COMMUNICATION FROM THE COMMISSION

Green Paper

Adapting labour law to ensure flexibility and security for all

1. INTRODUCTION – THE PURPOSE OF THIS GREEN PAPER

The purpose of this Green Paper is to launch a public debate in the EU on how labour law can be updated to meet the key challenge of greater adaptability of workers and enterprises. This objective is in line with the calls by the European Council for action in response to the challenges stemming from the combined impact of globalisation and of the ageing of European societies. As the Commission's 2006 Annual Progress Report on Growth and Jobs emphasises: "Increasing the responsiveness of European labour markets is crucial to promoting economic activity and high productivity"¹.

European labour markets face the challenge of combining greater flexibility with the need to provide security for all², independently of the legal form given to their employment relationship. The drive for flexibility in the labour market has given rise to increasingly diverse contractual forms of employment, which differ markedly from the standard employment relationship model. Labour law is, however, only one aspect of the issue. Other policy instruments are needed in order to bring about real opportunities for workers and to facilitate successful transitions between different employment situations: life-long learning enabling people to keep pace with the new skill needs; active labour market policies encouraging unemployed or inactive people to have a new chance in the labour market; and more flexible social security rules catering for the needs of those switching between jobs or temporarily leaving the labour market. This Green Paper considers the role labour law might play in advancing a "flexicurity" agenda in support of a labour market which is fairer, more responsive and more inclusive, as well as making Europe more competitive. It seeks:

- To identify key challenges which have not yet yielded an adequate response and which reflect a clear deficit between the existing legal and contractual framework, on one hand, and the realities of the world of work on the other. The focus is mainly on the personal scope of labour law rather than on issues of collective labour law.
- To engage Member State governments, the social partners and other relevant stakeholders in an open-ended debate about how labour law at both national and EU levels can assist in promoting flexibility combined with employment security, independently of the form of contract.
- To stimulate discussion on how alternative models of contractual relations and employment rights applicable to all workers could assist both workers and enterprises by easing labour market transitions, assisting life-long learning and fostering the creativity of the whole workforce.
- To contribute to the Better Regulation agenda by promoting the modernisation of labour law so as to enable individual workers as well as businesses to grasp more clearly what are their rights and obligations; in that respect, particular attention should be paid to SMEs.

The Commission has adopted, at the same time as this Green Paper, a Communication on "Working in Europe - jobs, competitiveness and social justice in the European labour market" where it looks into how existing policies can be made more effective in order to ensure a better functioning European labour market. Starting with its adoption by the Commission, an

 [&]quot;Time to move up a Gear" The European Commission's 2006 Annual Progress Report on Growth and Jobs, p6. Also Council and Commission Joint Employment Report 2005/2006, pp.6, 12-13
ibid.

open public consultation will be conducted on this Green Paper over a four month period³. Following the public consultation, the main policy issues and options identified in the responses by Member States, social partners, businesses and other stakeholders will be considered in a follow-up Commission Communication in 2007. This will complement the range of initiatives on the wider topic of flexicurity that the Commission is developing in collaboration with Member States. To this end, a Commission Communication on flexicurity will be presented in 2007, which will set out to develop the arguments in favour of the "flexicurity" approach and to outline a set of common principles to help Member States steer the reform efforts.

2. LABOUR LAW IN THE EUROPEAN UNION – THE SITUATION TODAY

a. Developments in the Member States

The original purpose of labour law was to offset the inherent economic and social inequality within the employment relationship. From its origins, labour law has been concerned to establish employment status as the main factor around which entitlements would be developed. This traditional model reflects several key assumptions about employment status. It was assumed to involve i) permanent, full-time employment; ii) employment relationships regulated by labour law, with the contract of employment as the pivot; and iii) the presence of a single entity employer accountable for the obligations placed upon employers.

Rapid technological progress, increased competition stemming from globalisation, changing consumer demand and significant growth of the services sector have shown the need for increased flexibility. The emergence of just-in-time management, the shortening of the investment horizon for companies, the increasing occurrence of demand shifts, have led businesses to organise themselves on a more flexible basis whether in terms of organisation, working hours, wages, size of their workforce at different moments of the production cycle. These evolutions have created a demand for more contractual variety, whether or not explicitly provided by EU and national legislation.

