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METHOD OF ADJUSTING THE REMUNERATION OF OFFICIALS AND OTHER SERVANTS OF THE EUROPEAN COMMUNITIES

(presented by the Commission to the Council)

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REVIEW OF THE RESULTS OF APPLYING THE METHOD OF ADJUSTING THE REMUNERATION OF OFFICIALS AND OTHER SERVANTS OF THE EUROPEAN COMMUNITIES ADOPTED ON 26 JUNE 1976

On 21 January the Council asked the Commission to submit a review of the results applying the method of adjusting the remuneration of officials of the European Communities (adopted on 26 June 1976), accompanied by an "appropriate" proposal, by 1 July.

This method was the second adopted by the Council to govern the procedure for the annual review of remuneration provided for in Article 65 of the Staff Regulations; the first dated from 1972.

The present review concerns the period 1976-79 covered by the second adjustment method, adopted by the Council on 26 June 1976. A short description of the method may prove helpful.

I. DESCRIPTION OF CURRENT ADJUSTMENT PROCEDURE

The main feature of the method is remuneration increased regularly so as to obviate either delays in adjustments or sudden, sharp increases.

In order to maintain this balanced progression, the Council decided to make a clear distinction between:

- cost-of-living adjustments, which are designed to prevent a serious erosion of purchasing power between two annual reviews; and
- adjustments to assure European officials that their purchasing power will change up or down in parallel with the real remuneration of civil servants in the Member States.

There are two corresponding sets of reference factors used to determine the size of any adjustment:

- cost-of-living compensation is based on a European price index calculated every six months;
- to measure the development of purchasing power, the Statistical Office of the European Communities calculates a specific indicator for the changes in real civil service salaries in the Member States, on the basis of information supplied by the national authorities.

II. ASSESSMENT OF THE CURRENT METHOD

(a) Its value

There can be no doubt of the value of a method which clarifies the provisions of Article 65 of the Staff Regulations. Not merely does it ensure that the data gathered is as objective as possible, but the mere fact of using such data gives a sound basis to discussions.

(b) Trouble spots

Although an element of conflict has not been entirely removed from the negotiations, certain aspects, such as the effective dates, are now beyond dispute. And with a few exceptions the same applies to the statistics that are used.

However, disagreement persists in two main areas:

in the application of Article 65(2);

the accuracy of the specific indicator that is supposed to measure the actual trend of public-service salaries in the Member States.

(1) With regard to the application of Article 65(2), the problem of defining a threshold has always been the subject of controversy.

Furthermore, the principle of maintaining equivalent purchasing power between the different places of employment and the frequency with which the Article is used raise serious difficulties at a time when inflation rates are rising rapidly and diverging widely between the Member States.

Another problem with Article 65(2) concerns transfers which, under Article 17 of Annex VII, must accurately reflect purchasing power parities by being effected at the exchange rate specified in Article 63 of the Staff Regulations, adjusted by a coefficient representing the difference between the weighting for the country of employment and the weighting for the country to which the transfer is made. It is therefore vital to ensure that weightings are properly adjusted.

In this connection the Commission would remind the Council that it has twice had to call in mediators to assist it in the application of Article 65(2) (Mr Coppé and Mr Chubb). Accordingly the Commission feels that crystal-clear rules must now be laid down for the future, particularly as all Article 65(2) provides is an interim measure which can in no wise be interpreted as a system of index-linking since it is agreed that the purchasing power of European officials may be adjusted upwards or downwards when the annual review of remuneration takes place.

(2) A number of defects must be pointed out in the specific indicator used to apply the purchasing power clause.

This indicator is undeniably a valuable statistical tool for quantifying the degree to which national civil servants share in changes in the standard of living in the nine Member States. The methodology used to compile it has been refined in recent years. It nevertheless requires constant monitoring, firstly because the Member States do not all use the same method of adjusting civil service salaries and secondly because the rules for applying them generally change from one year to the next.

Although great efforts have been made both by Member States' delegations and by the Commission itself to give this indicator more authority, a number of defects persist.

