30 September 1997 A4-0292/97

REPORT

on the report from the Commission on the promotion of participation by employed persons in profits and enterprise results (including equity participation) in Member States, 1996 - PEPPER II
(COM(96)0697 - C4-0019/97)

Committee on Employment and Social Affairs

Rapporteur: Mrs Marie-Thérèse Hermange

C O N T E N T S

Page

By letter of 9 January 1997 the Commission forwarded to the European Parliament the report from the Commission on the promotion of participation by employed persons in profits and enterprise results (including equity participation) in Member States, 1996 - PEPPER II.

At the sitting of 29 January 1997 the President of Parliament announced that he had forwarded the report to the Committee on Employment and Social Affairs as the committee responsible and the Committee on Economic and Monetary Affairs and Industrial Policy for its opinion.

At its meeting of 27 February 1997, the Committee on Employment and Social Affairs appointed Mrs Marie-Thérèse Hermange rapporteur.

At its meetings of 2 July 1997, 4 September 1997 and 25 September 1997 it considered the report from the Commission and the draft report.

At the last meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: Hughes, chairman; Menrad and Ojala, vice-chairmen; Hermange, rapporteur; Andersson, Boogerd-Quaak, Carniti, Castagnetti, Colombo Svevo (for Chanterie), Correia, Glase, Jöns, Kerr (for Blak), Lindqvist, McMahon, Mann, Mendonça, Pronk, Schäfer (for Cabezón Alonso), Schiedermeier, Skinner, Sornosa Martínez, Theonas, van Velzen, Waddington and Weiler.

The opinion of the Committee on Economic and Monetary Affairs and Industrial Policy is attached.

The report was tabled on 30 September 1997.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

A
MOTION FOR A RESOLUTION

Resolution on the report from the Commission on the promotion of participation by employed persons in profits and enterprise results (including equity participation) in Member States, 1996 - PEPPER II (COM(96)0697 - C4-0019/97)

The European Parliament,

- having regard to the Treaty establishing the European Community and in particular Article 235 thereof,

- having regard to the Council Recommendation of 27 July 1992 on the promotion of participation by employed persons in profits and enterprise results (including equity participation) in Member States (92/443/EEC)([1]),

- having regard to its resolution of 9 April 1992 on the Commission proposal to the Council for a recommendation on the promotion of participation by employed persons in profits and enterprise results([2]),

- having regard to the first report from the Commission on the promotion of participation by employed persons in profits and enterprise results (including equity participation) in Member States - PEPPER I([3]),

- having regard to the second report from the Commission on the promotion of participation by employed persons in profits and enterprise results (including equity participation) in Member States - PEPPER II (COM(96)0697 - C4-0019/97)([4]),

- having regard to the Green Paper on partnership for a new organization of work([5]),

- having regard to the report by the Committee on Employment and Social Affairs and the opinion of the Economic and Monetary Affairs and Industrial Policy (A4-0292/97),

A. whereas growth in participation by employees in profits and enterprise results goes hand-in-hand with increased productivity; whereas such growth strengthens workers' commitment to their enterprise by encouraging them to acquire new qualifications,

B. whereas financial participation boosts the supply of information to and consultation of employees within the enterprise and their participation in decision-making,

C. whereas, the Council Recommendation of 27 July 1992 notwithstanding, Member States have not fundamentally changed their policies in relation to financial participation; whereas wide

([1]) OJ L 245, 26.8.1992, p. 53.
([2]) OJ C 245, 20.9.1991.
([3]) Published in supplement 3/91 to Social Europe.
([4]) OJ C 055, 24.2.1997, p.3.
([5]) COM(97) 128 final.

divergencies continue to exist in the approaches of Member States to the role of the State in the development of PEPPER schemes; whereas exchanges of information in particular have been practised rarely if at all,

D. whereas the development of participation schemes continues to be strongly influenced by government policy, in particular that on tax incentives; whereas Community institutions nonetheless have an important part to play, as do both sides of industry, at national and European level,

E. whereas in some Member States the two sides of industry appear to be insufficiently aware of the issue of financial participation,

1. Welcomes the fact that the debate on financial participation by workers in Europe has been reopened on the occasion of the report from the Commission seeking to assess the manner in which Member States have applied the Council Recommendation of 27 July 1992 on the promotion of participation by employed persons four years after its adoption;