The traditional model of the employment relationship may not prove well-suited to workers on regular permanent contracts facing the challenge of adapting to change and seizing the opportunities that globalisation offers. Alternative models of contractual relations would also enhance the capacity of enterprises to foster the creativity of their whole workforce for increased competitive advantage.

National governments are facing the challenge of how to introduce more flexibility in the labour market. Since the early 1990s, reform of national employment protection legislation has focused on easing existing regulation to facilitate more contractual diversity, without altering the general approach to regulating the work contract⁴. Reforms tended to increase flexibility "on the margins", i.e. introducing more flexible forms of employment with lesser protection against dismissal to promote the entry of newcomers and disadvantaged jobseekers to the labour market and to allow those who wanted to have more choice over their employment. The outcome has given rise to increasingly segmented labour markets.⁵

³ Contributions are invited using the electronic form which you can find on the European Commission site at the following address: http://europa.eu.int/yourvoice/consultations/index en.htm.

⁴ OECD Employment Outlook 2004[,] Chapter 2, "Employment Protection Regulation and Labour Market Performance"

⁵ Joint Employment Report, 2005/06

b. Action at the EU level

At the level of the EU, the problem of how to combine new more flexible forms of work with a minimum of social rights for all workers has been the focus of analytical work⁶ as well as legislative and political action for many years.

The improvement of living and working conditions as regards fixed-term contracts, part-time working, temporary work and seasonal work was originally highlighted in the 1989 Social Charter and in the ensuing Social Charter Action Programme⁷. A period of intensive debate about the appropriateness of Community-level initiatives relating to these employment relationships culminated in the Part Time Work⁸ and Fixed Term Work⁹ Directives which gave binding effect to the EU social partners' framework agreements establishing the principle of equal treatment for part-time and fixed-term workers in relation to comparable full-time workers.

In 2000, the Commission launched a first-stage consultation of the social partners on modernising employment relations, which led to the adoption in 2002 of a framework agreement on telework^{10.} In 2002, the Commission adopted a proposal for a directive on minimum standards for the employment of temporary agency workers¹¹, on which the Council has not yet been able to agree a common position.

In 2003 the report to the European Council from the European Employment Task Force, chaired by Wim Kok, observed that a two-tier labour market may emerge between permanently employed "insiders" and precariously and informally employed "outsiders"¹². The latter occupy a grey area where basic employment or social protection rights may be significantly reduced, giving rise to a situation of uncertainty about future employment prospects and also affecting crucial choices in their private lives (*e.g.* securing accommodation, planning a family, etc). This grey area is characterised by the blurring of boundaries between employment and self-employment and the proliferation of hybrid forms of employment which have proved difficult to capture through standard statistical and survey methods. The level of flexibility provided in standard contracts in areas such as periods of notice, costs and procedures for individual or collective dismissal, or the definition of unfair dismissal, was identified by the Kok Report as an issue for the Member States to consider.¹³

⁶ The Evolution of Labour Law (1992-2003), vols I and II. See also Final Conclusions of Dutch Council Presidency conference, Leiden, 2004, http://internationalezaken.szw.nl/index.cfm?fuseaction=dsp_document&link_id=44922#3738600

⁷ European Commission, Social Charter Action Programme, November 1989.

⁸ Directive 97/81/EC concerning the Framework Agreement on part-time work concluded by UNICE, CEEP and ETUC.

⁹ Directive 99/70/EC concerning the Framework Agreement on fixed-term work concluded by UNICE, CEEP and ETUC.

¹⁰ At the request by the social partners, the Commission initiated a study by Adalberto Perulli "Economically dependent / quasi-subordinate (parasubordinate) employment: legal, social and economic aspects" (2002);

¹¹ COM (2002) 149 of 20 March 2002, later modified by COM (2002) 701, of 28 November 2002.

