

1st phase social partner consultation:

a possible action addressing the challenges related to fair min. wages

This document provides the answers of industries represented by Ceemet on the 1st phase social partner consultation under Article 154 TFEU on a possible action addressing the challenges related to fair minimum wages.

Ceemet's key messages

- Ceemet generally agrees with the identified factual issues
- The Commission must clearly define core terminology of this consultation: "fair minimum wages"; "adequate minimum wages", "in-work poverty" etc.
- There is no legal basis for an EU action in this area.
- An EU action in this area risks to breach social partner autonomy.
- A -potentially politically motivated- EU action in this area risks to weaken the role of social partners and eventually weaken collective bargaining, the coverage of collective agreements and negotiated fair wages.
- An EU action in this area could be detrimental since this is a complex issue that goes beyond the Single Market and could have a negative impact on competitiveness, productivity and thus employment.
- Adequate conditions to support a stronger social partnership, including capacity building of social partners, should be put in place.
- The EU should allocate more funds to support capacity building of social partners.
- The involvement of social partners in the setting and updating of statutory minimum wages in Member States where statutory minimum wages exist should be reinforced.
- The involvement of social partners in the European Semester should be strengthened.
- The EU should encourage Member States to address the challenges related to fair minimum wages through the European Semester/Country Specific Recommendations, including as applicable, via reducing the taxes and social security contributions.

I. Do you consider that the Commission has correctly and sufficiently identified the issues and the possible areas for EU action?

Ceemet generally agrees with the identified issues. The Commission's analysis about challenges related low-wage workers, collective bargaining, the setting of statutory minimum wages etc. is correct and facts-based. In particular, Ceemet agrees to the following points:

- *Countries with higher collective bargaining coverage tend to have a lower proportion of low paid workers¹;*

¹ This is also in line with the OECD report "negotiating our way up. Collective bargaining in a changing world of work, of November 2017. See [link](#)

- *Between 2000 and 2015, collective bargaining has decreased from an estimated average of 68.5% to 59.5% with particular strong declines in Central and Eastern Europe;*
 - *Involvement of social partners in the minimum wage setting process appears to be ineffective in some Member States with statutory minimum wages;*
 - *In relation to the notion of fair and decent minimum wages, the decisive aspect of the taxes and social security contributions affecting the net income must be addressed.*
- We are pleased to see this important aspect mentioned in the consultation paper

Yet, Ceemet considers that the Commission should have been more clear about what it understands with certain core terminology of this consultation document. For example, the Commission uses both “fair” and “adequate” minimum wages but these terms do not have the same meaning which can lead to different understandings and interpretations. The concept of “in-work poverty” is also used throughout the consultation document and should have been described in a clear manner.

Low-wage workers and in work poverty

The Commission states that 1 in every 6 workers in the EU earns a low-wage and this share has been rising from 16.7% to 17.2% between 2006 and 2014 with significant increases in some countries. In-work poverty has seen a similar trend, increasing between 2005 and 2018 from 8.1% to 9.6%.

While Ceemet agrees that the challenges related to “low-wage workers” that can lead to in-work poverty should be addressed, we are of the opinion ***that these measures should be decided and taken at national level***, with a reinforced involvement of social partners in that process. An EU action is not the right approach as there is no one-size-fit-all solution.

The Commission itself points out two main findings of its Eurofound agency (see [link](#)) which conclude that “minimum wages” tend to have a more limited impact on fighting in-work poverty, as it is also dependent on household composition, complemented by the national system of benefits, taxation and social security contributions.

The particular case of the MET industries

In the case of the MET industries, wages are generally higher than in other sectors of the economy. For example, they exceed wages in business services by about 10% and in construction by 23%². However, depending on the level at which “fair minimum wages” are set, they could have knock-on effects on lower collectively agreed wage levels/categories, and subsequently median wages. Moreover, it could price people out of labour markets and trigger relocating production out of the EU.

² Ceemet Chief Economist Report 2018, see [link](#)

II. Do you consider that EU action is needed to address the identified issues? If so, what should be the scope of that action?

Legal basis and social partner autonomy

Ceemet does not see the need *nor the legal basis for EU action* in this area.

Although the Commission states that it will not breach social partner autonomy, any EU action in this respect, in particular one of a binding nature, will **weaken the role of social partners**. Furthermore, it would pave the way for the erosion of their roles since they could not continue to function as they do, free from “external interference”. Eventually, it will **weaken collective bargaining and the negotiated fair wages** which will counteract the Commission’s and OECD’s finding that low-wages are not common where collective (wage) bargaining is well developed and applied. This constitutes a political interference via the European level into a highly complex economic issue.

Ceemet finds the introduction of an EU action to address the challenges related to fair minimum wages to be economically and legally unsound. Furthermore, depending on the level of the minimum wage, it can have unwarranted consequences, such as pricing people out of work, outplacement of activities or having knock-on effects on higher, collectively agreed wages and thus on the average / median wage.

