The EPO Salary Adjustment Procedure Story

The initial situation

- Salary Adjustment every year by application of a Salary Adjustment Method (SAP). Salary Scales and allowances are adapted;
- Salaries must be attractive for people from all member states and must therefore at least evolve in parallel with salaries of national civil servants;
- The fundamental principals of salary methods in International Organisations are therefore:
    - equality of purchasing power among the places of employment (CPI/HICP x PPP)
    - parallelism with the evolution of the salaries of civil servants in member states (SI)

Invention of a financial gap for the EPO by Wyman/Mercer in 2019

- A **financial gap of 5.8 Billion EURO** until 2028 was calculated in the financial studies by Wyman/Mercer based on a scenario assumed for the economical development in the next 18 years (base II scenario).
- The audit study conducted by Ernst/Young of Summer 2020 recognised a series of too conservative assumptions for the situation of the EPO and technical errors with an overall assessment of the Wyman/Mercer studies as

Excessively overcautious and indicates the clear intention of the EPO to find a financial gap where there isn't any for the purpose of reducing staff benefits.

Financial measures selected in order to close the gap

- A bundle of 17 measures has been proposed by Wyman/Mercer in order to close the gap until 2038
- Eventually the following measures have been selected out of the bundle:
    - Measure 16: One-off and annual cash injection into the Pension Reserve Fund (RFPSS);
    - Measure 15: Annual cash injection into the EPOTIF;
    - Measure 10: Increase of pension contribution;
    - Measure 11: Increase of procedural fees;
    - Measure 13: Digitisation of the patent grant process;
    - **Measure 1: Designing a new Salary Adjustment Procedure (SAP)**
- By the amended SAP a remaining gap of **2.0 Billion EURO** shall be closed **until 2028**
- The President's new SAP[1] will be applied **from 01.01.2020 onwards for six years**

1 For further details on the President's new SAP please see document "Presidents new SAP in a nutshell.pdf"

The President's promises on his new SAP

On 09.04.2020 in an EPO intranet communiqué the President announced (emphasis added):

1. *"We proposed ten cost-saving measures by the consultants. We have taken only one – the Salary Adjustment Method – and* ***we have chosen the salary adjustment method with the lowest intensity*** *in order to limit the impact on our staff."*

2. *"There is* ***no desire to cut staff purchasing power****…*

3. *… or impose* ***unnecessary savings****."*

4. *"There is a desire, however, to* ***make sure that we have a stable*** *and* ***predictable method*** *that generates savings, ensures that salaries continue to grow, even above eurozone inflation and even in times of financial crisis, and, above all, make sure we can do so for many years into the future"*

Promise 1: *"We have chosen the salary adjustment method with lowest intensity"*

Proposal of Wyman/Mercer (financial study phase II):

ID	Measure name
1	Adjust method for collective salary adjustment

Low	Medium	High
Inflation + 0.25%[3]	Inflation[3]	Inflation - 0.25%[3]

low intensity

The Reality:

ID	Measure name
1	Adjust method for collective salary adjustment

Low	Medium	High	Very high
~~Inflation + 0.25%[3]~~	~~Inflation[3]~~	~~Inflation - 0.25%[3]~~	Inflation DE **– 0.30%** Inflation NL **– 1.2%**

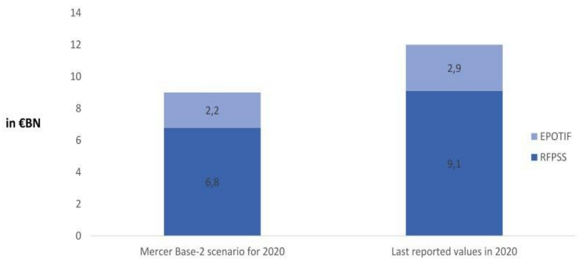
Promise 2: *"There is no desire to cut staff purchasing power"*

Reality:

Munich:	**0.3% BELOW** DE inflation
The Hague:	**1.2% BELOW** NL inflation

Nobody lives under Eurozone inflation.
Distortions were to be expected.

Promise 3: "*There is no desire to make unnecessary savings*"



€3 BN more in EPO funds (RFPSS+EPOTIF) than Base-2 scenario

The performance of the EPOTIF and the RFPSS exceed the assumptions in the financial studies by 3.0 BN Euro in September 2020. Even higher performance can be expected until the end of the year.

