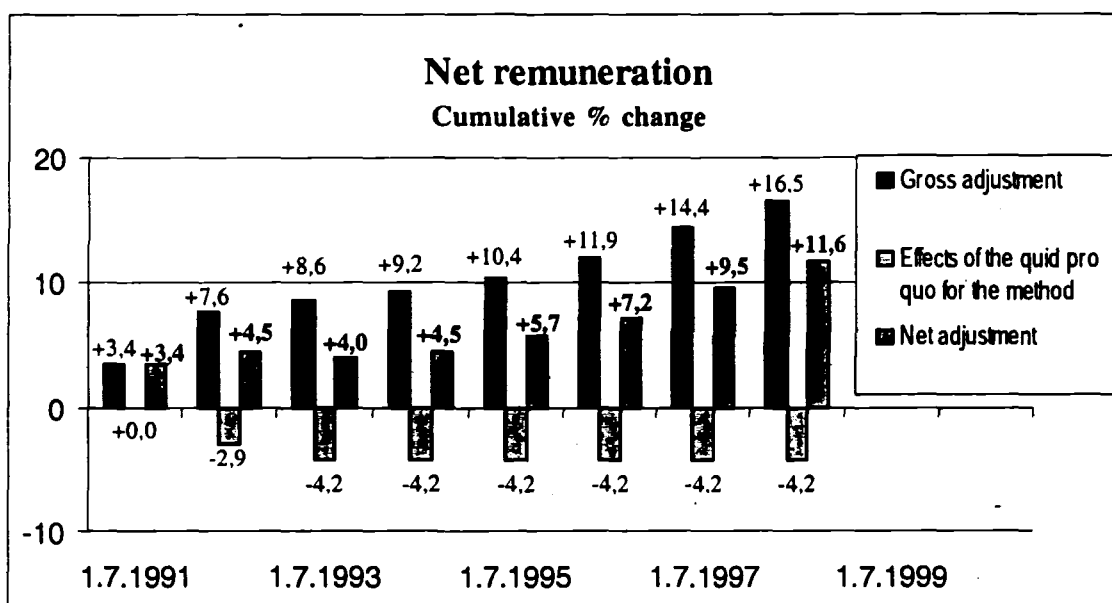
<sup>66</sup> For an unmarried official not eligible for the expatriation allowance.

<sup>67</sup>  $97.1 \times 98.7 / 100 = 95.8\%$ .

<sup>68</sup>  $116.5 \times 95.8 / 100 = 111.6$ .

<sup>69</sup> For instance, the net salary for a grade A7/4 official rose from BEF 132 873 in July 1991 (before the annual adjustment) to BEF 148 286 in July 1998 (after the annual adjustment).