¹² Jobs, Jobs, Jobs: Creating more employment in Europe. Report of the Employment Taskforce, November 2003, page 9

¹³ ibid, Chapter 2, page 30

3. The key policy challenge – A flexible and inclusive labour market

A proliferation of different contractual forms has emerged in the absence of a more timely adaptation of labour law to rapidly changing developments in work organisation and society. By availing of non-standard contractual arrangements, businesses seek to remain competitive in the globalised economy by avoiding *inter alia* the cost of compliance with employment protection rules, notice periods and the costs of associated social security contributions. Administrative burdens associated with the employment of regular employees also have a significant influence on employment growth, particularly in small firms.¹⁴ Non-standard as well as flexible standard contractual arrangements have enabled businesses to respond swiftly to changing consumer trends, evolving technologies and new opportunities for attracting and retaining a more diverse workforce through better job matching between demand and supply. Workers are also afforded greater choice particularly as regards arrangements for working time, increasing career opportunities, a better balance between family life, work and education as well as more individual responsibility.

Fixed term contracts, part-time contracts, on-call contracts, zero-hour contracts, contracts for workers hired through temporary employment agencies¹⁵, freelance contracts, etc, used to be considered as a-typical forms of work. They are now an established feature of European labour markets.

Those engaged on non-standard forms of contract or in self-employment comprise 48.5% of the EU-25 workforce. The share of total employment represented by those on part-time and fixed term contracts has been rising steadily. In 2005 they accounted for nearly 60 million workers – or 32.9 % of all workers in the EU-25. Of these workers, 36.1 million were part-time employees and 23.8 million were persons engaged on fixed-term contracts. Part-time working remains predominantly a feature of female employment – with nearly one-third of women in employment having a part-time job compared with only 7% of men.¹⁶

Self-employment is also providing a means of coping with restructuring needs, reducing direct or indirect labour costs and managing resources more flexibly in response to unforeseen economic circumstances. It also reflects the business model of service-oriented business delivering completed projects to their customers. It can reflect a free choice to accept lower levels of social protection in exchange for more direct control over employment conditions and terms of remuneration. Self-employed workers in the EU-25 numbered 31.4 million in 2005 or 15.6% of total employment¹⁷. Those who are self-employed on their own account and without employees constitute 10% of all workers in the EU-25. Although agriculture and retailing still hold the larger share of this category, it is a growing feature of the construction and personal services sectors associated with outsourcing, subcontracting and project based work.

¹⁴ Observatory of European SMEs No 7, Recruitment of employees: Administrative burdens on SMEs in Europe, 2002, p.11

¹⁵ Some 1% to 2% of the workforce are engaged in agency work, see Temporary agency work in an enlarged European Union. European Foundation for the Improvement of Living and Working Conditions, 2006.

¹⁶ Employment in Europe, 2006, Statistical Annex (forthcoming), also EiE, 2005, page 38. ESTAT data on part-time and fixed term contracts are based on LFS data while the self-employed rate is based on national accounts.

¹⁷ ibid, also Industrial Relations in Europe, 2004. Self-employment is particularly significant in Poland, Hungary, Lithuania, Latvia and Estonia among the new EU Member States, and also in the UK, Ireland, Portugal, and the Netherlands.

However, there is evidence of some detrimental effects associated with the increasing diversity of working arrangements¹⁸. There is a risk that part of the workforce gets trapped in a succession of short-term, low quality jobs with inadequate social protection leaving them in a vulnerable position.

EU-15 data for 2003 show that around 16% of those who had entered upon precarious contractual arrangements six years previously, were still found in the same situation and 20% of them had moved out of employment, more than for any other category of workers.¹⁹ There is also a strong gender dimension and intergenerational dimension to the risk of having a weaker position in the labour market, since women, older and also to some degree younger workers engaged on non-standard contracts have fewer chances to improve their position in the labour market²⁰. It has to be taken into account however that different Member States have very different rates of transition. The principle of equal treatment incorporated in the EU Social Partners' Framework Agreements has helped to improve the quality of part-time work, notably by reducing the mobility barriers between part- and full-time work. It has not, however, proved sufficient in itself to ensure comparable standards of protection²¹. Disproportionate numbers of women and young people are either not voluntarily entering part-time contracts, or are constrained to successive fixed-term contracts.

