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The EPO salary adjustment procedure

Pillaging staff during the pandemic

Financial Study 2019 by Oliver Wyman & Mercer

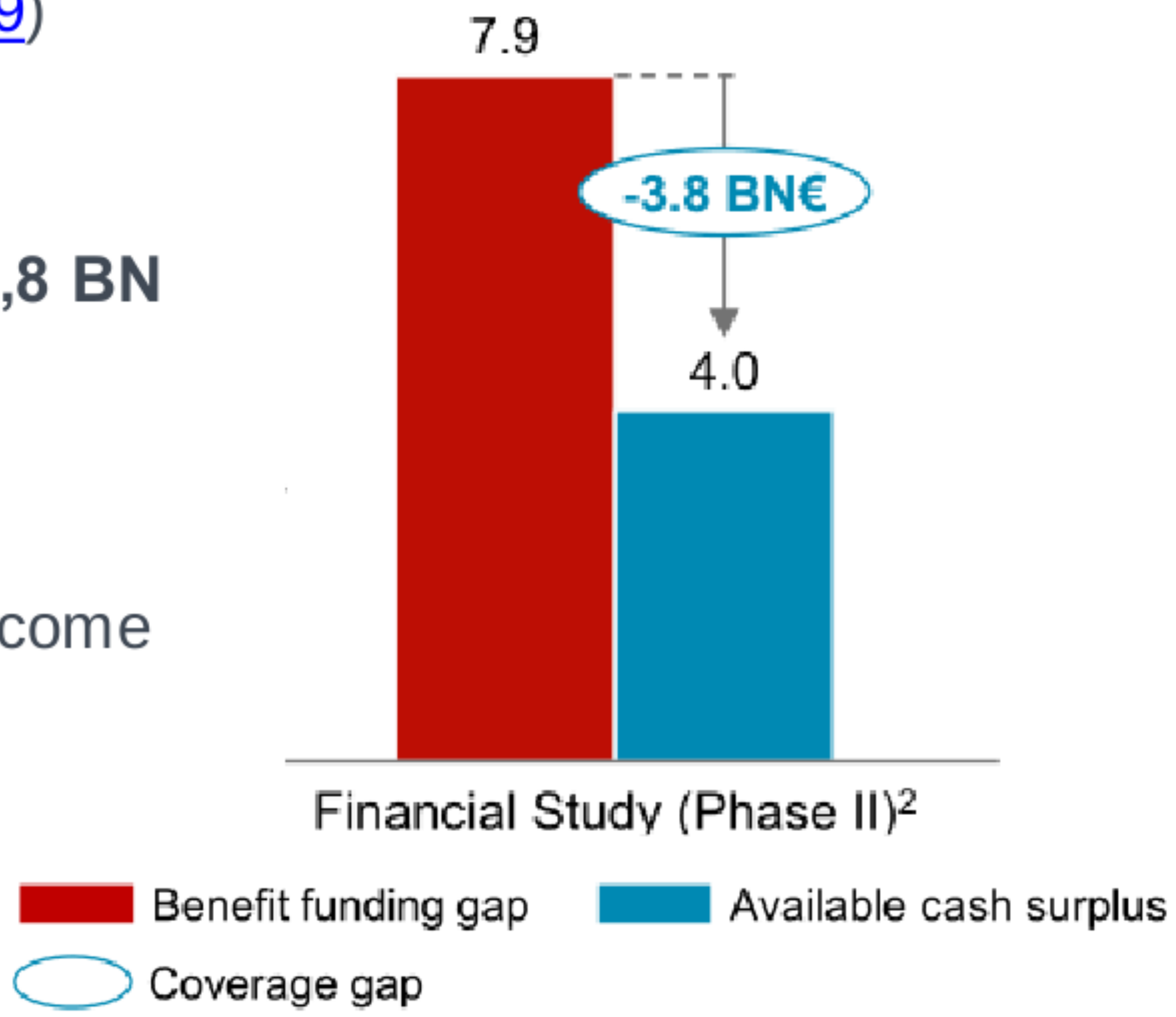
- **October 2019**

Publication of Financial Study (Phase II) (CA/83/19)
President's decision (CA/84/19):

- **deflation risks**
- select Base 2 scenario with coverage gap of **€3,8 BN**
- add on top an arbitrary **€2,0 BN** buffer.