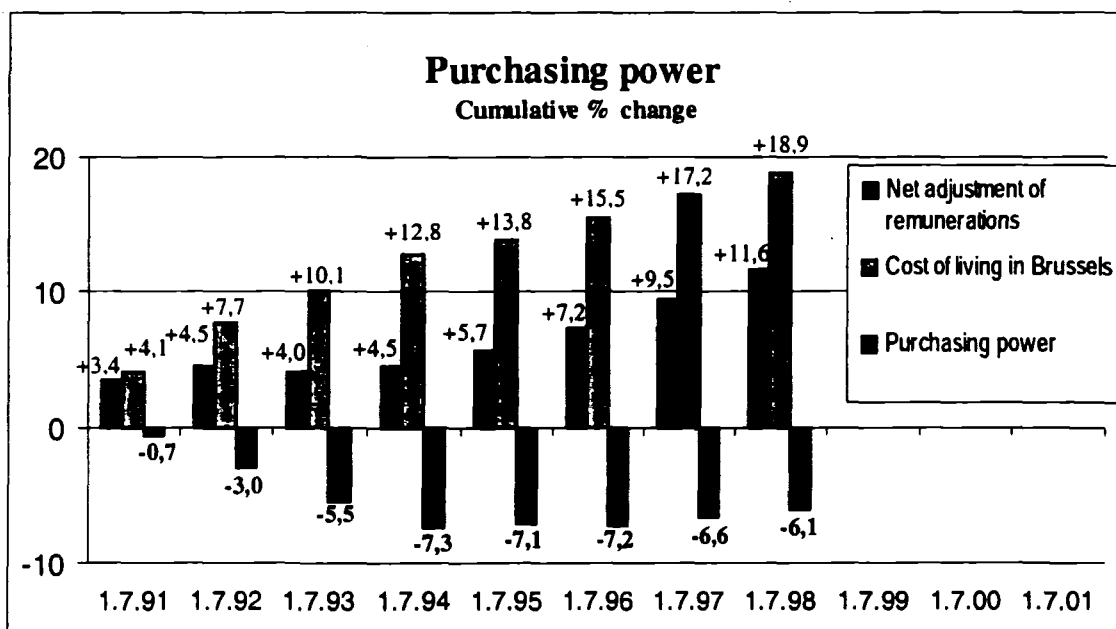
**Table 4.7**



**4.6. Purchasing power of Community officials**

If the net increase of 11.6% is compared with the change in the cost of living in Brussels, i.e. 18.9%, the loss in purchasing power of Community officials' salaries comes to 6.1%<sup>70</sup> over an eight-year period.

**Table 4.8**



<sup>70</sup>

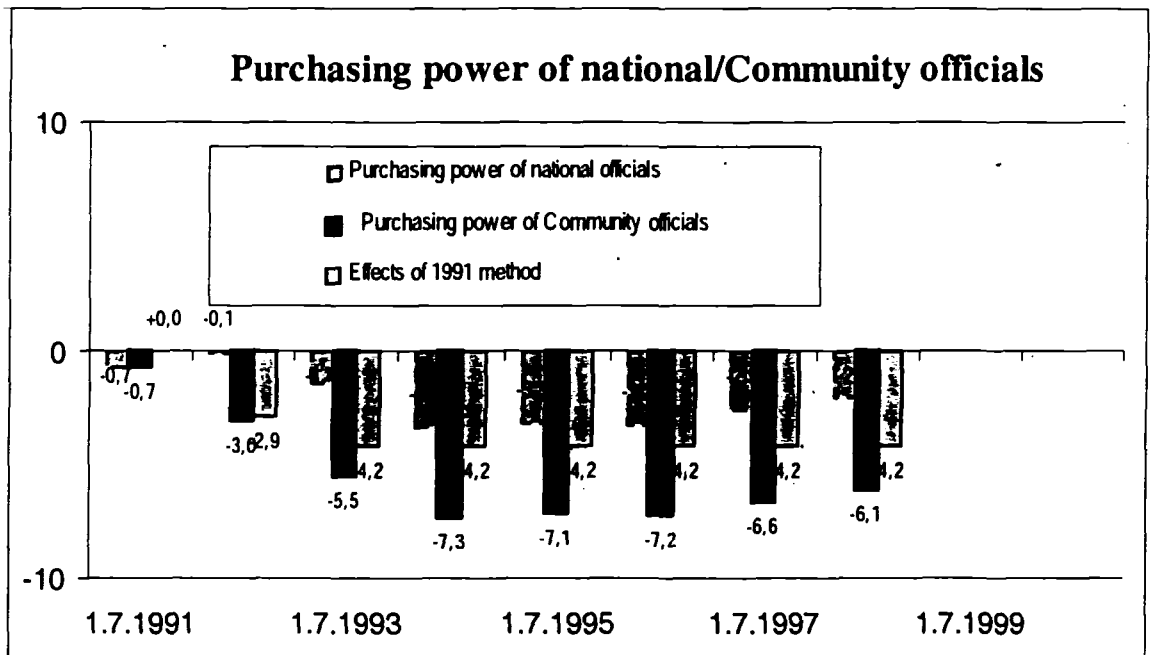
111.6/118.9 = 93.9.

**4.7. Comparative purchasing power of national civil servants' and Community officials' remuneration**

The remuneration of European officials has thus adapted to changes in the economic and social situation at the rate of reduction in the purchasing power of national civil servants' salaries (-2.0%), but with an additional loss of purchasing power of 4.2%.<sup>71</sup>

The movements in question are compared in the following table:

**Table 4.9**



**4.8. Summary table**

The following table summarises all the information contained in this chapter

<sup>71</sup> Temporary contribution of 2.9% plus increase in pension contributions of 1.3%.