The major ones are:

(i) The determination of the components of income to be taken into account in an accurate measurement of the change in purchasing power; there is a tendency to consider only official salary scales and apply them across the board. But in some countries rises have in fact been awarded independently of the salary scales for a number of years, and it has often not been possible to reflect them in the specific indicator; this has reduced the credibility of that indicator and produced distortions when they were incorporated into national salary scales. So the specific indicator sometimes lags behind the real trend. The backlog is then made up in a sudden jump, which may occur at a time when wage restraints are in force in other countries.

Having regard to the spirit of the method, effect has to be given to this kind of increase in the specific indicator, which reflects increases in national salaries extending over several reference years; this can naturally enough pose problems for Member States' Governments.

(ii) The figures supplied for remuneration do not always correspond to the sums actually paid. This problem is particularly acute in Italy, but it also arises in the United Kingdom, where the figures do not include the Inner London Weighting, and in France, where efficiency and productivity bonuses are disregarded.

(iii) The conversion of gross remuneration into net figures also corresponds to theory rather than practice, since adjustments based on the particular circumstances of each individual taxpayer, and hence of each individual civil servant, such as tax relief granted for family and/or occupational expenses, are also excluded.

(iv) The specific indicator as currently defined provides no mechanism for quantifying indirect increases in remuneration resulting from reductions in working time. This type of compensation is, however, becoming increasingly common in the Member States.

The accurate measurement of the trend in the Member States is a most difficult operation which must be effected continuously and exhaustively by the Working Party of Statisticians set up under the method to eliminate progressively the shortcomings which have become apparent.

The Commission is of the opinion that an ad hoc study should also be carried out to assess the changes in working time in its broadest sense in the national civil services. Changes of this nature are likely to gain in importance in the future, and will indubitably have some influence on the evolution of real remuneration.

Finally the Community system has the advantage over the systems in the Member States of being completely transparent; all emoluments of whatever kind are clearly listed in the Staff Regulations of Officials or the Conditions of Employment of Other Servants.

(c) Assessment of the method's results

Since 1970 the parallelism principle has been fundamental to the methods devised for adjusting remuneration. The principle was **confirmed formally** in 1976, in these terms:

"The Council considers that the system of adjusting remuneration forms part of a policy aiming to guarantee, in the medium term, that the remuneration paid to European officials moves parallel to average salaries paid in the Member States to the various grades of national civil servants."

Over the period 1962-70 there was a lack of parellelism between movements in the real remuneration of national civil servants and that of Community officials; however there has been a closer correlation in the periods covered by the two methods of adjusting remuneration (1971-75 and 1975-79).

This parallelism is illustrated in the following table.

Changes in real net salaries in national civil services compared with changes in real net Community salaries

All officials

Country	1975-71	1979-75
Germany	112.2	103.1
France	114.4	100.9
Italy	92.4	116.1
Netherlands	119.0	103.5
Belgium	111.7	101.8
Luxembourg	120.7	106.2
United Kingdom	104.2[1]	96.9
Ireland	106.7[1]	106.8
Denmark	109.9[1]	88.7
Community	108.6	104.0
EEC Officials	110.6	104.4

[1] 1975-73.

Under the first salary adjustment method, changes in purchasing power were dealt with by means of two gross parameters. Their inclusion in the Community system gave Community officials an apparent advantage worth about 0.45% a year. At that time the specific indicator was distinctly unreliable.

Under the current method it has been improved.

The increases granted to Community officials are calculated by reference to the net increases observed at the national level, in other words European officials are entirely subject to the tax and social security policies applied by Member States to their own officials.

There are two reasons why the real net increase in Community salaries (4.4%) is 0.4% higher than for national civil services over the period in which the current method applied (1975-79), giving 0.1% annually. First, the staff structure of the Community institutions is different from that of the national civil services; second, there has been a marked degree of non-linearity in the adjustment of purchasing power over the last few years. At the express request of the Council this non-linearity has been applied in order to benefit officials in the middle and lower grades especially. Moreover, although the specific indicator has been improved, it still does not properly reflect purchasing power trends in the Member States.