Total: **€5,8 BN**

- Proposal of **16(+1) financial measures** to overcome the alleged gap



Financial bundle of measures

- **May 2020**

Bundle of measures for the period **2020 – 2038** (CA/18/20)

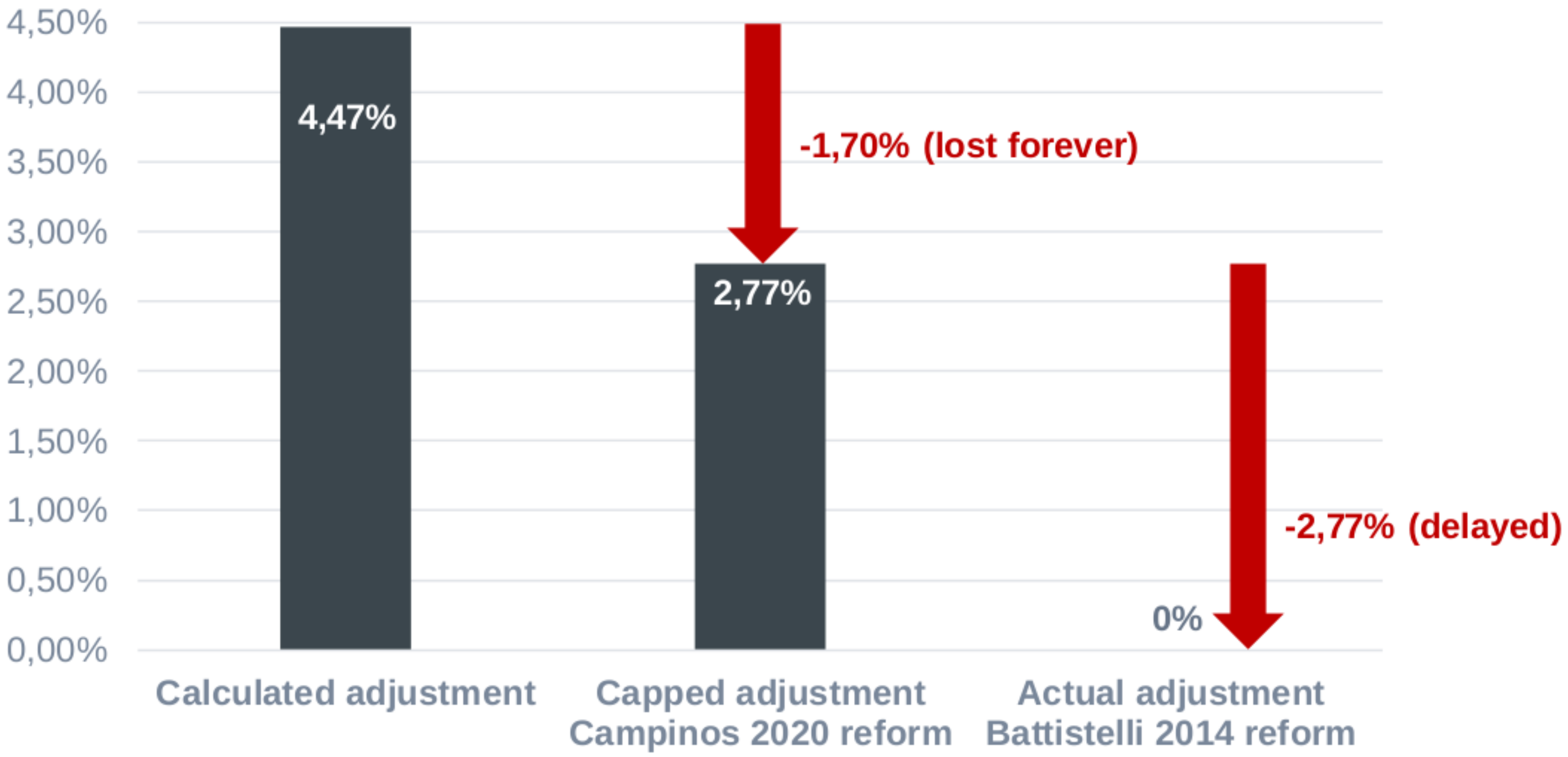
Out of **16 measures, 6 measures** were chosen to overcome the alleged gap of **€5,8 BN (= €3,8 BN Base 2 scenario + €2,0 BN arbitrary buffer)**

Measure 1 "**Salary Adjustment Procedure**": expected savings = **€2,0 BN** affecting EPO active staff and pensioners (CA/19/20 + CA/D 4/20)

The €2,0 BN expected savings actually correspond to the arbitrary buffer decided by the President.

