Zentraler Personalausschuss
Central Staff Committee
Le Comité Central du Personnel

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Attack on salary adjustment procedure
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Massive loss of purchasing power

Summary: In the communiqué "Financial Study Update" issued on 24 January 2020, the management writes:

> *"The sixth and final meeting will be dedicated to a discussion of the salary adjustment method. As you may be aware,* ***by simply moderating the increases in our salary adjustment, we could bring about a substantially positive effect on our finances, compared to the effort required****. After this last meeting, discussions with Staff Representatives will continue in our existing working group on the salary adjustment method."*

We explain below why you should be extremely worried by this statement in the context of a flawed financial Study performed in bad faith, which management still intends to use as a pretext to further arbitrarily cut your benefits.

The context and the effect of the announced measure:

Following a flawed and expensive financial study, management has invented a (fictive and future) financial gap of Euros 3,8 billion, which it has topped up over the summer with an additional Euros 2 billion buffer. It now wants staff to pay for this imaginary bill and fill half of this fictive gap. This means that staff is asked to contribute roughly to Euro 3 billion.

It is becoming more and more clear from the last meetings[1] with management that the office wants to "fill the gap" through a massive decrease of purchasing power by attacking the salary adjustment procedure (SAP).

[1] The fifth meeting of the WG-finances took place on 22 January and a meeting between SUEPO and the President took place on 23 January 2020.

You will immediately understand that Euro 3 billion divided by roughly 10000 active staff members and pensioners means an average loss of 300.000 Euro per staff member through the (insufficient) adjustment of salaries and pensions, which is a considerable effort. The new SAP will start from 1.7 2020 after many staff have already been punished with the new career system during the last 6 years and will go on being punished if management does not fix it.

The effect will be even more important for newcomers who will be impacted during a much longer period. For them this will add to the effect of the (lack of a decent) career on their New pension System. This will also intervene right after having increased the contribution rate to the pensions by 1,1% which already means a decrease of the net salary from 1st January 2020 and also for the newly recruited newcomers in G7 a further decrease in the sums injected in their SSP.

Is this the way the new President intends staff to be engaged to work for the EPO?

The perverse and misleading message of management:

The managerial propaganda refers to *"simply moderating the increases in our salary adjustment"*. Management expects that due to the "money illusion" phenomenon[2], staff will not to understand that management actually plans to massively cut their purchasing power and therefore will accept it.

Staff would be ill advised to accept such cuts. Should the President succeed, based on such a flawed financial study, to implement drastic cuts through a flawed and unfit for purpose salary adjustment procedure, one can only imagine the next round of cuts he will implement through other measures (pension, education allowance, etc…).

Management proposal for a new salary adjustment procedure?

You might start wondering how (by which concrete provisions) management intends to ruin the future adjustments of your salary. We have been asking ourselves and management the same question during the last months. To no avail. Management has refused to appoint specialists of the SAP in the WG on finances. After 5 meetings we have not yet started to discuss any detailed provision of the SAP. Management has also not managed yet to answer our legitimate questions on a flaw[3] of the financial study concerning the

[2] Money illusion is the name for the human cognitive bias to think of money in nominal, rather than real terms. In other words, the face value (nominal value) of money is mistaken for its purchasing power (real value) at a previous point in time.

[3] The financial study assumes that the current salary adjustment procedure will lead to a constant increase of 0,5% above cost of living evolution despite assuming also a severe crisis. This is a beginner's mistake, to put it mildly. It is obvious that governments will not adjust the salaries of their civil servants above inflation during a crisis period but rather below.

salary adjustment procedure (SAP). We have been asking for realistic simulations for the specific indicator since the end of last year. Some simulations were provided this week but not using the required assumptions. In other words, the Office uses a stress scenario to predict income but still refuses to provide the GDP data used in such a scenario to predict the specific indicator. The simulations by Oliver Wyman and Mercer are again useless.

Due to the complete lack of action and lack of transparency of management we have provided them with a complete and detailed proposal[4] for a SAP more than one month ago. This proposal includes a moderation clause and an exception clause. It respects the principles of the salary adjustment procedures as they exist in the two big groups of European Organisations, ie the EU institutions and the Co-ordinated Organisations and also as they exist in the SAP of the EPO since its creation more than 30 years ago in 1988:

- the principle of equality of purchasing power between the different places of employment
- the principle of parallelism of evolution with the salaries of civil servants in reference countries.

