

**E U R O P E A N   E C O N O M I C   A R E A**  
**FORUM OF LOCAL AND REGIONAL AUTHORITIES OF THE EEA EFTA STATES**

Ref. 21-151

**Draft background paper and draft key messages on the Proposal for a Directive on  
adequate minimum wages in the European Union**

Meeting of the EEA EFTA Forum of elected representatives Local and Regional Authorities,  
28 – 29 January 2021

**I        Key messages**

The EEA EFTA Forum of elected representatives Local and Regional Authorities *could*:

- A)     Agree with the overall objective of paying European workers adequate wages, making work pay, fighting poverty and strengthening the role of the social partners and social dialogue while respecting national labour market models;
- B)     Point to the fact that autonomous negotiations between social partners have proven to be successful in ensuring the priorities and security of both employers and workers and in contributing to a flexible working market;
- C)     Disagree on the choice of a directive as instrument to obtain adequate minimum wages and strongly believe a Council Recommendation with systematic follow-up would be a better instrument to reach the objectives;
- D)     Stress the need for the European Commission to identify measures that do not influence the autonomy of social partners in countries with well-functioning collective bargaining systems;
- E)     Strongly support that countries where wages are currently determined mainly through negotiations between the social partners, should be exempted to introduce statutory minimum wages or mandatory extension of collective agreements;
- F)     Be of the opinion that the EU should aim at supporting the role of the social partners and the outcome of their decisions, and work to strengthen social partners and collective agreements coverage, as the main tool to obtain adequate wage and working conditions;
- G)     Emphasise that collective bargaining systems to a greater extent than statutory minimum wage systems, appear to ensure minimum wage and/or wage level in line with strengthening of the economy;
- H)     Underline that other labour and welfare policy instruments are just as important in ensuring livable wages, including measures aiming at full-time positions and work-life balance, as laid out in the Social Pillar;
- I)     Highlight the fact that there are significant differences between European Economic Area Member States in terms of both the wage level and wage setting systems;

- J) Question the legal basis of the EU to put forward a directive on adequate minimum wages, and underline that the Treaty protects the autonomy of social partners by explicitly exempting wages and social partner involvement from EU regulation and encourage instead social dialogue;
- K) Question the EEA relevance of the directive;
- L) Encourage further strengthening of social dialogue in the EEA and Norway Grants.

## II Background paper

The proposed directive is important to the EEA EFTA countries as they are part of the common European labour market through the EEA Agreement.

### 1. EEA EFTA relevance

The proposal concerns policy areas that are included in the EEA Agreement. However, the draft directive is not marked as EEA relevant. The European Commission has indicated that is an error. Iceland and Norway are now carrying out a legal assessment of its relevance.

If assessed as EEA relevant, the directive will have to be incorporated into the EEA Agreement if adopted.

The EEA EFTA States have the right to engage with the legislative process through decision shaping. This can be done in several ways, including through EEA EFTA comments which are prepared by EFTA Working Groups. They are often followed up by discussions at Working Group level or at the bilateral level.

The EEA EFTA Forum of local and regional elected representatives may give input to the EU's Committee of the Regions (CoR). The CoR will be discussing the proposed directive on minimum wage at its meeting on 17 - 19 March 2021.

### 2. The proposed Directive in short

The European Commission submitted a [proposal for a Directive on adequate minimum wages in the European Union](#) on 28 October 2020. The proposal aims to ensure that European workers earn adequate (fair) wages to provide them with adequate working and living conditions. According to the Commission, adequate minimum wages are a well-suited means towards promoting economic convergence and towards strengthening the social aspect of the European market economy. Dumping (lowering) wages may distort competition and penalises those entrepreneurs that choose to pay decent wages. This is often the case within sectors characterised by low skilled workers and low wages. The proposal is also presented in the context of the COVID-19 pandemic, with the Commission underlining that a fair labour market is vital to a speedy post-crisis economic recovery.

According to Eurostat's criteria, about one in six employees in the EU is low paid. The European Commission itself points out that one in ten workers lives below the poverty line. In several EU Member States, statistics show that low wages have not kept pace with other wages over time, which has contributed to higher wage inequality.