Salary Adjustment Procedure (SAP)

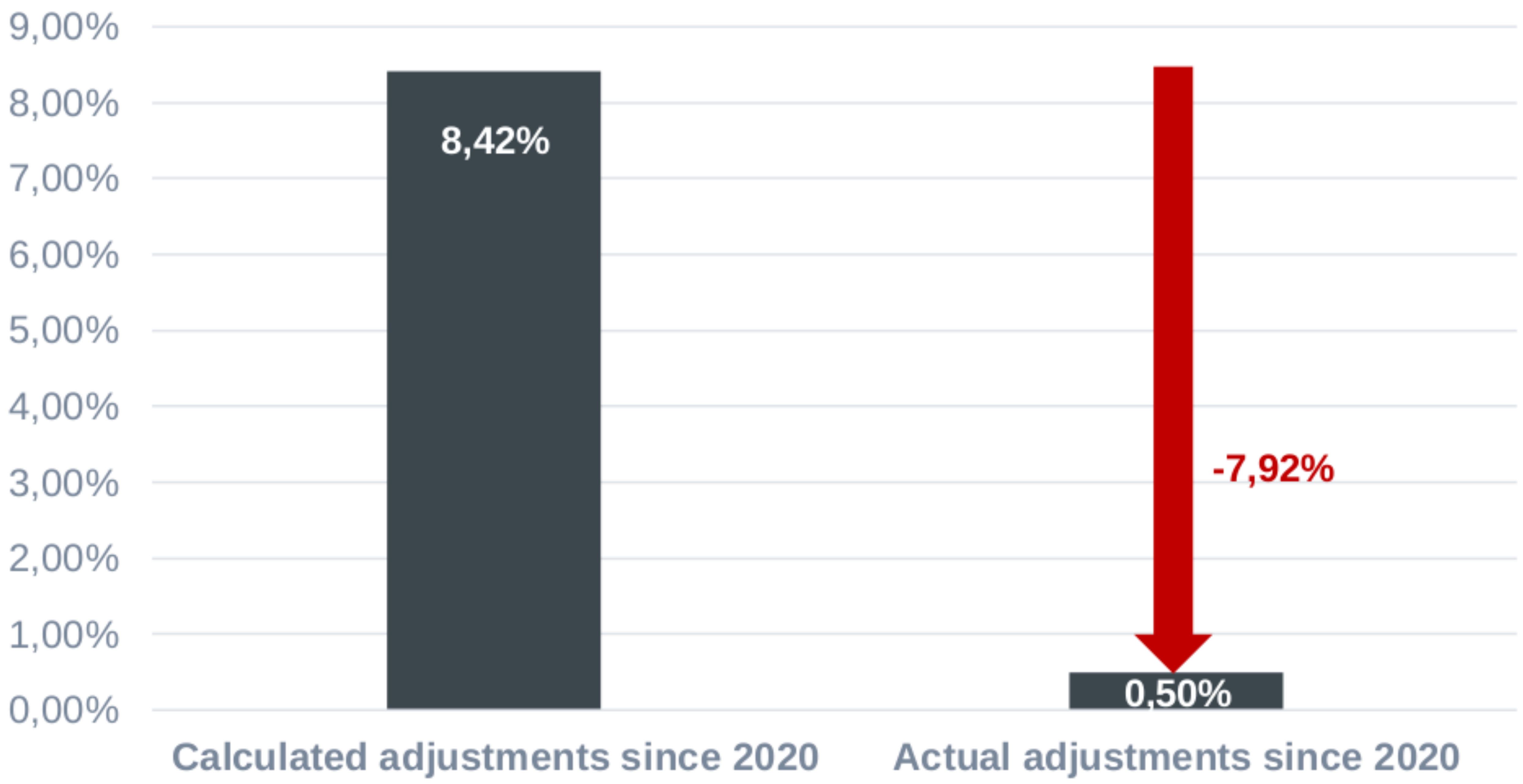
- **Result for year 2021** (applied on salary slip of January 2022)



Source: CA/71/21 *par. 20, 25, 30*

Salary Adjustment Procedure (SAP)

- **Results at the EPO since 2020 (two years)**



Source: *CA/66/20 par. 17, 22 CA/71/21 par. 20, 25, 30*
1,0378 x 1,0447 = 1,0842 vs 1,005 x 1 = 1,005

Salary Adjustment Procedure (SAP)

▪ Battistelli 2014 reform: exception clause

- IF real Gross Domestic Product (GDP) of EPC Contracting States decreased by -3% or more the previous year (-5,9% in 2019), THEN adjustment is delayed until GDP has recovered to previous level

  +2,77% will be added on top of a future adjustment, but **when**?