The President is very poorly advised:

During the meeting with SUEPO the President informed us that he could imagine a procedure based on national inflation capped with a European inflation. He expressed that he did not see the interest of having a reference to Brussels in our SAP.

We were shocked to hear that the President could have been so ill-advised to even express such an idea. Capping a national inflation with a European average for the purpose of measuring and following cost of living in a specific place is unprecedented and completely inconsistent from a statistical point of view.

We tried to explain during the meeting that such a procedure would not be fit for purpose and would not respect basic principles. It would also completely disregard the considerable work[5] put together during decades by the relevant statistical offices working for the international organisations (Eurostat and the ISRP) to improve the statistical data used for

[4] See annex 1 to the "Report of the fourth meeting of the WG on Finances"

[5] Brussels is taken as a reference city by the ISRP and Eurostat. They compare prices in the other cities with prices in Brussels in order to determine the purchasing power coefficients ensuring equality of purchasing power amongst the different places. The argument mentioned by the President that we have no staff in Brussels is totally irrelevant. Nobody would dare to pretend that the absence of the sea in the Alps and Himalaya has any relevance to assess the altitude of Mont Blanc or Everest in reference to the sea. Either the President has been misled to believe it is a good argument or he has been advised by somebody having no clue about the salary adjustment procedure. Either way, this is worrying, only a few months before the Administrative Council should decide on a new SAP.

international civil servants in Europe. It would lead to a completely arbitrary adjustments of salaries. Such a proposal can only have been advised to the President by people who think they can change anything just for the sake of changing with a complete disregard for what exists, why it exists and why it is fit for purpose.

Such proposal would result in cumulative losses both on salaries and on pensions (violating the principle of parallelism) and would also introduce unfairness and inequality among different sites of employment (violating the principle of equality of purchasing power).

If the purchasing power coefficients over the period of the method evolve in opposite directions in Munich and The Hague and the average evolution of the European price index is lower than the average national inflation in the country where the purchasing power coefficient is moving upwards, the erratic movements would be exacerbated.

Inequality of treatment between the staff at the different places of employment will not only generate feeling of unfairness, resentfulness and division, but it will most probably result in further litigation and lack of engagement.

Indeed, if such ideas are implemented, they will lead to erratic and arbitrary results. The results of the salary adjustment method will not be "stable, foreseeable and clearly understood[6]" and will not meet basic standards set by the Tribunal. If the President has been told that he can do whatever he wants provided he follows the right procedures and applies the new salary adjustment procedure properly he has been gravely misled. A salary adjustment is there for adjusting the wages of international civil servants and it must be fit for this purpose and not just any methodology will do this. On top of this the mere desire to save money at the staff's expense[7] is not in itself a valid reason to depart from a standard. This is clearly the case here where **the sole basis for arbitrary salary adjustments is a demonstrably flawed financial study**. We doubt the Tribunal will allow this.

We understand the desire for technical or political reasons to smoothen the effects of inflation or the increase of salaries. This is precisely the purpose of the moderation and exception clauses which have been introduced in the salary adjustment procedures of the EU and the Co-ordinated Organisations. However, in both groups of organisations this has been done whilst respecting the principle of equality of purchasing power. This is what your staff representatives have proposed. So far to no avail.

[6] ILOAT Judgments 2420, 2095, 2081, 1913, 1912, 1821, 1419,1265.
[7] Judgment 1821, considerations 7 and 8

Conclusion:

We fear that the President is extremely poorly advised on the crucial and sensitive issue of the salary adjustment procedure and the constraints any international organisation worth the name must respect.

The time framework currently considered combined with the dogmatic and inconsistent proposals aired so far by management, if no proper discussion takes place in the Sub-Committee of the GCC on SSPR, will inevitably lead to a major social conflict, further litigation and a sense that the President and his management team (which is still vastly the same as under President Battistelli) are either unable or unwilling to conduct any social dialogue.

It is the Office choice either to go on further destroying the conditions of employment and further risking the reputation and attractivity of the EPO.

Unfortunately, we cannot rule out that the advisors of the President who have supervised and influenced the financial study, will end up convincing him.

The mobilisation of staff against such non sense will be crucial if staff wants to maintain the purchasing power of its salary. The alternative for staff is to accept yet another severe cut in their conditions and open the way to the President for the next round of cuts, e.g. the pensions, following a new financial study showing an even bigger gap.

COME TO THE GENERAL ASSEMBLIES AT ALL SITES!

HAVE YOUR VOICE HEARD!

VOTE THE RESOLUTION!

Your Central Staff Committee