In the context of globalisation, ongoing restructuring and the move towards a knowledgebased economy, European labour markets need to be both more inclusive and more responsive to change. The burden of adjustment to change can no longer be left to be borne primarily by those on non-standard contracts. The legal framework sustaining the standard employment relationship does not offer the scope or the incentive to those on regular permanent contracts to explore opportunities for greater flexibility at work. If change is to be successfully managed, labour markets will need to address three main issues: flexibility, employment security and segmentation issues. The purpose of this Green Paper is to promote a debate about whether a more responsive regulatory framework is required to support the capacity of workers to anticipate and manage change regardless of whether they are engaged on indefinite contracts or non-standard temporary contracts.

Questions

1. Is the overall framework of labour law at both national and EU levels in need of review and adaptation?

2. Under which circumstances do existing regulations hinder or stimulate enterprises and employees seeking to avail of opportunities to increase productivity and adjust to the introduction of new technologies?

3. How might the current framework of labour law in respect of regular, permanent and temporary contracts be adapted in order to reduce labour market segmentation and to reconcile the search for greater flexibility with adequate standards of employment security and social protection for all, independently of the legal form given to their

¹⁸ Precarious Employment in Europe: A comparative study of labour market related risks in flexible economies. ESOPE Final Report. Directorate General for Research, 2004.

¹⁹ Employment in Europe 2004, page 15 and Chapter 4. It has to be recognized of course that not all nonstandard contracts can be considered as being precarious.

²⁰ Employment in Europe, 2005, Chapter 4, p. 181.

²¹ The Evolution of Labour Law (1992-2003), vol 1, General Report by Prof. Silvana Sciarra (2005), see especially page 61.

employment relationship?

4. MODERNISING LABOUR LAW – ISSUES FOR DEBATE

a. Employment transitions

Labour and social security laws in most Member States were designed to provide protection for dependent employees in particular jobs. They do not necessarily assist workers in making transitions from one status to another, whether in the case of involuntary discontinuities (e.g. dismissal and unemployment) or voluntary discontinuities (e.g. in the case of education and training leave, caring responsibilities, career breaks and parental leave). Such a framework should also address the problems of female workers who are disproportionately represented in new forms of work arrangements and still face obstacles in seeking access to full rights and social benefits.

Opportunities to enter, remain and make progress in the labour market vary considerably, with both employment protection legislation and the legal contractual framework at national level having a strong impact on job status transitions, especially as regards the position of the precariously employed "outsiders" and the long-term unemployed. Examples of labour law measures designed to assist employment transitions which have been developed through a process of social dialogue at national level are the Dutch Flexibility & Security Act 1999, the Danish "flexicurity" approach, and the Austrian Severance Act (*Abfertigungsrecht*), 2002.²²

Adopting a lifecycle approach to work may require shifting from the concern to protect particular jobs to a framework of support for employment security including protection for progressive employment transitions.

Question

4. How can labour law promote progressive employment transitions over the course of a fully active working life?

b. Disguised Employment

The development of entrepreneurship can be facilitated by greater clarity about the status of self-employment. Unclear legal definition of this status does partly contribute to the incidence of false self-employment. This feature of national legal and administrative frameworks may result in persons, who believe themselves to be self-employed, subsequently finding themselves to be classified by social security agencies or tax institutions as a dependent employee. This can result in an obligation for the self-employed/employee and his main client/employer to pay additional social security contributions.²³ The European Commission

²² See commentary on these examples cited in Employment Task Force Report, pages 33 and 35, also OECD Employment Outlook 2004, Chapter 2.

²³ Second Career: Overcoming the obstacles faced by dependent employees who want to become selfemployed and/or start their own business. Enterprise Directorate General, European Commission, (2004). p 8, 29 -31.

has stressed that the problem of persons posing falsely as self-employed workers to circumvent national law^{24} should primarily be dealt with by Member States.²⁵

Question

5. Is greater clarity needed in Member States' legal definitions of employment and self-employment to facilitate *bona fide* transitions from employment into self-employment?

c. Economically Dependent Work

The concept of 'economically dependent work' covers situations which fall between the two established concepts of subordinate employment and independent self-employment. These workers do not have a contract of employment. They may not be covered by labour law since they occupy a "grey area" between labour law and commercial law. Although formally 'self-employed', they remain economically dependent on a single principal or client/employer for their source of income. This phenomenon must be clearly distinguished, however, from disguised self-employment, since the latter is already the subject of specific prohibitions in all legal systems.