- Draft budget 2022 (CA/50/21 Add. 3, p 8/17): GDP in 2021 assumed not to have fully recovered before end of 2022, delay until 1 January 2024

- A G8(1) employee at € 6.636 monthly basic salary will lose **€ -2.206** in 2022 and *a priori* at least the same in 2023

Source: *CA/23/14 (par. 34-39)* + *CA/D 3/14*

Salary Adjustment Procedure (SAP)

- **Campinos 2020 reform : sustainability clause**

  - Overall growth in the basic salary mass shall be limited to annual Eurozone inflation + 0,2% as at 1 July of calculation year

    4,47% cut to **2,77%** with **1,7%** transferred to « carry forward pool », what is it?

  - *"**We won't lose the difference** between the former salary adjustment procedure and the new one. The difference will be carried forward to a redistribution pool […] After three years, the remains will be paid out, in cash to active staff members."*

Ms Simon, Intranet Communiqué of 1 December 2020

It is a lump sum withheld for three years
Not pensionable. Not a salary adjustment.

Source: *CA/19/20* + *CA/D 4/20*

Salary Adjustment Procedure (SAP)

- **Campinos 2020 reform: « carry forward pool »**

Periodic settlements

In addition to the above, and following the application of Article 9 (the sustainability clause), accruals will be made in the Office accounts for the potential future payout of a periodic settlement, after three years, of an amount based on the excess salary adjustment calculated by the underlying methodology, but not applied to the salary scales. For 2022 (including 2021), the accruals represent the following percentage adjustment amounts:

- Austria: +4.1%
- Belgium (Brussels): +2.2%
- Germany: +4.9%
- The Netherlands: +3.9%

The « carry forward pool » percentages are salary adjustments lost forever since 2020 (two years)

Source: *Intranet [Communiqué](#) of 20 December 2021*

Salary Adjustment Procedure (SAP)

- **Campinos 2020 reform: « carry forward pool » vs salary loss**

Source: [CA/19/20] + [CA/D 4/20]