2. Is nevertheless dismayed to discover that Member States have acted hardly if at all on the Council Recommendation of 27 July 1992 asking them to acknowledge the potential advantages of the use on a much greater scale of a wide variety of schemes for participation by waged employees in profits and enterprise results (such as profit-sharing, equity participation or mixed schemes) and to take into account in that connection the responsibility of both sides of industry in accordance with national legislation and/or practice;

3. Notes that Member States have scarcely if at all engaged in information exchanges, either as regards the introduction of best practice or the establishment of an adequate legal and fiscal framework;

4. Refers to the valuable experience of profit and equity participation schemes gained in France and the United Kingdom;

5. Recalls the idea expressed in the White Paper on growth, competitiveness and employment of a productivity-oriented wages policy with a view to the generation of profits from which investment should be financed;

6. Calls for a favourable response to the demand therefore voiced in various of Parliament's resolutions([1]) that employees should participate voluntarily in the profits and investments that would not have been possible if they had not exercised restraint in their wage demands;

7. Refers to appeals to this effect by the governments of Germany, Spain and Italy to the social partners;

8. Calls on the Commission:

([1]) For example, resolutions of 10 March 1994 and 14 July 1995

- to conduct a study into the impact of financial participation schemes in Member States on employment, productivity and wage flexibility, and to assess the conditions for introducing such schemes in enterprises, in particular small and medium-sized enterprises;

- to implement an adequately financed programme to promote the exchange of information and best practice, together with training for both sides of industry in financial participation schemes;

- to set up a working party consisting of representatives of both sides of industry, Members of the European Parliament and Commission experts to promote the introduction of PEPPER schemes in equivalent conditions throughout the Community, in particular in transnational enterprises; the working party should consider all aspects of financial participation which are of relevance to the EU, particularly the EP resolution of 9 April 1992 on the proposal for a Council recommendation concerning the promotion of employee participation in profits and enterprise results (92/443/EEC);

- to study the need for a Community initiative concerning aspects of policy on capital, for example a recommendation on the coordination or harmonization of support for enterprises with a European dimension or to ensure the promotion of capital-forming payments to or by migrant workers, including where the latter thereby acquire participating interests in the production sector in their home country;

- to facilitate (pending the accession to the Union of Central and Eastern European Countries (CEECs)) the development of pilot projects for financial participation in the public enterprises of the CEECs which undergo privatization;

9. Recommends that Member States:

- develop framework legislation in the Member States (promotion through fiscal law and/or bonuses);

- instruct national bodies to draw up schemes for promoting and encouraging financial participation schemes;

- extend eligibility for financial participation schemes to all categories of employees, in particular part-time employees or those on fixed contracts;

- set up financial participation schemes in conjunction with the privatization of public-sector organizations;

- ensure, in accordance with national practices, that financial participation systems are planned, introduced and supervised in cooperation between enterprises and employee groups;

- provide appropriate information so as to forestall unreasonable risks associated with the issue of shares to employees when an enterprise faces economic and financial problems; in addition, it should be carefully investigated how employees are safeguarded against excessive losses in value (for example by means of insolvency insurance, bank guaranties etc.) during the period in which they cannot freely dispose of their shares in the enterprise (blocking period);

- promote the idea of supplementary old-age protection by means of the accumulation of capital by employees;

- develop alternative forms of investment where it is impossible for employees to participate in equity, e.g. in the public service, or where such participation is rejected; such alternatives should provide SMEs with sufficient accumulated capital with which to create jobs;

10. Calls on both sides of industry at national and European level:

- to organize information campaigns that will benefit the parties concerned and raise public awareness of the options;

- to encourage PEPPER options as a feature of collective bargaining and to draw attention to the favourable impact these options are expected to have on productivity, income enhancement, resources, employment and worker participation;

11. Instructs its President to forward this resolution to the Council, the Commission, the Economic and Social Committee and the two sides of European industry.