Already some Member States have introduced legislative measures to safeguard the legal status of economically dependent and vulnerable self-employed workers.²⁶

While these approaches have been somewhat tentative and partial, they reflect efforts on the part of legislators, the courts and the social partners to tackle problems in this complex area. Establishing rights specific to economically dependent workers does not require an extension of the full range of labour law entitlements associated with standard work contracts. Anti-discrimination rights, health and safety protection, guarantees of minimum wage as well as safeguards for collective bargaining rights, have been selectively extended to economically dependent workers in several Member States. Other rights, relating to notice and dismissal tend to be restricted to regular employees having completed a prescribed period of continuous employment.

At Community level, the regulation of the working conditions of self-employed commercial agents illustrates how Internal Market rules have followed a course closely resembling aspects of labour law. In order to provide basic protection to independent commercial agents in dealing with their principals, Directive 86/653/EEC²⁷ laid down provisions concerning, *inter*

²⁴ Social partner organisations have observed that bogus "self-employed" work, fictitious service provision and extended sub-contracting chains have been used to circumvent post-enlargement transitional restrictions on access to some national labour markets. See Report on the Functioning of the Transitional Arrangements set out in the 2003 Accession Treaty, COM(2006) 48 of 08.02.2006.

²⁵ Accordingly, the Commission welcomes the adoption in June 2006 of a Recommendation on the Employment Relationship at the 95th session of the International Labour Conference promoting the formulation and adoption by member states, in consultation with the social partners, of national policies for regularly reviewing the scope of their laws, and where necessary clarifying and adapting them, in order to guarantee effective protection for workers who perform work in the context of an employment relationship. This non-binding instrument takes a strategic approach, leaving the nature and extent of protection given to workers in an employment relationship to be defined by national law and practice.

²⁶ Examples include the concept of "employee-like" workers corresponding to the civil law notion of *"parasubordination"* in Italy and Germany; the *"presumption of the existence an employment contract"* introduced in the Netherlands legislation on Flexibility and Security; and the "targeted approach" adopted in the UK to establishing differing rights and responsibilities in employment law for "employees" and "workers".

²⁷ EEC Council Directive 86/653/EEC of 18th December 1986 on the coordination of the laws of the Member States relating to self-employed commercial agents.

alia, payment of remuneration; conditions for the conversion of fixed-term contracts into contracts of indefinite duration; as well as compensation in the event of damage suffered due to the termination of a contract.

Certainty and transparency might be introduced into contractual arrangements if all personal work contracts for services undertaken by the economically dependent self-employed were required to conform to certain minimum requirements.²⁸

Question

6. Is there a need for a "floor of rights" to be put in place to safeguard the working conditions of all workers regardless of the form of their work contract? If so, what should those rights be?

d. Triangular Employment Relationships

The growing incidence of triangular employment relationships has led to changes in labour law in some Member States in order to establish the respective liabilities of the work provider and user enterprise for safeguarding workers' rights.

Temporary agency work is regulated in most Member States through a mix of legislation, collective labour agreements and self-regulation²⁹. The Commission's proposal for a Directive on Temporary Agency Workers seeks to establish the non-discrimination principle to ensure that agency workers are treated no less favourably than the 'regular' workers in a "user enterprise"³⁰. While debate still continues on the extent to which Community regulation is needed in this field, it has focused lately on the issue of a minimum derogation period for the application of the principle of non-discrimination to pay.