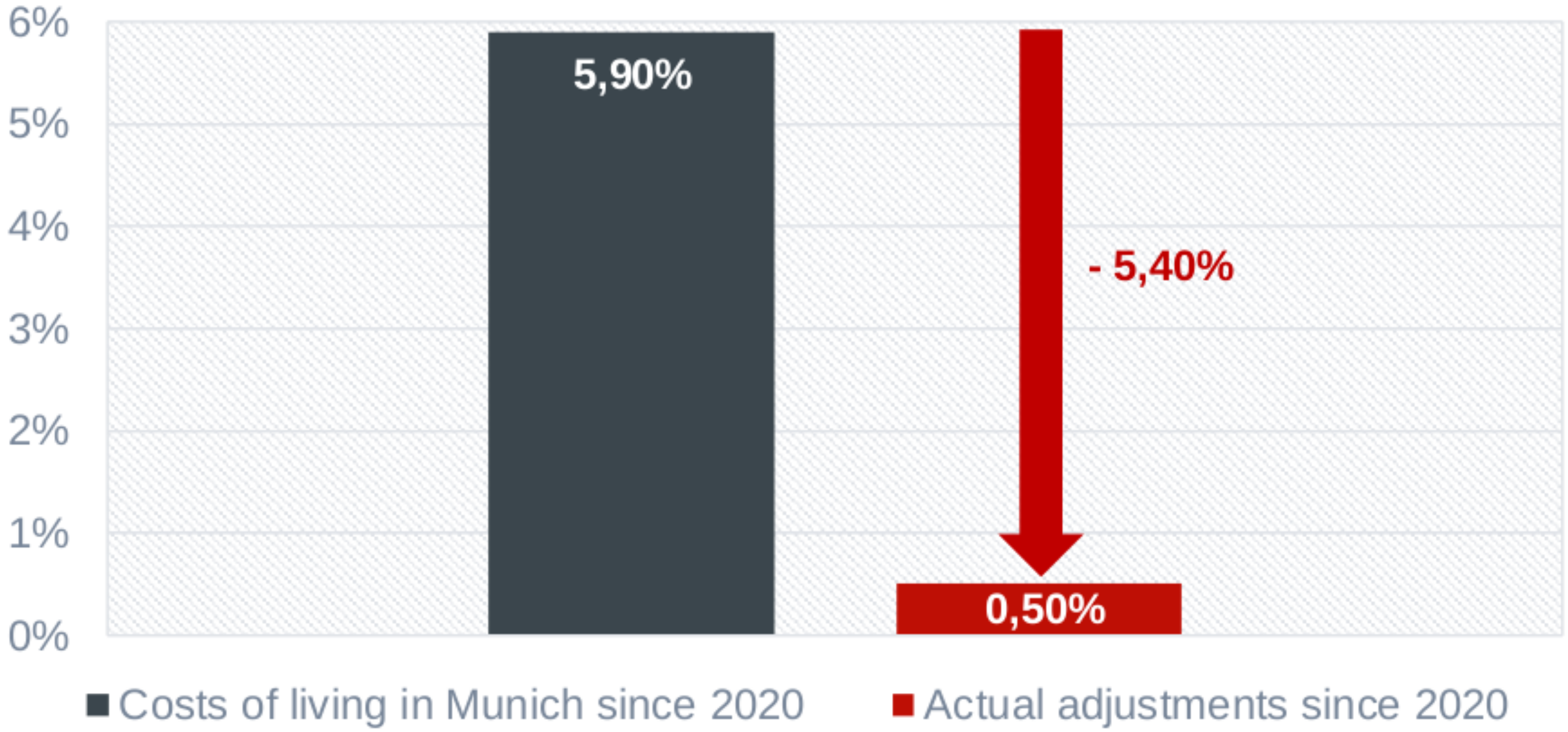
President’s promises

*“There is **no desire to cut staff purchasing power or impose unnecessary savings**”*