III. RELATIVE LEVEL OF EUROPEAN OFFICIALS' SALARIES

The Commission is aware that the question of the relative level of European officials' salaries might be raised in connection with proposals for adjustments.

This is an extremely delicate question and the Commission feels that it should point out that:

(i) under the recruitment system of the Community institutions, which is recognized as extremely demanding, new recruits are not drawn only from the national administrations; the range and complexity of Community tasks requires an increasingly broad spectrum of applicants. In these circumstances the Community finds itself competing both with the private sector - above all the multinationals - and with the semi-state or public sectors properly so called;

(ii) the requirements of the Community institutions, in terms of both language ability and ability to work in an international environment, are growing steadily greater as the number of member countries increases;

(iii) over the years the balancing act constantly demanded by the governments of the Member States, particularly in the higher posts, has considerably reduced career prospects in the European Communities.

A comparison of career profiles in the national administrations and in the Community institutions cannot fail to make this fully apparent;

(iv) lastly, no fair comparison can be made between national civil servants working in their own country and European officials, the great majority of whom are working away from their place of origin. The 16% expatriation allowance which European officials are granted cannot compensate for the financial and other inconveniences which working away from their own country involves. The Commission would also point out that it is still having difficulty in attracting and keeping officials from certain Member States.

The Commission therefore considers that if there is to be any comparison, it must be primarily with the salaries of staff working outside their country of origin, such as staff working for multinational companies or members of the diplomatic service. The statistics provided by the Member States for calculating the specific indicator cannot be regarded as an adequate yardstick for three reasons:

these statistics relate to the salaries of staff working in their home country;

the statistics are compiled in order to determine changes in these salaries and this purpose they adequately fulfil, although there are some well-known difficulties, which are described below;

they are not comprehensive, as indicated above, and therefore cannot be used for comparison.

IV. REASONS BEHIND A POSSIBLE COMMISSION PROPOSAL FOR AMENDMENTS

The time lag between salary adjustments being introduced at the national level and the Council being called upon to take a decision on corresponding measures for European officials is a constant problem.

Each time that a new method of adjustment has been introduced the Commission has proposed that this situation be remedied by introducing a scheme of forward estimates or an ex-ante system. Such a system would also have been in line with the trend over the last few years in most Member States in determining changes in national civil service salaries.

The Council has not seen fit to approve these proposals.

In the present circumstances, with the outlook for the future very uncertain, such a method would no longer appear appropriate.

However, experience over the period covered by the current method and the considerations set out below militate in favour of continuing the method, with amendments designed to:

rationalize discussions by specifying in advance how the economic and social situation of the moment will be taken into consideration;

avoid conflicts several times a year;

ensure equal purchasing power in the various places of employment.

The Commission intends to uphold the principle of parallel changes in the medium term, which is the only way of ensuring that the high professional quality of European officials is maintained.

Lastly, the Commission believes that the medium-term principle should make it easier to take account of the psychological and political problems caused by the economic situation of the Community. Similarly this will, in its view, make it easier for the institutions to follow any recommendations made at the Community level as regards salaries.

V. POSSIBLE ADJUSTMENTS TO THE NEW METHOD OF 26 JUNE 1976

From the foregoing considerations it follows that two aspects of the current method should be adjusted:

(i) Firstly, adhering to the principle of medium-term parallel evolution, a precise economic factor could be taken into account for the purpose of adjustments in line with the trend of purchasing power.

(ii) Secondly, a clearer definition is needed for the purpose of applying Article 65(2) of the Staff Regulations of Officials.

1. One of the main sources of the Community's current economic difficulties is the fact that incomes adjust too slowly to the Community's declining wealth ensuing from rising oil prices and hence worsening terms of trade.

The Strasbourg European Council* and the Commission in its recommendations on economic policy guidelines of October 1979** stressed the need "to limit to the minimum the repercussion of energy price rises into incomes".