Similar problems can arise where workers are involved in extended chains of sub-contracting. Several Member States have sought to address such problems by making principal contractors responsible for the obligations of their sub-contractors under a system of joint and several liability. Such a system encourages principal contractors to monitor compliance with employment legislation on the part of their commercial partners. However, it has been argued that such rules may serve to restrain sub-contracting by foreign companies and could therefore present an obstacle to the free provision of services in the Internal Market. In recent case law on the posting of workers such a system was considered to be an acceptable procedural means of safeguarding an entitlement to minimum rates of pay where this form of worker protection is necessary and proportional and in accord with the public interest.³¹

Questions

7. How do you think the responsibilities of the various parties within triangular employment relationships might be regulated so that employers honour the commitments made to workers

²⁸ See especially Perulli, op.cit.Chapter 3.

²⁹ European Foundation 2006, op.cit.

³⁰ Amended proposal for a Directive of the European Parliament and the Council on working conditions for temporary workers. COM (2002) 701.

³¹ Provided that such a system is necessary and proportional, the European Court held that Article 5 of Directive 96/71/EC on posting of workers in the framework of the provision of services, interpreted in the light of Article 49 TEC, does not preclude the use of such a system as an appropriate measure in the event of failure to comply with the Directive. See Judgement of the ECJ of 12 October 2004 in Case C-60/03 Wolff and Müller [2004] ECR I-9553.

in return for their functional flexibility?

8. Is there a need to ensure that the user enterprise carries subsidiary liability in the event of non-compliance of a work provider with the labour and social security provisions affecting workers engaged in activities on behalf of that enterprise?

9. Is there a need to clarify the employment status of temporary agency workers ?

e. The consistent application of EU labour law in a trans-national context

The consistent application of EU labour law can be put in question, particularly in the context of the transnational operation of businesses and services, through the variations in the definitions of worker used in different directives.

Outside of the specific context of freedom of movement of workers, most EU labour law legislation leaves the definition of 'worker' to the Member States. It has been argued that Member States should retain discretion in deciding the scope of the definitions of 'worker' used in different Directives. Continued reference to national rather than Community law could, however, affect worker protection especially where corporate restructuring has a transnational character. Divergence in the scope of national definitions of 'employee' in such circumstances is difficult to reconcile with the Community's social policy aims of striking a balance between a flexibility and security for employees.

Question

10. Do you see a need for more convergent definitions of 'worker' in the EU Directives to ensure protection of workers' rights in a transnational context?

f. EU cooperation in the enforcement of labour law

Enforcement mechanisms should be sufficient to ensure well functioning and adaptable labour markets, to prevent infringements of labour law at national level and to safeguard workers rights in the emerging European labour market.³² In this context, undeclared work appears as a particularly worrying and enduring feature of today's labour markets, often associated with cross-border labour movements. Labour Ministries and their services have a crucial role to play in monitoring the application of the law, collecting reliable data on labour market trends and changing work and employment patterns, and designing effective and dissuasive sanctions, to combat undeclared work and disguised employment relationships.

There should be more effective cooperation at national level between different government enforcement agencies, such as labour inspectorates, social security administrations and tax authorities. Improvements in the resources and expertise of these law enforcement authorities, and in their cooperation with partners, can contribute to reductions in the incentives to undeclared work.³³

³² See ILO Report V(1) The Employment Relationship (2005), par 65. See also problems highlighted in the Report on the Functioning of the Transitional Arrangements set out in the 2003 Accession Treaty. See also Commission Communication COM(2006)159 "Guidance on the posting of workers within the framework of the provision of services".

³³ See also Council : EU plan on best practices, standards and procedures for combating and preventing trafficking in human beings, 1.12.2005; O.J. C311, 9.12.2005, p.1

There is a parallel need to reinforce administrative cooperation at the EU level in order to detect and tackle abuse and evasion of labour rules so as to ensure compliance with Community law. Article 10 TEC establishes a general rule imposing mutual duties of genuine co-operation and assistance on the Member States and the Community Institutions and requiring that appropriate measures be taken to help achieve the aims of the Community. Illegal practices with an international dimension only serve to highlight the need for increased co-operation at the EU level to improve the strategies and inspection tools used in assessing working conditions and labour practices.

Question

11. What concrete steps might be taken by labour ministries and inspectorate agencies, in association with the social partners, to ensure compliance with Community labour law?