

Global People Solutions

EU directive on adequate minimum wages

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In an effort to enhance the adequacy of statutory minimum wages, promote collective bargaining on wage-setting, and improve access to minimum wage protections, European Union (EU) member states will be required, no later than 15 November 2024, to pass national legislation meeting new minimum requirements established by Directive 2022/2041 of 19 October 2022 (the “Directive”) on adequate minimum wages.

Background

Legislation promoted under the Directive will reduce wage inequality, help workers achieve higher living standards and working conditions, reduce poverty, tackle gender pay gaps, and foster economic and social growth. The Directive entered into force 20 days after its publication in the Official Journal of the European Union on 25 October 2022, and EU member states have a transposition deadline of 15 November 2024.

Key details

The Directive only applies to EU Member countries that either already have statutory minimum wages in effect or that have less than 80% of the workforce covered by a Collective Bargaining Agreement. According to Eurostat, 21 out of 27 EU member states have national minimum wages. However, the EU directive may still apply to countries (Austria, Cyprus, Denmark, Finland, Italy, and Sweden) that do not have a national minimum wage if they have a collective bargaining coverage rate of less than 80%.

In the EU, a Directive is not created as one piece of legislation for all EU members but sets minimum requirements to be implemented as national law by each affected EU member country. Each EU member country may, at its discretion, pass legislation that enhances any aspect of the minimum requirements, as listed below:

Adequacy of statutory minimum wages

The Directive does not prescribe specific minimum wage rates with which member countries must comply, but rather leaves that determination up to each member with an emphasis that it be “adequate.” To maintain adequacy, each EU member country with an existing statutory minimum wage must create procedures to regularly update minimum wage levels under an established set of criteria. According to the Directive, these criteria should be defined by each member country “taking into account purchasing power, long-term national productivity levels and developments, as well as wage levels, wage distribution, and wage growth.” Member countries must ensure that these updates take place at least every two years. For member states with an automatic indexation mechanism (i.e., indexing the minimum wage to inflation, cost of living, purchasing power, etc.), updates should take place at least every four years.

Promotion of collective bargaining

Member countries in which less than 80% of active workers are covered by collective bargaining must create an environment conducive to the growth of collective bargaining through a public action plan. This action plan should establish a clear timeline and specific measures to gradually achieve its goals. Specific goals of the action plan should be to build and strengthen the capacity of social partners to engage in collective bargaining at sector or cross-industry levels, promote effective and informed negotiations between the social partners, and protect workers and trade union representatives from any discrimination or interference. Member states should consult with social partners to devise these action plans, make them publicly available, and provide them to the European Commission. Member states must ensure that these plans are reviewed at least once every five years.

Access to effective wage protection

The Directive requires member countries to take necessary measures to ensure national statutory minimum wages are properly enforced through different mechanisms which may include government labor inspections and penalties for noncompliant businesses.

Next steps

Employers should monitor local legislation in each country where they have operations and review their payroll and CBA policies accordingly.

It is noteworthy to mention that on 18 January 2023, Denmark filed a lawsuit at the European Court of Justice to repeal the Directive, on the ground that it undermines a national labor-market model that is popular with unions and employers alike. Nonetheless, the other member states are not immediately affected by the lawsuit and are still required to implement the Directive, unless the ruling comes in favor of Denmark. The Lockton Global People Solutions Compliance team will update this alert as and when more details on the ruling are released.

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2041>

<https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20220128-2>

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2041>

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