Moreover, in the minutes of its 18 June meeting the Council recorded that in its proposal for changes in the method of adjusting remuneration the Commission should in particular take account of its recommendation that the rise in energy prices should not be reflected in wages and salaries.

* Steps must be taken to ensure that the drain on real resources which the increase in oil prices entails are not compensated by nominal increases in incomes.

** European Economy, Number 4: "Main lines of policy", page 12.

Most Member States have not adequately heeded this recommendation. This is the main reason why the increase in inflation has been greater than the increase in energy costs and one of the reasons for the slowdown in economic growth. However, in the long term the outflow of wealth from Europe to the oil-exporting countries is bound to cause real incomes in the Community to rise more slowly than before, and even to start falling.

Experience gained from the first round of oil price rises in 1973/74 shows that the process of adjustment can take as long as four years.

One solution to this problem as it arises in connection with the principle of medium-term parallel evolution might be to discount the impact of oil prices in the rate of adjustment of purchasing power taken into consideration for the 1980 annual review. The method of adjusting remuneration would thus follow the recommendations of the European Council and the Commission. However, to prevent officials being affected twice - firstly on the occasion of the above <u>ad hoc</u> measure and secondly in subsequent years via application of the method reflecting the declining rate of growth, or even the actual fall, in real incomes at national level, the initial <u>ad hoc</u> measure would have to be offset by subsequent measures of compensation during the abovementioned period of adjustment at the national level.

Such a system is relatively simple, but if superfluous discussion is to be avoided there would have to be:

(i) a precise definition for the purpose of calculating the impact of oil price rises reflected in the <u>ad hoc</u> measure;

(ii) clear agreement on the length of the period of adjustment in connection with the <u>ad hoc</u> measure.

The rise in the oil bill (value of net imports of crude petroleum and petroleum products) depends both on domestic energy savings, which reduce the volume of imports, and on the increase in crude prices fixed by the oil-exporting countries. The increase in the oil bill between 1978 and 1980 expressed as a percentage of Community GDP may be considered as a precise economic measurement of the increased costs the Community is bearing as a result of decisions taken elsewhere.

The Commission could opt for a four-year period of adjustment, i.e. the ad hoc measure applied in December 1980 would be offset entirely by the time of the December 1984 annual review.

If in the next few years oil prices again increase substantially, a further ad hoc measure with a subsequent period of adjustment would be applied, provided that the impact of the increases taken into consideration was more than 0.5 in one year.

2. It must be recalled that Article 65(2) certainly does not provide an automatic index-linking mechanism, since negative percentages in purchasing power may be taken into account at the annual review.

The aims of this provision are:

(i) to ensure that staff in different places of employment enjoy equivalent purchasing power, so as to guarantee equal treatment of all officials in a Community where there are still large differences in inflation rates in the different States;

(ii) to prevent significant losses in purchasing power during any given period;

(iii) to keep contentious discussions to the end-of-the-year review, all the more so since all the basic papers required can be prepared only once a year.

The interim adjustments pursuant to Article 65(2) have to be more clearly defined for the purpose of attaining these objectives.

A threshold will have to be worked out. The Commission feels that this could be 40% of the average rate of inflation in the Community* over the six-month reference period. However, to preclude excessively high or low - and therefore unacceptable - threshold figures upper and lower limits of 4% and 2% respectively could be fixed.

This threshold would be applied in accordance with the following procedure:

The Commission's proposal for application of Article 65(2) in respect of the second half of the previous year is sent to the Council no later than the second half of April.

If the above threshold were reached or exceeded at the provisional seats (Brussels and Luxembourg) the weightings for all places of employment would be adjusted on 1 January of the current year by the rate of inflation in each of them.

* SOEC: monthly updating of consumer prices - General Statistics and National Accounts.

The ratio between these weightings will then accurately reflect the purchasing power ratios between the Member States and may be used for transfers in accordance with Article 17 of Annex VII to the Staff Regulations.