To address these concerns, the Directive proposal seeks to:

- (1) Introduce a common framework for the improvement of adequate (fair) wages whilst simultaneously increasing the percentage of the labour force that enjoys access to them;

(2) Promote the use of collective bargaining schemes in all member states;

(3) Introduce a governance framework which provides for effective and meaningful inclusion of social partners and regular updates of statutory minimum wages so that they do not fall behind the general wage development or otherwise fail to provide adequate wages;

(4) Limit to the degree possible variations on statutory minimum wages, through e.g. sectoral minimum wages; and

(5) strengthen monitoring to ensure that employers comply with the rules.

### **3. *Low wages and minimum wages in Europe***

There are significant differences between the European countries in terms of wage level, wage setting systems and labour market models.

The systems used to set minimum wages can be divided into two broad categories: statutory systems and collective bargaining systems, i.e. systems with formal set rates of minimum wages and systems where minimum wages are determined through collective bargaining by social partners.

The proposed directive argues that several statutory systems fail to provide rates which are enough for providing adequate living and working conditions. The proposed directive also argues that several collective bargaining systems fail to provide coverage for large percentages of the labour force due to their workplaces or industries not taking part in negotiations.

The European Commission's proposal aims to strengthen collective bargaining as the main instrument to ensure fair wages and working conditions. Today only six EU Member States set their minimum wages by using collective bargaining. However, since the 1980s trade union density has decreased considerably. As of 2016 less than 10% of the workforce is member of a union in countries such as Estonia and France, although it is considerably more than half in Denmark, Finland and Sweden. Membership to employer organisations varies considerably but has been relatively stable over time. Central and Eastern Europe countries are characterised by predominately firm-level bargaining and employer organisations tend to be low.

### **4. *Stakeholders' reactions***

While most stakeholders support the aim of the proposal; to reduce in-work poverty, ensure adequate wages for workers and support gender equality, many oppose the choice of a directive as legal instrument. Many are of the opinion that a Council Recommendation with systematic follow-up would be a better instrument to reach the objectives. A Recommendation is not legally binding.

Many stakeholders also point to the fact that other working life and welfare policy instruments are just as important in ensuring a liveable wage, including measures aiming at full-time positions and work-life balance. This is clearly identified in the European Pillar of Social Rights.

The legal basis and therefore the EU's right to act in this area, is questioned. The proposed directive is based on Article 153 (1) (b) of the Treaty, which prescribes the EU to support and complement the activities of Member States in the field of working conditions. However, the same Article, 153 (5) says that the provisions of this Article "shall not apply to pay, the right of association, the right to strike or the right to impose lock-outs".

Many stakeholders are questioning how the directive, if adopted, will be interpreted by the European Court of Justice in the future. There are worries that the EU will expand its competencies to other labour issues such as the right to strike and the right of association.

Employers' organisations and trade unions alike from the Nordic countries have voiced concerns that the proposal may undermine collective bargaining and the autonomy of the social dialogues in the Nordics.

#### **4.1 Member States**

Denmark, Finland and Sweden, as well as Austria, with collective bargaining systems and high coverage of the labour force are sceptical to the proposal due to fears it would [undermine their existing models](#). This concern is shared by Iceland and Norway. Eastern European countries have traditionally used statutory systems of minimum wages and have voiced concerns about the intention to promote collective agreements.

#### **4.2 The European Parliament**

The three largest political groups in the European Parliament (Socialists & Democrats, the European People's Party and Renew Europe) have all voiced support for the proposal through their coordinators. [The Greens](#) have voiced support for the proposal but would prefer a more ambitious proposal. On the right and left sides of the European Parliament, the European Conservatives and Reformists and the European United Left–Nordic Green Left have voiced reservations. The former due to fears of excessive EU intervention and the latter due to fears it could undermine the autonomy of social partners.

#### **4.3 Social partners**

The [European Trade Union Conference](#) (ETUC) has voiced support for a number of measures proposed in the proposal, including promoting collective bargaining and creating more efficient systems for updating minimum wage rates. [SGI Europe](#), Business Europe and several [Northern European trade unions](#) have voiced concerns that the proposal may undermine collective bargaining and have recalled the EU's limited competencies in the field.