**Table 4.10**

**Purchasing power of national/Community officials**

(1)	(2)		(3)		(4)		(5)		(6)		(7)		(8)		(9)		(10)		(11)		(12)		(13)	
Date	Purchasing power of national civil servants		Brussels cost of living		Gross adjustment of remunerations		Effects of 1991 method		Net adjustment of remunerations		Purchasing power of Community officials													
	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%	% (t/t-1)	Cumul.%		
1.7.91	-0,7	-0,7	+4,1	+4,1	+3,4	+3,4			+3,4	+3,4	-0,7	-0,7												
1.7.92	+0,6	-0,1	+3,5	+7,7	+4,1	+7,6	-2,9	-2,9	+1,1	+4,5	-2,3	-3,0												
1.7.93	-1,3	-1,4	+2,2	+10,1	+0,9	+8,6	-1,3	-4,2	-0,5	+4,0	-2,6	-5,5												
1.7.94	-1,9	-3,3	+2,4	+12,8	+0,5	+9,2		-4,2	+0,5	+4,5	-1,9	-7,3												
1.7.95	+0,2	-3,1	+0,9	+13,8	+1,1	+10,4		-4,2	+1,1	+5,7	+0,2	-7,1												
1.7.96	-0,1	-3,2	+1,5	+15,5	+1,4	+11,9		-4,2	+1,4	+7,2	-0,1	-7,2												
1.7.97	+0,7	-2,5	+1,5	+17,2	+2,2	+14,4		-4,2	+2,2	+9,5	+0,7	-6,6												
1.7.98	+0,5	-2,0	+1,4	+18,9	+1,9	+16,5		-4,2	+1,9	+11,6	+0,5	-6,1												
1.7.99																								
1.7.00																								

Purchasing power of national civil servants: 98,0

Gross adjustment:  $98,0 \times 118,9 / 100 = 116,5,9$

Net adjustment:  $116,5 \times 96,8 / 100 = 111,6$

Purchasing power of Community officials:  $111,6 / 118,9 = 93,9$

## 5. REMUNERATION OUTSIDE BRUSSELS AND LUXEMBOURG (WEIGHTINGS)

The basic principle is equivalence of purchasing power of remunerations between each place of employment in the EU and Brussels.<sup>72</sup>

For Brussels and Luxembourg the weighting is 100%.<sup>73</sup>

Outside Belgium/Luxembourg, a weighting<sup>74</sup> is applied to offset the difference (whether positive or negative) between the cost of living in the capital or place of employment<sup>75</sup> as compared with Brussels.

Remunerations outside B/L = B/L remuneration x weighting.<sup>76</sup>

The weighting is thus equal to the average ratio of prices between the place of employment and Brussels. It is equal to the amount needed<sup>77</sup> to buy a basket of items which in Brussels would cost 100 currency units.

Applying the weighting<sup>78</sup> thus makes up for the difference between the cost of living in a particular place of employment and that in Brussels.

Intermediate adjustments<sup>79</sup> can be decided by the Council if there is a substantial rise in the cost of living. Since 1991 this has happened in Italy, Greece, Spain and Portugal. There has been no intermediate adjustment since 1997.

The table below shows how the weightings have developed since 1990.

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<sup>72</sup> The method applied to adjust the salaries of officials based in places of employment outside the EU follows the same basic principle of preserving equivalence of purchasing power with Brussels, but with certain differences.

<sup>73</sup> Article 64 of the Staff Regulations: "The weighting applicable to the remuneration of officials employed at the provisional seats of the Communities shall be equal to 100% as at 1 January 1962."

<sup>74</sup> And an annual exchange rate for those Member States that have not adopted the euro.

<sup>75</sup> Article 9 of Annex XI states: "On the basis of a report by the Statistical Office and when objective factors reveal an appreciable distortion in purchasing power in a given place of employment compared with that in the capital of the Member State concerned, the Council, on a proposal from the Commission and in accordance with the second paragraph of Article 64 of the Staff Regulations shall decide to set a weighting for that place."

<sup>76</sup> Multiplied by the exchange rate where the euro does not apply.

<sup>77</sup> At the annual exchange rate for those Member States that have not adopted the euro.

<sup>78</sup> And an annual exchange rate for those Member States that have not adopted the euro.

<sup>79</sup> Article 4(1) of Annex XI to the Staff Regulations stipulates that "interim adjustments of remuneration pursuant to Article 65(2) of the Staff Regulations, taking effect on 1 January, shall be made in the event of a substantial change in the cost of living if the sensitivity threshold is reached and with due allowance being made for the forecast of the change in purchasing power during the current annual reference period".