If in certain countries the rate of inflation exceeds the rates of adjustment as defined above, further adjustments shall be made. A half or a third of the amount to be adjusted shall be granted depending whether this represents twice or three times the rate of inflation. The effective dates shall be either at the beginning of the third month in the reference period or the beginning of the second and fourth months in the reference period. This shall be checked when the Commission makes its proposal in April and rechecked at the annual salary review.

If the threshold is not reached at the provisional seats (Brussels and Luxembourg), the weightings for the countries where inflation has exceeded the threshold shall be adjusted in line with the rate of inflation observed there less the rate observed at the provisional seats.

Additional interim measures shall concern only the countries with a very high rate of inflation and alterations to their weightings shall not be taken into account for the purpose of applying Article 17 of Annex VII to the Staff Regulations (transfers).

Should the measures taken under Article 65(2) result at the end of the year in a reduction of nominal salaries in one or another of the countries where staff are employed, they will be maintained at its present level and the whole or residual reduction would be applied at the next adjustment.

For all applications of Article 65(2) of the Staff Regulations, and if no common indicators are available, the national consumer price indexes will be used; any levelling off by the common index will be done at the annual review.

ANNEX I

METHOD OF ADJUSTING THE REMUNERATION OF OFFICIALS AND OTHER SERVANTS OF THE EUROPEAN COMMUNITIES

I. BASIC PRINCIPLE

The Council considers that the system of adjusting remuneration forms part of a policy aiming to guarantee, in the medium term, that the remuneration paid to European officials moves parallel to average salaries paid in the Member States to the various grades of national civil servants.

II. ANNUAL PAY REVIEW
(Article 65(1) of the Staff Regulations)

Pursuant to Article 65(1) of the Staff Regulations the Council shall decide, on a proposal from the Commission, whether in the context of the economic and social policy of the Communities, it is appropriate that remuneration should be adjusted.

This decision shall be taken in the light of the factors set out in points 1 to 5 below:

1. Cost-of-living trends

The joint index, designed to measure cost-of-living trends in each of the Member States, shall continue to be used in accordance with the procedure applied hitherto.

Periodically, the Statistical Office of the European Communities shall verify whether the ratios between weightings accurately compensate the variations in purchasing power between places of employment.

ANNEX I

2. Development of the real income of national civil servants - Specific indicator

The aim is to measure the development of purchasing power in national civil services. For this purpose:

(a) The Statistical Office of the European Communities shall calculate specific indicators for the changes in real civil service salaries in the Member States during the preceding reference period[1], on the basis of information supplied by the national authorities.

These indicators shall be calculated in two ways:

one indicator for each of the four grades: A, B, C and D,

an average indicator weighted to reflect the numbers of national civil servants in these four grades.

Each of these indicators shall be calculated in real gross and real net terms. In converting the specific indicators from gross to net, account must be taken of all national taxation factors which reduce the amount of taxable income.

At the request of the Statistical Office of the European Communities, national authorities shall supply any additional information which it may consider necessary.

(b) If the Statistical Office of the European Communities finds statistical anomalies in the information obtained or finds it impossible to calculate indicators which measure with statistical accuracy the changes in the real incomes of civil servants in a given Member State, it shall report to the Commission and provide the Commission with material enabling it to draw up a proposal.

[1] Reference period: the 12 months preceding 1 July of the year in which the review is carried out.

(c) The Statistical Office of the European Communities shall also assess statistically the difference between the gross and net rates of the specific indicators on the basis of national budgetary data and national accounts.

(d) In order to determine the arrangements for implementing the method described above and to minimize the risk of disputes regarding the data for the current financial year, the Statistical Office of the European Communities shall in March each year convene a Working Party composed of experts from national statistical institutes.

This Working Party shall examine all the factors necessary for an accurate measurement of the development in purchasing power in national civil services and the practical problems involved in calculating the net indicators. This will entail compiling a list of taxes and compulsory contributions and also of flat-rate or individual deductions and abatements which play a part in determining the basic taxable amount.