Introducing *an EU action to address the challenges related to fair minimum wages can breach national competence as wage setting is a national competence and is in many countries a core responsibility of mandated social partners at the appropriate level*. Wage setting and collective bargaining are autonomous processes for good reasons. Social partners and companies are in the best position to peg wages to productivity, the ability to pay, other elements of remuneration, the need to invest etc.

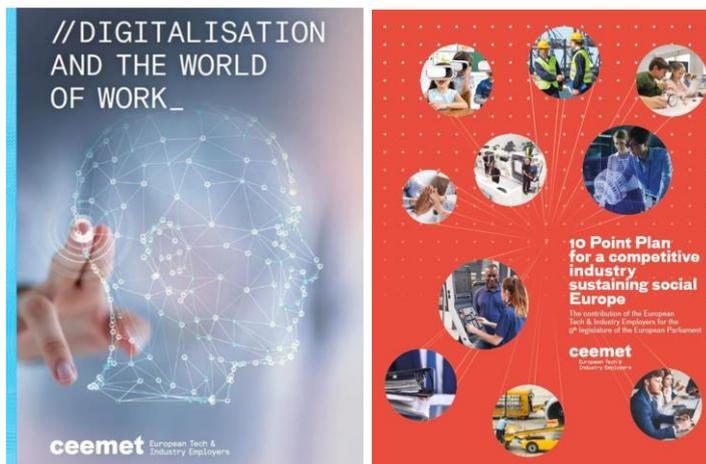
The EU has, therefore, to adhere to the Treaty (TFEU) and safeguard the diversity of national industrial relations systems and the autonomy of social partners regarding wage setting. Art. 153 (5) of the Treaty explicitly excludes pay from the EU’s competences. Also points 123 and 124 of the ECJ case C 286/06, Impact, highlight the lack of legal basis of the EU to harmonise the level of minimum wages across the EU or to establish levels of pay.

Furthermore, an EU action in this area can even be detrimental since **this is a highly complex issue that goes beyond the boundaries of the single market**. EU companies are part of a globalised economy and need to be able to compete internationally. Therefore, an EU action related to fair minimum wages can have a negative impact on competitiveness of companies’, in particular SMEs, productivity and thus on the creation of employment. Undoubtedly, wages (including wage developments) and labour costs influence economic performance and competitiveness both from a macro and microeconomic perspective.

The key role of Social partners

The Commission states that “*Collective bargaining is central to wage-setting as it sets the terms of employment and working conditions of a large share of workers and tends to reduce wage dispersion. Countries with a higher collective bargaining coverage tend to have a lower proportion of low paid worker*”.

The Commission should not curtail but support social partnership which will also be affected by the structural changes due to technological progress and digitalisation.



Since the number of low-paid workers is less in countries with a higher collective bargaining coverage, **the appropriate conditions to encourage social dialogue and increase the capacity, representativeness and mandate of social partners should be created at national level.** This should aim at reinforcing social partnership and encourage collective bargaining in line with national practices while fully respecting the autonomy of social partners.

Social partners possibility to negotiate wages, at the appropriate level, must not in any way be reduced or diminished.

Based on the Commission’s consultation document we conclude that **the growth in the number of low-wage workers is connected to a decline in collective bargaining coverage.** This is another powerful reason to put in place the right measures to support a strong social partnership, including capacity building of social partners in line with national practices and fully respecting social partner autonomy.

If and when social partners consider it useful, the EU should support them in adapting collective bargaining to new economic realities and help social partners’ capacity building.

Also, in countries where collective agreements are declared generally applicable by public authorities, a free-rider phenomenon can be noted, impacting negatively on both employer organisations and trade unions. In the long term this will weaken social partnership and thus collective agreements.

At EU level, the **European Semester process is the right framework to recommend reforms to the Member States in this area** such as, for example, to advice for a stronger social partnership. The EU should support a reinforced involvement of the social partners in this process.

The EU should also allocate more and easily accessible EU funds to support capacity building of social partners as a contribution to an effective and well-functioning social dialogue.

Finally, the EU should support reforms in this area by promoting and encouraging a structured exchange of best practices.

These measures would help to extend the number of workers covered by collective bargaining and thus reduce the number of low-wage workers.

Statutory minimum wages and social partners:

According to the Commission's analysis, the involvement of social partners in the minimum wage setting process appears to be ineffective in some Member States with statutory minimum wages. This ineffective involvement of social partners, could be detrimental for both firms and workers as it would not be based on a full set of relevant information, reflecting all relevant economic and sectoral conditions nor sufficiently articulated with collective bargaining processes.

Therefore, instead of introducing an EU action, the EU should, through the Semester, encourage those Member States with ineffective involvement of social partners in the setting and updating of statutory minimum wages to **strengthen their involvement** as a way to guarantee the adequacy of wages in line with national practices and social partner autonomy.

Compliance with statutory minimum wages or collectively agreed wages is equally important. According to Eurofound's report "minimum wages in 2019", low-pay could result from workers not being covered by a collective agreement or result from non-compliance with minimum wages (statutory or collectively agreed).