Table 5.1

WEIGHTING												
Number of staff	Place										% 98/91 (94 FIN,A,S)	euro introduced on 1.1.1999
		1.7.1990	1.7.1991	1.7.1992	1.7.1993	1.7.1994	1.7.1995	1.7.1996	1.7.1997	1.7.1998		
27 550	B/L	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0		100,0
93	DK	129,7	123,3	121,1	123,9	120,3	123,0	125,4	128,7	129,3	-0,3	129,3
44	D*	105,3	105,3	107,1	113,0	111,4	110,9	111,5	109,7	108,2	+2,8	108,2
24	Bonn	94,6	94,2	96,1	99,8	101,6	100,8	100,8	101,1	102,2	+8,0	102,3
197	Karlsruhe*	92,4	92,2	94,6	100,2	99,8	100,0	99,0	98,1	98,8	+6,9	98,8
4	Munich	103,8	103,6	106,0	110,6	110,3	110,2	110,4	108,8	109,0	+5,0	109,0
121	GR	77,8	77,9	81,0	83,2	80,2	79,7	86,5	87,6	84,3	+8,4	84,5
477	E	104,1	104,6	107,7	93,5	88,0	85,1	91,3	90,8	91,0	-12,6	90,8
134	F	114,2	113,0	114,5	116,1	113,2	110,8	116,4	118,0	120,0	+5,1	120,0
174	IRL	98,6	97,0	97,8	91,5	92,1	89,6	93,6	104,9	104,2	+5,7	102,8
175	I	111,5	112,2	113,4	101,2	94,2	81,7	97,0	100,3	100,8	-9,6	100,3
1 300	Varese	100,9	103,5	105,8	94,3	90,3	78,5	92,7	94,4	94,7	-6,1	94,3
184	NL	97,7	97,9	101,1	101,6	103,0	103,2	104,9	108,1	111,5	+14,1	111,6
30	A					111,3	113,6	114,7	114,5	111,2	-0,1	111,2
77	P	77,3	85,3	95,5	88,8	80,5	81,4	84,0	86,5	84,9	+9,8	84,8
12	FIN					108,8	119,0	117,0	117,4	116,6	+7,2	116,6
14	S					102,7	96,5	117,6	116,7	119,7	+16,6	108,7
214	UK	110,1	117,1	120,4	107,3	106,7	100,7	115,3	142,4	157,5	+43,1	144,7
5	Culham	97,8	102,2	102,9	94,2	91,1	84,0	91,5	115,0	123,4	+26,2	113,3
30 829	Average**	100,1	100,2	100,5	99,7	99,4	98,7	99,7	100,0	100,2	+0,2	100,1

\* Commission proposal to the Council not adopted; Bonn weighting applied for 1990-93

\*\* weighted according to the number of staff

(Source: Eurostat)

The places of employment with the largest number of staff are Belgium and Luxembourg (89% of total staff; weighting 100%), Varese (weighting: 94.3%), Spain (weighting 90.8%) and Karlsruhe (weighting: 98.8%).

The average weighting adjusted according to the number of officials and other staff is 100.1.

In practice, the weighting is calculated in two stages:

First the national statistical institutes record prices in the Member States,<sup>80</sup> and Eurostat calculates an average price ratio known as the economic parity.

Economic parity = average (of prices in the place of employment/prices in Brussels)

<sup>80</sup>

In the capitals and other places of employment.

This parity is then divided by the annual exchange rate to obtain the weighting (ratio of prices after conversion into a single currency).

weighting = economic parity/annual exchange rate<sup>81</sup>

Changes in weightings can thus result from changes in the economic parities and/or exchange rates.