3. Civil service per capita emoluments in real terms

Besides the specific indicator, the Statistical Office of the European Communities shall submit data concerning real per capital emoluments in central administrations, calculated in accordance with national accounts definitions.

Its report on the specific indicators shall be accompanied by explanations of the differences between them and the changes in the level of total emoluments.

4. General economic and social factors

The Commission shall supply for information other macro-economic information, indicative of the economic and social policy of the

Member States of the Community, such as gross domestic product per head of occupied population and emoluments per wage-earner in the economy as a whole.

5. Recruitment needs and structure of Community staff complements

In the annual report the Commission shall make a comprehensive survey of the facts and future prospects relating to recruitment, taking into account the requirements of Article 27 of the Staff Regulations of Officials.

The Statistical Office of the European Communities shall calculate, for information, an average indicator of changes in the level of real pay in national civil services weighted to reflect the structure of Community staff complements by grades: A, B, C and D.

6. Norms governing salary adjustments

(a) The Commission shall make a proposal to the Council in the light of the factors set out in points 1 to 5.

(b) The Council shall determine remuneration adjustments in net terms. Such adjustments may be expressed as an identical, across-the-board percentage or in a non-proportional manner. The adjustment may therefore be expressed as:

a percentage;

and/or a specific amount.

(c) The net rate of adjustment thus fixed and the weightings applicable to officials in Belgium and Luxembourg shall be incorporated, in accordance with the following method, in the salary scales given in Article 66 of the Staff Regulations and in Articles 20 and 63 of the Conditions of Employment of Other Servants:

the net remuneration with a weighting of 100 attaching to each step of each grade of official and to each class in every group of other servants shall be increased by the above weighting and by the net rate of adjustment determined in accordance with (b) above, whether it is given as a percentage or as a specific amount;

the new scale of basic salaries in gross terms shall be drawn up by calculating for each step or class the gross amount which, after deduction of tax (having regard to (d) below) and compulsory contributions, gives the new net amount referred to above;

this conversion of net amounts into gross amounts shall be based on the situation of an unmarried official who does not receive the various allowances;

the weighting for Belgium and Luxembourg shall be fixed at 100; the weightings for other countries of employment shall be adjusted on the basis of the ratio between the cost-of-living index numbers in these countries and the cost-of-living index number in Brussels/Luxembourg.

(d) For the purpose of applying Regulation (EEC, Euratom, ECSC) No 260/68 concerning Community tax to remunerations paid in accordance with the scale of basic salaries worked out in accordance with the first indent, the amounts in Article 4 of the Regulation shall be multiplied by a factor composed of:

the weighting applicable before incorporation to the remunerations of officials in Belgium and Luxembourg;

the net adjustment in remunerations referred to at (b) above;

and/or, if the adjustment is made in the form of a specific amount, the equivalent average percentage.

Each time the scale of basic salaries is adjusted, the new multiplier shall be obtained by multiplying the former multiplier by the figures for the new reference period.

(e) The Council decision shall take effect on 1 July of the year in which the end of the reference period used for the pay review falls.

III. INTERIM ADJUSTMENT OF REMUNERATION

(Article 65(2) of the Staff Regulations)

Should the Council, acting on a proposal from the Commission based on Article 65(2) of the Staff Regulations, decide to adjust pay in view of a substantial rise in the cost of living in one or more countries, this shall be done by adjusting the relevant weighting(s). Allowance will be made for such adjustments when a decision is reached at the following annual review.

IV. TRANSITIONAL AND FINAL PROVISIONS

When the annual pay review for the reference period from 1 July 1975 to 30 June 1976 is held, the current weighting for Belgium and Luxembourg shall be incorporated into the salary scales in accordance with the procedure set out in Section II(6)(c), the weighting for Belgium and Luxembourg thus becoming 100% and the weightings for other countries of employment being adjusted accordingly.

V. REVIEW CLAUSE

Acting on a proposal from the Commission, the Council shall carry out a review of the results of applying the method described above, with a view in particular to determining possible further improvements and rectifying any distortions.