Mr Campinos, Intranet Communiqué of 9 April 2020

President’s promises vs The results

- *“There is no desire to cut staff purchasing power”*

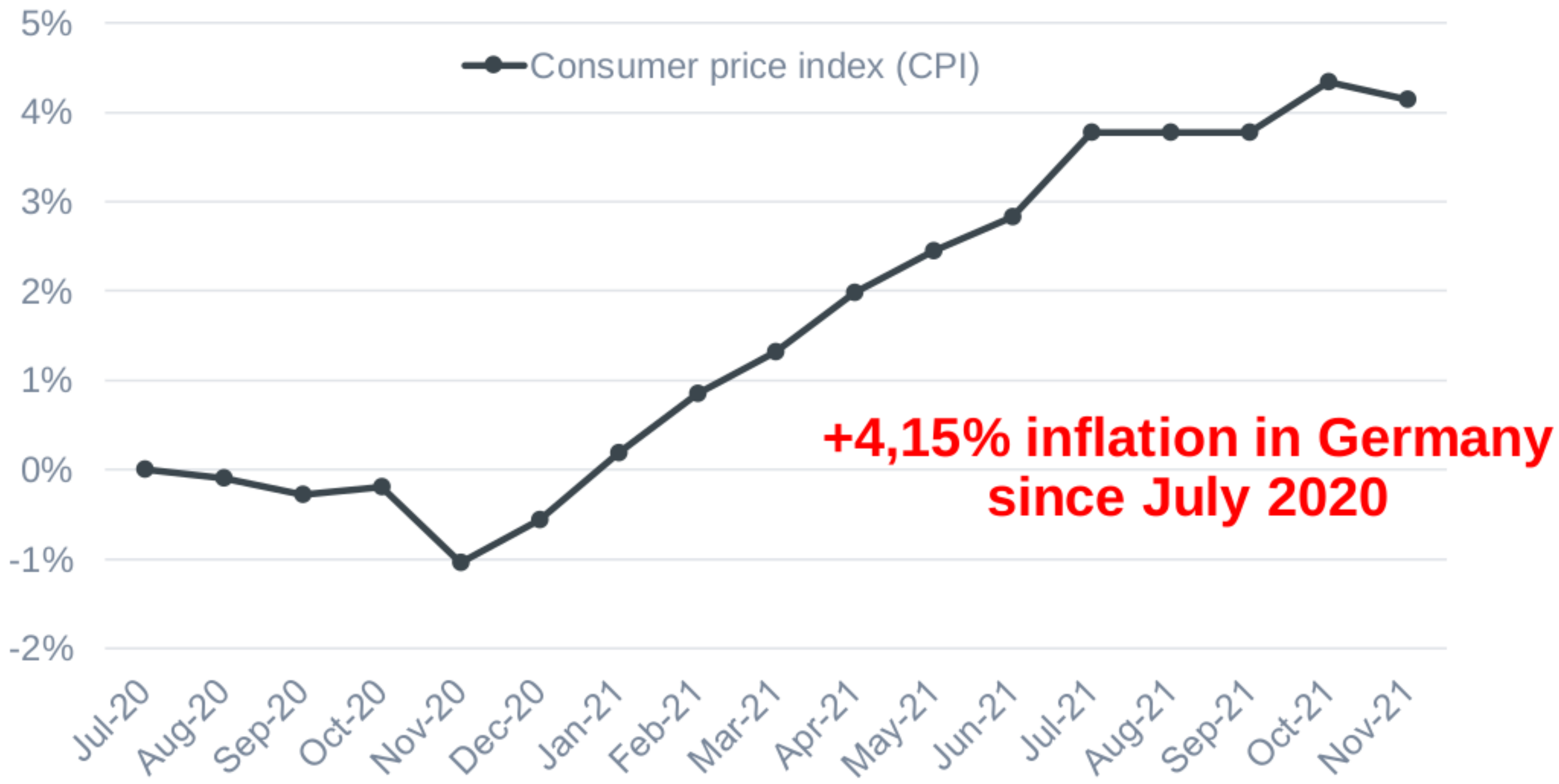


-5,40% loss of purchasing power since 2020

Source:
Harmonised Index of Consumer Prices (HICP) in [CA/66/20](#) Annex 1 (July 2020) and [CA/71/21](#) Annex 1 (July 2021)
PPP_CHG_20 x HICP_BE_20 x PPP_CHANGE_2021 x HICP_BE_21 = 1,0194 x 1,002 x 1,0104 x 1,026 = 1,059