### 5.1. Economic parity

The economic parity<sup>82</sup> is the average ratio of prices in the place of employment to Brussels prices. It is thus the amount in the national currency needed to purchase, in the place of employment, the equivalent of goods and services to what could be bought in Brussels with 1 currency unit.<sup>83</sup>

The table below shows how the economic parities have developed:

Table 5.2

ECONOMIC PARITIES											switch to the euro	
	1 BEF =	1 BEF =	1 BEF =	1 BEF =	1 BEF =	1 BEF =	1 BEF =	1 BEF =	1 BEF =	%	EUR 1 =	
	1.7.1990	1.7.1991	1.7.1992	1.7.1993	1.7.1994	1.7.1995	1.7.1996	1.7.1997	1.7.1998	98/90	1.1.1999	
B/L	1	1	1	1	1	1	1	1	1		1	EUR
DK	0,24041	0,23145	0,22602	0,23175	0,22931	0,23354	0,23493	0,23757	0,2388	-0,7	9,633	DKK
D*	0,051230	0,051095	0,052053	0,054986	0,054036	0,053954	0,054169	0,053153	0,05248	+2,4	1,082	EUR
Bonn	0,046014	0,045743	0,046686	0,048548	0,049267	0,049032	0,048967	0,048973	0,04958	+7,7	1,023	EUR
Karlsruhe	0,044962	0,044747	0,045974	0,048764	0,048398	0,048641	0,048101	0,047525	0,04792	+6,6	0,9884	EUR
Munich	0,050494	0,050291	0,051495	0,053788	0,053520	0,053612	0,053657	0,052743	0,05285	+4,7	1,090	EUR
GR	3,7007	4,1453	4,7891	5,5159	5,8780	6,3003	6,6570	6,7030	6,905	+86,6	278,5	GRD
E	3,1145	3,1897	3,3062	3,4770	3,5112	3,6192	3,7318	3,7206	3,744	+20,2	0,9077	EUR
F	0,18670	0,18617	0,18703	0,19031	0,18840	0,18894	0,19132	0,19301	0,1951	+4,5	1,200	EUR
IRL	0,017903	0,017600	0,017838	0,018256	0,018464	0,019123	0,018823	0,019447	0,02007	+12,1	1,028	EUR
I	39,878	40,556	41,694	44,756	45,218	46,671	47,517	47,553	48,16	+20,8	1,003	EUR
Varese	36,088	37,424	38,893	41,709	43,315	44,812	45,406	44,777	45,25	+25,4	0,9427	EUR
NL	0,053553	0,053563	0,055358	0,055442	0,056037	0,056253	0,057138	0,058955	0,06096	+13,8	1,116	EUR
A					0,37963	0,38855	0,39219	0,39058	0,3792		1,112	EUR
P	3,3078	3,6093	3,8702	4,1109	4,0149	4,1809	4,2001	4,2371	4,215	+27,4	0,8481	EUR
FIN					0,17527	0,17756	0,17305	0,16980	0,1718		1,166	EUR
S					0,24010	0,24495	0,24924	0,25124	0,2556		10,31	SEK
UK	0,018500	0,019399	0,020171	0,020582	0,021103	0,022178	0,023872	0,023907	0,02530	+36,8	1,021	GBP
Culham	0,016446	0,016929	0,017241	0,018072	0,018030	0,018502	0,018950	0,019307	0,01982	+20,5	0,7995	GBP

\* Commission proposal to the Council not adopted for 1990-93; Bonn weighting applied.

(Source: Eurostat)

<sup>81</sup> If it is the same currency, the rate is 1 and the parity is equal to the weighting.

<sup>82</sup> Article 1(3)(a) of Annex XI provides that "the Statistical Office, in agreement with the national institutes, shall calculate the economic parities which establish the equivalence of purchasing power of the salaries of European officials serving in the capitals of the Member States and in certain other places of employment specified in Article 9 with reference to Brussels".

<sup>83</sup> Until 1 January 1999 this was 1 Belgian franc; since then it has been 1 euro.



In practice the calculation is done as follows:

- about one third of the existing price ratios are checked each year<sup>84</sup> by incorporating new prices recorded in the latest price survey;
- all the prices are then updated using detailed indices;
- the price ratios are aggregated into a weighted average in the light of the pattern of Community officials' expenditure to obtain the economic parity (average price ratio).<sup>85</sup>

Some aspects of this calculation are currently being looked into:

- The incorporation of prices from new surveys may break the continuity (in relation to updating with price indices), and thus affect the stability of the economic parities.
- Specific problems regarding the comparability and representativeness of rents have led to the setting up of a rent task force within the Article 64 Group;<sup>86</sup> its final report is due in May 2000.
- The Article 64 Group has asked Eurostat to check whether the conclusions reached in 1995 on the spending patterns to be used for aggregating the economic parities are still valid. Eurostat had done a series of statistical tests showing that the spending patterns of international officials differed significantly from those of national civil servants, so it was not appropriate to use national figures to aggregate the economic parities.