Effects of the other financial measures

financial measure no.	implementation	**Gap to be closed until 2038 in Billion EURO**	**-5,8**
16 + 15	current values of the funds	RFPSS+EPOTIF surplus already in 2020	3,0
13	ongoing	Digitisation Patent Grant Process until 2038	1,2
11 (medium impact = inflation comp.)	01.01.2020	Fee increase effects until 2038	1,0
10 (low impact)	01.01.2020	Increase of pension contribution (3,3%) until 2038	0,3
		Remaining gap until 2038	**-0,3**

September 2020: The real remaining gap to be closed until 2038 is **only 300 Million EURO**.

Please note that the financial studies assumed the gap of 5.8 BN EUROs only for the case that the previous SAP would be continued.

After the third quarter 2020 the EPO had achieved a budget surplus of 287 Million Euros and until the end of 2020 a budget surplus of 380 Million Euros can be expected.

The EPO could easily afford continuation of the previous SAP without any financial risk and reward staff for their last years contributions accordingly.

Reality**:**

- Advisory Group on Remuneration (GCC/DOC 17/20):
  "The new salary adjustment method will save over the period of 2020-2025 already **€1 BN**."
  It saves in the coming 5 years already half of the €2 BN expected until 2038.
- Even this assessment seems to be very conservative. Alone **the salary adjustment for 2021** of 0,5% instead of 3,8% (previous method) will already lead to gains of **€0,95 BN.**
- Just the **salary adjustment of 2021** leads to gains of about **€0,7 BN in excess over the real remaining gap.**
- Active staff member's are de facto forced to **close the entire gap at ONCE** and the **office will continue to make tremendous savings on the expense of staff.**

What happens outside the EPO?

SAP results in other organisations/ national governments

Co-ordinated Organisation (CO)

4.2% adjustment for NL and DE
- ESA
- NATO
- OECD

European Union

3.2% adjustment > **0.7** will be adjusted as of 1 January 2020
> **2.5** will be paid when GDP is positive (expected in 2021)

Civil servants
- **DE > 1,51%** adjustment
- **NL > 2,75%** adjustment

Smoke screen of "redistribution" in the President's SAP

The President refers to the "redistribution mechanism" which would be applied after three years in case of excessive surpluses gained by his new SAP (periodical settlements, Article 10 Implementing Rule for Article 64 ServRegs).

Such a "redistribution" has not been defined yet; in any case it has to be approved by the Administrative Council.

It is already clear today that pensioners will never benefit from a "redistribution".

Any "redistribution" would be paid as a lump-sum to active staff members; however this would not affect your pension rights, but compares merely to a bonus payment.

In summary the President

- broke his promises to staff;
- ignored his own financial studies (Wyman/Mercer) and has wasted the corresponding expenditures;
- ignores the current financial situation of the office, meaning that the alleged financial gap is de facto closed without amendment of the SAP;
- ignored all SAP proposals of the Staff Representation, even though they would have led to appropriate savings in 2021;
- designed his SAP arbitrarily and wrongly (wrong parameters like Eurozone inflation, wrong mechanisms like final cap)
- introduced violations of ILOAT case law by his SAP; and
- by application of his SAP will downgrade each and every staff member by one step in 2021 and will probably continue with such downgrading in the coming years.

What is the President's position?

In a meeting on 18.11.2020 the President:

- alleged that his new SAP would be needed to pay your pension, without any further arguments;
- alleged that **his new SAP would be supported by staff**;
- refused to correct the SAP with the Administrative Council;
- stated that his new SAP has the effects he wanted;
- praised his SAP to put the office on the safe side in any case, since
    - either the financial stability of the office would be ensured even in economically hard times;
        - Remark: We thought it was the intention of the financial study of Wyman/Mercer to find the right measures to ensure financial stability...;
    - or the office would make tremendous gains which could be used to reduce the procedural fees in order to make the office more attractive, to increase the number of filings and thereby to increase the fee income
        - Remark: Is there something in for staff?

Your perspective

- In terms of purchasing power **you will lose more than one step in 2021**

Country	Calculated	Capped	Difference
AT	2,73%	0,36%	-2,37%
BE	1,80%	0,24%	-1,56%
DE	3,78%	0,50%	-3,28%
NL	3,81%	0,50%	-3,30%

This is equivalent to a pay cut of at least 1 step

- If continued you will lose an entire grade until 2025
- You can hardly compensate this loss by career progression

- **Do you still trust the President?**
- **Do think that everything will be fine by itself?**