Ceemet considers that **improving the level of compliance with both statutory minimum wages and/or collectively agreed wages could reduce the number of low paid workers.**

However, it appears challenging to obtain national data on the extent of non-compliance with statutory or collectively agreed minimum wages. The EU could, in this context, allocate EU funds to develop studies for the research of data on non-compliance.

The European Semester

The EU already has the tools in place to encourage Member States to address the challenges related to "fair minimum wages", namely through the European Semester.

Since the proclamation of the European Pillar of Social Rights (EPSR), the social scoreboard that accompanies the Pillar is being integrated into the Semester and **used as a screening device to assess the performance of the Member States in the delivery of the Pillar.** In this regard, Principle 8 of the Pillar specifically refers to fair wages, adequate minimum wages, and respect of social partner autonomy in wage setting.

The Country specific recommendations (CSRs): tailor advice to Member States

Within the Semester, the CSRs provide **general and specific advice to individual Member States** on how to boost jobs, growth and investment while maintaining sound public finance. This advice is more and more extended to social issues.

Also, for the first time in 2019, each country report and subsequent CSRs **present an investment guidance that identifies possible priority investment in each Member State** that can be financed

In 2019 almost half of the CSR addressed employment, education and social issues such as:

- *"Labour markets: in broad lines, CSR recommend Member States to implement policies that empower disadvantaged groups such as low-skilled workers, older people (...) to access labour market opportunities;*
- *Education systems: Member States are recommended to invest in education and skills (...);*
- *Social inclusion: The CSRs recommend Member States, amongst others, to implement policy measures that promote and facilitate high quality permanent jobs in order to contribute to reducing inequalities and poverty risks and thus to improve social inclusion".*

through the three cohesion funds (ERDF³, ESF⁴ and the Cohesion Fund). The **main objective of the ESF is to make the -non-legally binding- Pillar a reality**, and the aim of linking the ESF+ to the CSR is to allocate the money of this fund to implement the Pillar Principles at national level.

Specific tailor advice:

The individual CSRs also address **specifically the issues of wages**, for example there was a detailed CSR for Germany in 2019 *“to strengthen the conditions that support higher wage growth while respecting the role of social partners”*.

As we see from the examples above, the semester already offers a tool to address these challenges as it provides a combination of recommendations in the social area/wage policy and guidance on financial possibilities. A stronger involvement of the social partners in the semester process is needed.

CSRs are also adapted to the concrete needs and areas for priority investment of each specific Member State in the social/employment field. An EU action to address the challenges related to fair minimum wages would only lead to harmonization and not take into account the individual needs of each Member State.

The debate on “fair minimum wages” is already embedded in the national level structures:

Ceemet points out that according to the Eurofound report of 2019 on “annual minimum wages”, the debates in 2018 on setting a minimum wage often went below establishing a new amount. In various Member States the debates focused, amongst others, on:

*“the role of minimum wages in ensuring an **adequate standard of living** and addressing in-work poverty, connected to the level and take-home value of minimum wages (...)*

These debates haven been influenced by the EPSR principles on wages (principle 6 and 8). With the integration of the Pillar through the Semester, the EU has already created the framework to push the debate at national level on whether minimum wages guarantee an adequate standard of living and addressing in-work poverty (adequate/fair minimum wage).

In the context of this consultation, Ceemet underlines once more, that we need to understand the difference between the terms “adequate minimum wages” as referred to in the Pillar and “fair minimum wages” as referred to in the consultation document. A clear and commonly agreed understanding of these terms is important.

Guidelines for employment policies of the Member States

Finally, Ceemet refers to the guidelines for employment policies of the Member States that have been aligned since 2018 with the principles of the EPSR. In this context, we want to highlight guideline 5 regarding recommendations to Member States on transparent and predictable wage-setting mechanisms and adequate minimum wage levels.

These guidelines are yet another tool to encourage Member States and social partners to ensure the adequacy of wage levels.

³ European Regional Development Fund

⁴ European Social Fund

Exchange of best practices

The EU should also encourage and promote a structured exchange of best practices with an increased involvement of social partners.

Other measures

As according to the Commission analysis, the number of low-wage workers is larger amongst those with lower levels of education/skills, workers should be encouraged to take training to right-skill and up-skill as a way of accessing other career opportunities. Social partners should play a key role in raising awareness about the value of training, specially targeting low skilled workers.

For more information, see Ceemet reply on the consultation of the update of the skills agenda, [link](#).

III. Would you consider initiating a dialogue under Article 155 TFEU on any of the issues identified in this consultation?

Ceemet does not consider initiating a dialogue under article 155 TFEU.

About Ceemet

- Ceemet represents the metal, engineering and technology-based industry employers in Europe.
- Member organisations represent 200,000 companies in Europe, providing over 17 million direct and 35 million indirect jobs.
- Ceemet is a recognised European social partner at the industrial sector level, promoting global competitiveness for European industry through consultation and social dialogue.