## **5.2. Annual exchange rate**

Until 31 December 1998, the salaries of officials employed in Member States other than Belgium and Luxembourg were expressed in Belgian francs but paid in local currency, e.g. in pesetas in Spain.

This involved applying an exchange rate fixed annually against the Belgian franc so that the salary paid in local currency did not vary from month to month.

The following table shows that some exchange rates fluctuated greatly against the Belgian franc during the reference period, with very substantial effects on the weightings.

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<sup>84</sup> Article 1(3)(b) lays down that "the economic parities shall be calculated in such a way that each basic component can be checked by a direct survey at least once every five years".

<sup>85</sup> To facilitate the aggregation, the key prices are grouped so that their relative weight in overall spending can be estimated.

<sup>86</sup> The Statistical Office convenes the Working Group on Article 64 of the Staff Regulations, made up of experts from the national statistical institutes, at least once a year, at the latest in September.

At its meetings the Group looks at all the statistical problems encountered in establishing the joint index and the economic parities.

Table 5.3

ANNUAL EXCHANGE RATES*										switch to the euro	
	BEF 1 =	BEF 1 =	BEF 1 =	BEF 1 =	BEF 1 =	BEF 1 =	BEF 1 =	BEF 1 =	BEF 1 =	%	EUR 1 =
	1.7.1990	1.7.1991	1.7.1992	1.7.1993	1.7.1994	1.7.1995	1.7.1996	1.7.1997	1.7.1998	98/90	1.1.1999
BEF	1	1	1	1	1	1	1	1	1		1
DKK	0,18533	0,18774	0,18665	0,18699	0,19059	0,18984	0,18733	0,184635	0,184699	-0,3	7,44878
DEM	0,048655	0,048544	0,048593	0,048650	0,048515	0,048638	0,048596	0,0484637	0,0484896	-0,3	1
GRD	4,7583	5,3189	5,9133	6,6260	7,3282	7,9001	7,6970	7,65462	8,19471	+72,2	329,689
ESP	2,9916	3,0482	3,0703	3,7205	3,9920	4,2517	4,0891	4,09937	4,11607	+37,6	1
FRF	0,16347	0,16479	0,16337	0,16389	0,16642	0,17057	0,16443	0,163519	0,162538	-0,6	1
IEP	0,018149	0,018151	0,018230	0,019945	0,020048	0,021333	0,020113	0,0185432	0,0192637	+6,1	1
ITL	35,754	36,148	36,767	44,236	47,987	57,113	48,998	47,4158	47,7737	+33,6	1
NLG	0,054789	0,054692	0,054765	0,054558	0,054413	0,054490	0,054487	0,0545435	0,0546568	-0,2	1
ATS					0,34123	0,34204	0,34202	0,341006	0,341146		1
PTE	4,2788	4,2335	4,0512	4,6281	4,9903	5,13901	5,0010	4,89980	4,96500	+16,0	1
FIM					0,16114	0,14923	0,14789	0,144672	0,147384		1
SEK					0,23386	0,25372	0,21188	0,215378	0,213611		9,48803
GBP	0,016810	0,016567	0,016756	0,019187	0,019784	0,022033	0,020710	0,016787	0,0160658	-4,4	0,705455

\* Art.63 of the Staff Regulations: exchange rates used for the implementation of the EC general budget on 1 July.

### 5.3. The changeover to the euro in 1999 and the weightings

Since 1 January 1999, salaries have been expressed in euros (and paid in euros in the 11 Member States participating in the single currency).

The introduction of the euro means there is no longer any need to fix an exchange rate annually for the participating Member States since salaries are expressed and paid in the same currency (the euro).

Salaries outside B/L = B/L salaries x weighting<sup>87</sup>

<sup>87</sup>

Multiplied by the exchange rate where the euro does not apply.