#### **4.4 The European Committee of the Regions**

The European Committee of the Regions will have its first discussion on the proposed Directive on 7 February 2021 (Commission for Social Policy, Education, Employment, Research and Culture, SEDEC) and aims to adopt an opinion on 17-18 March 2021. The rapporteur is Peter Kaiser (AU/ PES).

#### **4.5. Switzerland**

Salaries as well as the general terms and conditions of employment are governed by employment contracts signed between an employer and an employee. In sectors and businesses that also have a collective labour agreement (CLA), the provisions of the relevant CLA must be complied with. About half of the 5 million employees are protected by a CLA. Around 1.7 million have a CLA stipulating a general minimum wage. As Swiss law does not stipulate a general minimum wage, if there is no CLA, employers are free to define workers' salaries at will.

Swiss voters overwhelmingly rejected a proposal for a nationwide minimum wage of CHF 22 (EUR 20.35) per hour in 2014. Nevertheless, 4 of the country's 26 cantons have introduced one since then: Neuchâtel (2017), Jura (2018) and Ticino (2019). In Geneva on 27 September 2020, an initiative by trade union groups and left-wing parties proposing a statutory minimum wage of CHF 23 per hour has been approved by 58.2% of voters. Another vote on the issue is planned in the canton of Basel City later this year.

In Neuchâtel and Jura, the minimum wage is CHF 20 an hour. While this may sound a lot, the cost of living in Switzerland is also one of the highest in the world. It is still almost double the minimum wages

that exist in most other countries. An OECD study in 2018 calculated the real minimum wages among 32 countries. At the top were Australia (USD 13.90) and Luxembourg (USD 13.80), followed by France (USD 11.70), Ireland (USD 11.30) and New Zealand (USD 11.20).

Supporters of a minimum wage say the aim is to reduce poverty and fight wage dumping, where firms bring in workers from abroad and pay them less. Opponents argue salary levels have to be negotiated between employers and employees without state intervention.

In Neuchâtel, statistics show that the minimum wage had a positive effect on the unemployment rate, which declined more sharply than in other cantons. In 2018, spending on social assistance has also decreased compared to the previous year.

## **5. Context of the proposal**

Low pay remains a feature of employment throughout the EU, with around one in every six employees estimated to be a low-wage earner. These are employees earning 2/3 or less of national median gross hourly earnings. In recent years, low wages have not kept pace with other wages, leading in many countries to an increase in wage inequality. Simultaneously, the proportion of employed people at risk of poverty rose from 8.3% in 2010 to 9.3% in 2018. Now, the corona virus pandemic is having a negative impact on wages, for those on the lowest income.

The economic and financial crisis and the aftermath of it resulted in a social crisis which increased inequality across the EU. After 2008, Europe has been viewed by many as a more effective Union in dealing with bank bailouts than in guaranteeing the wellbeing of its citizens.

The European Commission President addressed this one-sided approach when discussing the economic crisis during his State of the Union speech in 2015 by stressing the need for a European Pillar of Social Rights.

The EU proclaimed the [European Pillar of Social Rights](#) in November 2017, with the aim of building a more inclusive and fairer European Union. The Pillar calls for adequate minimum wages throughout the European Union and for transparent and predictable wage setting mechanisms.

The Pillar of Social Rights includes 20 key principles in three areas covering the following policy areas:

### **Chapter I: Equal opportunities and access to the labour market**

1. Education, training and life-long learning
2. Gender equality
3. Equal opportunities
4. Active support to employment

### **Chapter II: Fair working conditions**

5. Secure and adaptable employment
6. Wages
7. Information about employment conditions and protection in case of dismissals
8. Social dialogue and involvement of workers
9. Work-life balance
10. Healthy, safe and well-adapted work environment and data protection

### **Chapter III: Social protection and inclusion**

11. Childcare and support to children
12. Social protection
13. Unemployment benefits
14. Minimum income

15. Old age income and pensions
16. Health care
17. Inclusion of people with disabilities
18. Long-term care
19. Housing and assistance for the homeless
20. Access to essential services