B
EXPLANATORY STATEMENT

<u>I. Context</u>

The report from the Commission considered here is in response to the Council recommendation of 27 July 1992([1]) on the promotion of participation by employed persons in profits and enterprise results (including equity participation), which had in turn been preceded by a detailed Commission report containing an assessment of the situation in 1990 as regards participation by employed persons in the Community (report jointly designated as PEPPER I). The Council used this non-binding mechanism to submit eight recommendations to Member States. These were:

- *to ensure that legal structures were adequate to allow the introduction of the financial participation schemes referred to in the Recommendation;*

- *to consider the possibility of according incentives such as fiscal or other financial advantages to encourage the introduction of certain schemes;*

- *to encourage the use of such schemes by facilitating the supply of adequate information to all relevant parties;*

- *to take account of experience gained in other Member States when deciding on which participation schemes to promote;*

- *to ensure that in the context of the laws, regulations and practice possibly existing in the Member States the parties concerned would have a wide range of options or arrangements available, the implementation of which would, when suitable, be the subject of consultations between employers and employed persons or their representatives;*

- *to ensure that this choice could be made at a level which, taking account of national collective bargaining legislation and/or practices, was as close as possible to the employed person and the enterprise;*

- *to contemplate and/or encourage consideration of the points set out in the annex to the recommendation when new financial participation schemes were being prepared or when existing schemes were being reviewed;*

- *to enhance management's and labour's awareness of the above matters.*

([1]) 92/443/EEC

II. Stocktaking of financial participation by employees in the Member States

In its report the Commission is therefore concerned to assess the results of that recommendation in different Member States. The long description included in the document (PEPPER II) embraces the following conclusions:

1. **The Council recommendation has not fundamentally changed government policy in EU countries on worker participation**.

The growth of PEPPER schemes continues to be strongly influenced by government action even if the latter is theoretically expected to dissolve away once the schemes concerned have gained a certain hold. A gap appears to be opening between countries that have traditionally supported financial participation by employees and those less advanced along that road. Overall, Member States can be assigned to one of three categories:

- countries with a long tradition of encouraging financial participation: France and the United Kingdom. Over the period considered (1991-1995) those countries regularly improved the range of schemes available and the extent of tax advantages associated with them. In those countries substantial progress has been made with such schemes and the numbers of employees concerned;

- countries that consider such schemes to be primarily the responsibility of the two sides of industry (Belgium, Denmark, Germany, Greece, Spain, Italy, Luxembourg, Portugal, Austria and Sweden). These countries have recorded modest growth in PEPPER schemes (Germany), a stable situation (Denmark) or even a drop (Spain);

- lastly, countries that have only recently begun to show a tendency to support participation schemes (Ireland, Finland and the Netherlands). These countries expect some progress to be made with such schemes in the future.

2. **With the exception of France and the United Kingdom, the range of incentive measures used in the Member States has not been widely diversified and legislation in force privileges share-ownership schemes.**

The incentives operated by the Member States consist mainly of tax advantages (tax exemptions on allocations of shares to employees; tax exemptions on profits distributed; tax deductions available to employers for costs incurred in setting up the scheme) or other financial advantages (exemption from social security contributions). In some countries these incentives are granted both to employers and employees. The extent of incentives nevertheless remains moderate, despite a slight improvement in France and the United Kingdom.

In the case of Belgium the question arises of determining whether the advantages granted by the undertaking to its employees should be considered as ordinary income and therefore subject to social security contributions. The controversy is seriously impeding the extension of PEPPER schemes and the Commission consequently recommends making a clear distinction between this form of income and wages.

Particular attention should be drawn to the originality of the 'time savings account' introduced in 1994 by France allowing employees to convert their profit-sharing bonuses into paid time off for a minimum period of six months. Such schemes have a job-creating effect.

The legal framework: Member States operate legal criteria which moderate the benefits of tax advantages. These criteria relate to a minimum percentage of the staff covered by the scheme (since 1995, United Kingdom law extends the benefits of these schemes to part-time workers), eligibility criteria, length of retention periods, and even informing and consulting with the respective parties and employees concerned (Finland and Austria). The effect of any legislation is nevertheless to restrict the range of options. The report thus draws attention to the fact that it is the share-ownership formula that is indirectly privileged. The point must be to ensure that legislation lays down only a general framework within which arrangements can be negotiated at the level of the enterprise or, better still, at sectoral level. United Kingdom case law for example recognizes employee share ownership trusts (ESOTs) under which partial tax concessions are available, even when the legal conditions have not all been met. It is pointed out that in most Member States participation in most schemes is optional. France is the only country in which deferred profit sharing is compulsory for undertakings above a certain size.

3. Even if the macro-economic situation has little impact on promoting PEPPER schemes, privatization can act as an incentive.