President's promises vs The results

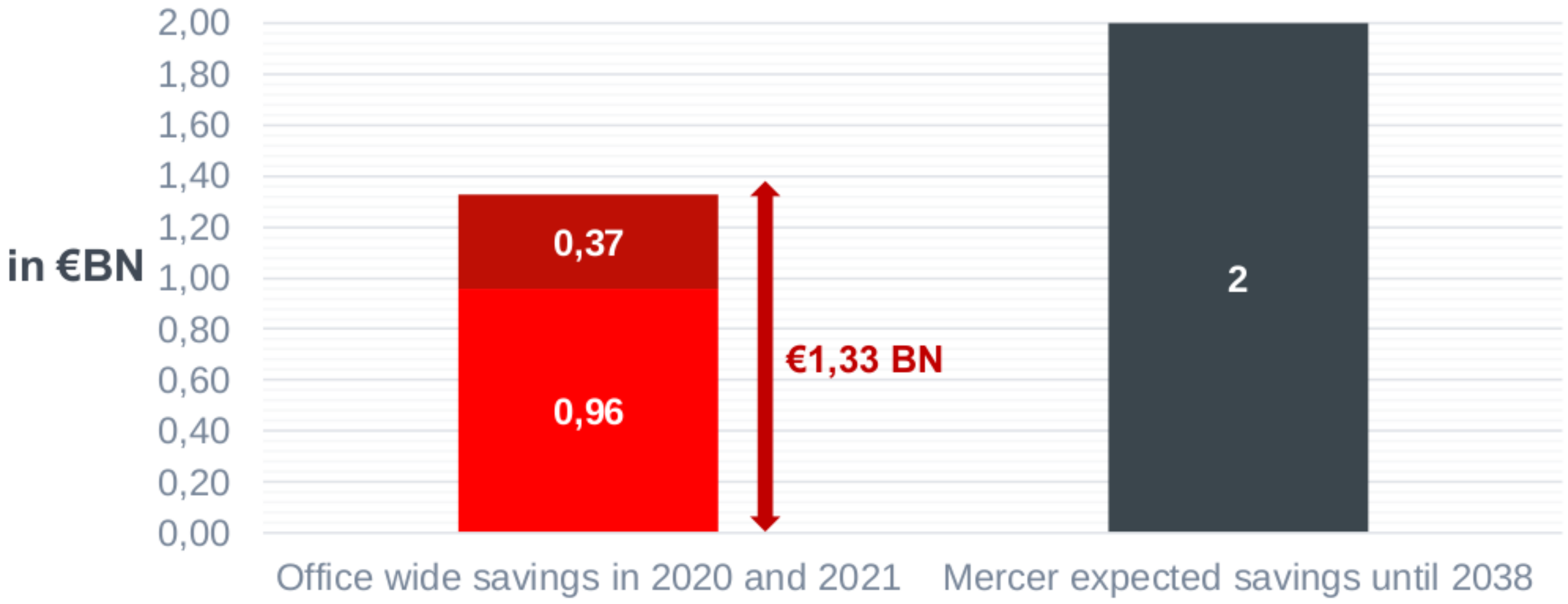
- *"Base 2 Scenario: Deflation risks"*



Source: *Statistisches Bundesamt – [Verbraucherpreisindex]*

President's promises vs The results

- *"There is no desire to make unnecessary savings"*

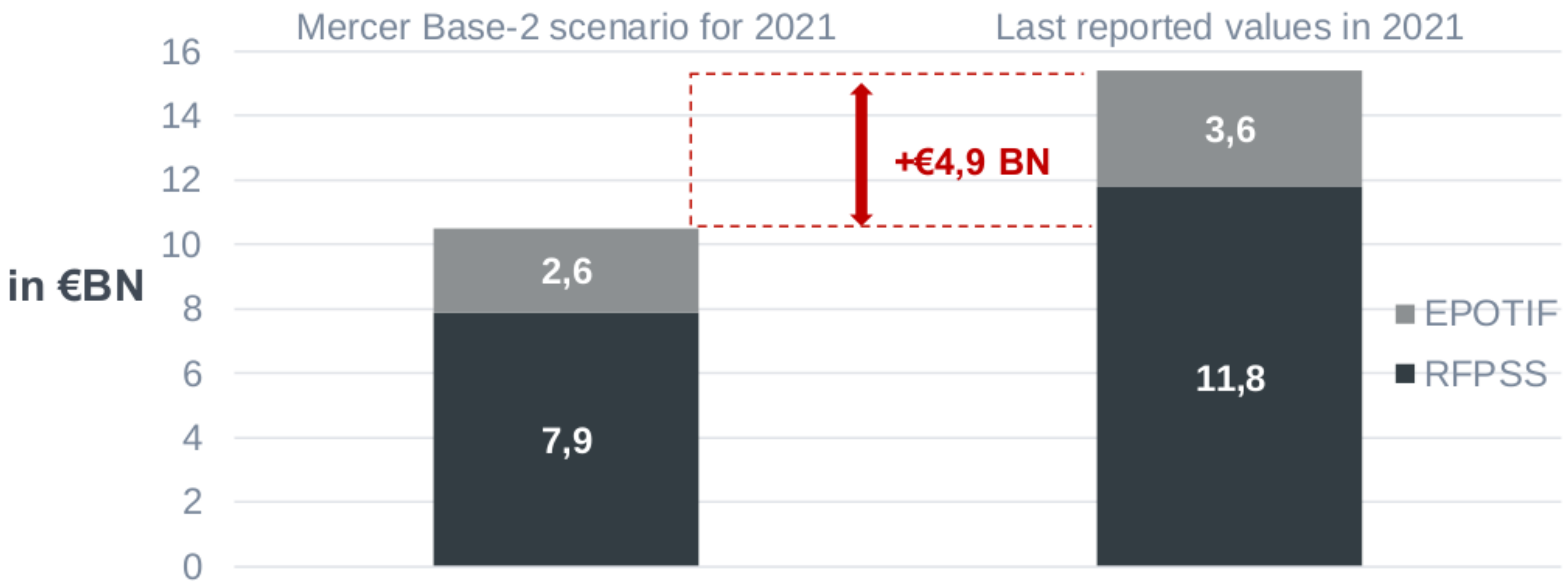


Savings in 2 years are above all predictions

Source: *CA/83/19 slide 6, CA/71/21 par. 25, CA/66/20 par, 22*
2020: (liabilities + buffer) x average_sustainability_cut = (27 + 2) x (3,78% - 0,5%) = €29 BN x 3,28% = €0,95 BN
confirmed as €0,96 BN by Mr Campinos (CA/66/21 par. 26)
2021: € 29 BN x (3,38% - 2,1%) = €0,37 BN

Are financial reforms justified?