Table 5.4

Changeover to the euro on 1.1.1999										
Calculation of weightings										
The weighting is equal to the economic parity divided by the exchange rate										
Country/ place of employment	for information: in BEF at 1.1.1999				in force since 1.1.1999				Exchange rate (EUR 1 =)	
	currency	Economic parity (BEF 1 =)	Exchange rate (1.1.1999) and bilateral rates (BEF 1 =)	Weighting (%)	currency	Economic parity (EUR 1 =)	Exchange rate (EUR 1=)	Weighting (%)		
B / L	BEF	1	1	100,0	EUR	1	1	100,0	BEF 40,3399	
DK	DKK	0,2388	0,184650	129,3	DKK	9,633	7,44878	129,3	DKK	
D	DEM	0,05248	0,0484837	108,2	EUR	1,082	1	108,2	DEM 1,95583	
Bonn	DEM	0,04958	0,0484837	102,3	EUR	1,023	1	102,3	DEM 1,95583	
Karlsruhe	DEM	0,04792	0,0484837	98,8	EUR	0,9884	1	98,8	DEM 1,95583	
Munich	DEM	0,05285	0,0484837	109,0	EUR	1,090	1	109,0	DEM 1,95583	
GR	GRD	6,905	8,17281	84,5	GRD	278,5	329,689	84,5	GRD	
E	ESP	3,744	4,12460	90,8	EUR	0,9077	1	90,8	ESP 166,386	
F	FRF	0,1951	0,162607	120,0	EUR	1,200	1	120,0	FRF 6,55957	
IRL	IEP	0,02007	0,0195232	102,8	EUR	1,028	1	102,8	IEP 0,787564	
I	ITL	48,16	47,9989	100,3	EUR	1,003	1	100,3	ITL 1936,27	
Varese	ITL	45,25	47,9989	94,3	EUR	0,9427	1	94,3	ITL 1936,27	
NL	NLG	0,06096	0,0546287	111,6	EUR	1,116	1	111,6	NLG 2,20371	
A	ATS	0,3792	0,341109	111,2	EUR	1,112	1	111,2	ATS 13,7603	
P	PTE	4,215	4,96981	84,8	EUR	0,8481	1	84,8	PTE 200,482	
FIN	FIM	0,1718	0,147391	116,6	EUR	1,166	1	116,6	FIM 5,94573	
S	SEK	0,2556	0,235202	108,7	SEK	10,31	9,48803	108,7	SEK	
UK	GBP	0,02530	0,0174878	144,7	GBP	1,021	0,705455	144,7	GBP	
Culham	GBP	0,01982	0,0174878	113,3	GBP	0,7995	0,705455	113,3	GBP	

D : Germany except Bonn, Karlsruhe and Munich

I : Italy except Varese

UK: United Kingdom except Culham

#### CONVERSION INTO EUROS:

The economic parity in euros is equal to the economic parity in force expressed in BEF multiplied by the BEF exchange rate (and divided, for the euro countries, by the exchange rate for the national currency).

#### 5.4. Recovery of overpayments

Fixing, at the end of the year, new weightings backdated to 1 July may entail retroactive adjustments - upwards or downwards - to salaries and pensions. Since 1994 the regulations adjusting salaries have thus made provision for back payments or the recovery of overpayments, as the case may be, where salaries and pensions have risen or fallen.

## 6. CONCLUSIONS

The system of remuneration laid down in the Staff Regulations guarantees equivalence of purchasing power between Community officials taking account of their family situation and the cost of living in their place of employment.

The 1991 method was the result of negotiations between the Council, the administrations of the Community institutions and representatives of the staff of the institutions. It is applicable from 1 July 1991 to 30 June 2001,<sup>88</sup> and has produced the following results:

- (1) Since 1991, national civil servants have seen the purchasing power of their salaries fall (by an average of -2% for EU-15).
- (2) The inclusion of the principle of parallelism in the method has automatically applied this reduction (-2%) to the net salaries of Community officials.
- (3) The quid pro quo for the method has meant an additional loss of purchasing power (-4.2%) by way of the temporary contribution and increased pension contributions.
- (4) The effect has thus been a substantial loss of purchasing power for Community officials (-6.1% in 8 years).
- (5) Only the fact that the method works automatically has enabled conflicts over annual negotiations to be avoided.
- (6) It can thus be said that Community officials' salaries have moved in line with changes in the economic and social situation, with a loss of purchasing power going beyond parallelism with national civil servants.

For the above reasons, the Commission takes the view that the method has achieved its objectives.

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<sup>88</sup> The method (Annex XI to the Staff Regulations) and the temporary contribution (Article 66a of the Staff Regulations) are applicable until 30 June 2001. The increased pension contributions continue to apply after 30 June 2001.