AMENDMENTS TO THE TEXT OF THE METHOD FOR ADJUSTING REMUNERATION

Point II. 4 (General economic and social factors) to read as follows:

(a) The Commission shall supply for information purposes other macro-economic indicators of the economic and social policy of the Member States, such as gross domestic product per head of occupied population, aggregate emoluments per wage-earner in the economy as a whole and the trend in working hours in the largest sense of the term.

(b) The Commission shall specifically take account of the economic effects of the oil situation by providing for adjustments to the specific indicator by means of an ad hoc measure and by determining the neutralization period of that measure.

For this purpose, the specific indicator described at point 2 of the method shall be adjusted as from the 1980 annual review in the light of the degree of change in oil prices.

The rise in the oil bill (value of net imports of crude petroleum and petroleum products) depends both on domestic energy savings, which reduce the volume of imports, and on the increase in crude prices fixed by the exporting countries. The increase in the oil bill between 1978 and 1980, expressed as a percentage of Community GDP, may be regarded as a precise economic measurement of the increased costs the Community is bearing as a result of decisions taken elsewhere.

The period of adjustment shall be four years, meaning that the *ad hoc* measure applied in 1980 will be entirely neutralized by the time of the December 1984 annual review.

If within the next few years the oil prices again increase substantially, a further *ad hoc* measure with a subsequent period of adjustment shall be applied, provided that the impact of oil price increases taken into consideration is more than 0.5 in one year.

If, however, this mechanism produces a decrease in nominal salaries, salaries shall be maintained at their current level and the whole or residual reduction due to the oil impact shall be applied at the next adjustment.

Point III: Interim adjustment of remuneration
(Article 65(2) of the Staff Regulations)

Should the Council, acting on a proposal from the Commission based on Article 65(2) of the Staff Regulations, decide to adjust pay in view of a substantial rise in the cost of living in one or more countries, this shall be done by adjusting the relevant weighting(s). Allowance will be made for such adjustments when a decision is reached at the following annual review.

The threshold shall be 40% of the average level for the Community recorded over the six-month reference period, as published by the SOEC[1]. But to preclude excessively low or excessively high - and therefore

[1] SOEC: monthly updating of consumer prices - General Statistics and National Accounts.

unacceptable - thresholds, a minimum of 2% and a maximum of 4% shall be set.

The following procedure has been adopted for application of this threshold:

The Commission's proposal for application of Article 65(2) in respect of the second half of the previous year shall normally be sent to the Council no later than the second half of April.

If the above threshold were reached or exceeded at the provisional seats (Brussels and Luxembourg) the weightings for all places of employment would be adjusted on 1 January of the current year by the rate of inflation in each of them.

The ratio between these weightings will then accurately reflect the purchasing power ratios between the Member States and may be used for transfers in accordance with Article 17 of Annex VII to the Staff Regulations.

If in certain countries the rate of inflation exceeds the rates of adjustment as defined above, further adjustments shall be made. A half or a third of the amount to be adjusted shall be granted depending whether this represents twice or three times the rate of inflation. The effective dates shall be either at the beginning of the third month in the reference period or the beginning of the second and fourth months in the reference period. This shall be checked when the Commission makes its proposal in April and rechecked at the annual salary review.

If the threshold is not reached at the provisional seats (Brussels and Luxembourg), the weightings for the countries where inflation has exceeded the threshold shall be adjusted in line with the rate of inflation observed there less the rate observed at the provisional seats.

Additional interim measures shall concern only the countries with a very high rate of inflation and alterations to their weightings shall not be taken into account for the purpose of applying Article 17 of Annex VII to the Staff Regulations (transfers).

Should the measures taken under Article 65(2) result at the end of the year in a reduction of nominal salaries in one or another of the countries where staff are employed, they will be maintained at its present level and the whole or residual reduction would be applied at the next adjustment.

For all applications of Article 65(2) of the Staff Regulations, and if no common indicators are available, the national consumer price indexes will be used; any levelling off by the common index will be done at the annual review.