- **How are the EPO funds doing?**

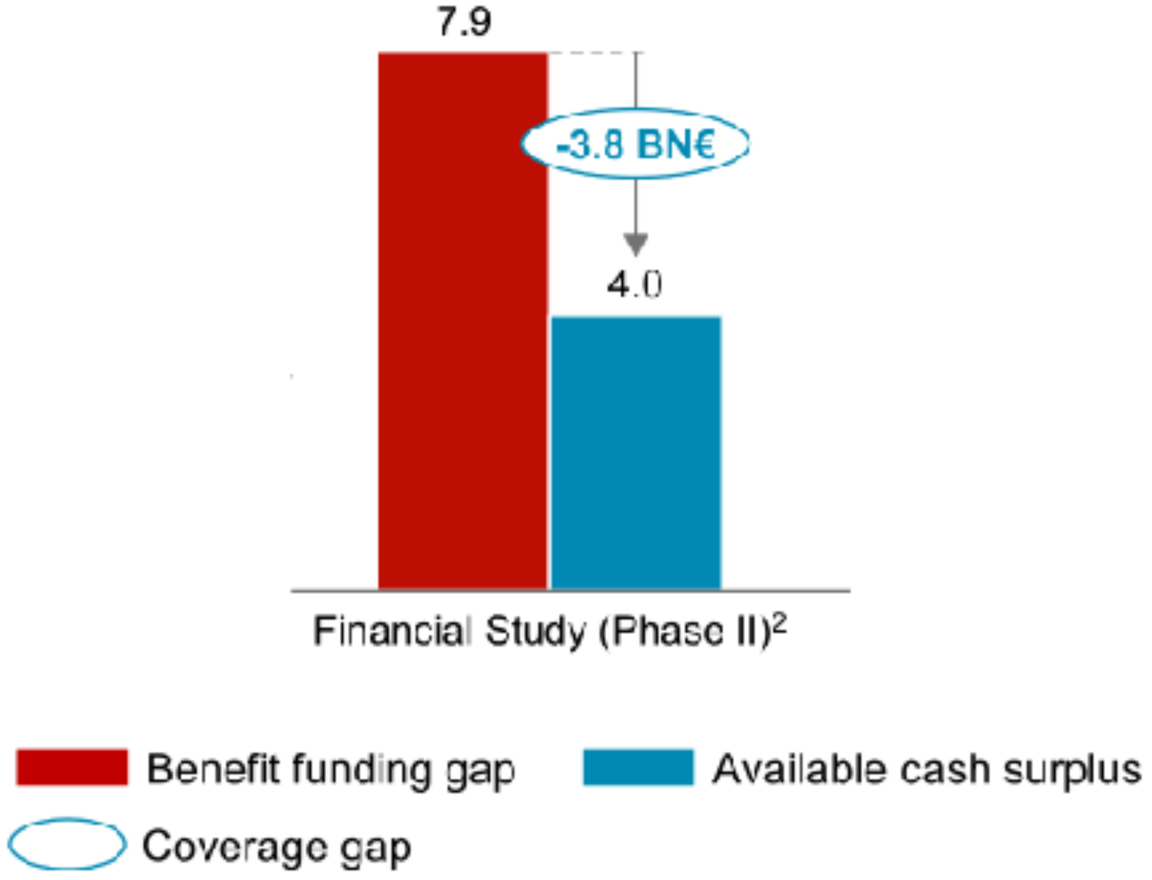


€4,9 BN more in EPO funds (RFPSS+EPOTIF) than Base-2 scenario

Source: *CA/83/19 p. 93/237 EU-HICP 8% actualised since 2018, Reported values on 31 Dec. 2021 (see also Nov. 2021 values in RFPSS/SB 59/21 p. 1/12, CA/F 31/21 p. 1/60)*

Are financial reforms justified?

- **2019: Financial Study by Mercer**



- selects Base 2 scenario with alleged coverage gap of **€3,8 BN**
- adds on top an arbitrary **€2,0 BN** buffer.

Total: **€5,8 BN**

- **2022: Where is the alleged gap?**

- Savings on liabilities = **€1,33 BN**
- Increase of assets = **€4,9 BN**

Total = **€ 6,23 BN > € 5,8 BN**

- **Alleged gap and arbitary buffer covered with even**

€430 million surplus

Are financial reforms justified?

- **Are we losing income?**

The annual surplus by the end of 2021 amounts at least to

€ 310 million

Source: *Budget and Finance Committee meeting report of 8 November 2021*

Q3 (CA/48/21): € 322,5m -> Q4: €430m (estimated)
Better than the budget and better than in 2020

What next?

- Annual Review (CA/40/21)

*« The bundle is expected to have a **positive impact of € 6,4 BN on the coverage gap**, leaving some room for manœuvre »*

- Bundle of financial measures with principles (CA/18/20):

*[…] **reversibility**: if economic developments and progresses are better than expected, the measures could be reversed if the Office's finances can afford it.*

There is no gap, there is a surplus
It is time to revert and stop pillaging staff

Source: *CA/40/21 p. 62/71, CA/18/20 p. 3/15,*