The report notes that the macro-economic situation has not affected the support of Member State governments already active in PEPPER schemes. Recent debates on productivity growth and wage flexibility amount rather to incentives to these proposals. Several countries report in their answers to questionnaires that the tendency to privatize public sector organizations has aroused increased interest in PEPPER schemes: in Portugal specific legislation was enacted in 1989 authorizing the issue of shares to employees in the event of privatization of public sector organizations employing them. Substantial growth in employee shareholdings has also been noted in connection with privatization in Denmark, Ireland, Italy, the United Kingdom and the Netherlands.

4. Member States fail to exchange information either on best practice or legislative aspects, and in some Member States there is not even a specific inventory of such schemes.

The report highlights the failure to exchange information between Member States concerning PEPPER schemes. Indeed very few countries acknowledged learning from the experience of good or bad practice in other states (in particular states that have only just begun to introduce such schemes: Ireland for example has drawn inspiration from experience in France, and Finland from experience in France and Sweden), whereas other countries stress the risks inherent in comparisons owing to differences in their industrial-relations setups. Such differences increase the complexity of implementing intra-Community schemes in subsidiaries that have to develop in different national contexts. That is why a Community information exchange programme aimed at promoting the growth of clear and comprehensible models and plans will be essential to encouraging group-level agreement on a European scale.

Attention should also be drawn to the report's conclusion that with the exception of the United Kingdom and France, most Member States have no clear idea of the growth, potential, experience or problems associated with PEPPER schemes in their countries owing to the lack of any specific inventory or the marginal nature of research conducted into these schemes.

On the other hand only a few countries make the effort to supply adequate information to all the parties concerned. Active PEPPER scheme promotion campaigns are conducted in France, the United Kingdom, Finland, the Netherlands and Ireland. The other countries consider on the whole that this is a task for the employers. But only Germany and Austria reported specific information campaigns organized by employer organizations in those countries. Austria is an interesting case in that the chamber of commerce has launched an 'apprenticeship programme' included in the training provided to enterprise committees and employers.

III. Topicality of the concept of financial participation

Your rapporteur welcomes the fact that the debate on financial participation should have been relaunched on the occasion of this report. She nevertheless regrets that the report from the Commission now under consideration is confined to a factual stocktaking, which, moreover, is not always complete. The analyses of the PEPPER II report simply draw on the results of a study completed in 1991. The statistical data for the period preceding the Recommendation are not sufficient in all cases to enable precise conclusions to be drawn concerning the present situation in the different Member States. Last but not least, the absence of genuinely innovatory proposals surely goes some way to explaining the lack of reactions to the report by the two sides of industry.

Your rapporteur also considers that employee financial participation can include certain advantages: it can in fact have an impact on employee participation in decision-making, it can boost productivity and is capable of improving the employment situation.

PEPPER schemes are more frequent in large undertakings, multinational financial sector companies and companies with above average workforce qualifications. The consistency of information available suggests that the introduction of PEPPER schemes correlates with the achievement of higher productivity. Employee financial participation is moreover closely bound up with employee participation in decision-making. PEPPER schemes thus succeed in improving employee commitment to their undertaking and boosting employee qualifications. Studies have shown that productivity improvements are more likely to be recorded in enterprises operating such schemes, i.e. enterprises with a higher level of employee participation generally (industrial democracy and direct participation). In recent years however debate has tended to centre more on policies and activities that can be conducted at other levels to promote employee participation.

The impact of profit-sharing bonuses on employment must be assessed more cautiously: results obtained in France suggest that the effect of profit-sharing has been greater wage flexibility, less frequent turnover of staff and stronger and more stable growth in employment. Your rapporteur considers that this conclusion should be investigated in greater depth in the light of the priority assigned by the Union to combating unemployment. She therefore proposes that the Commission should undertake a more complete study concentrating not just on the factual details of participation schemes but on the potential impact of such schemes on creating or maintaining jobs in Europe, in particular at the level of small and medium-sized undertakings.

In view of the important potential advantages of PEPPER schemes it will be essential in your rapporteur's opinion to encourage the distribution of adequate information about these schemes, about appropriate ways of setting up such schemes in different kinds of enterprise and in different national contexts. For example your rapporteur draws attention to the especially interesting project conducted by the Impact of Profit-Sharing Systems in Europe network (IPSE) set up at the end of 1990 and involving universities in four Member States (France, United Kingdom, Italy and Germany) as well as calling on the services of the French employment ministry. The network completed an assignment of description and econometric analysis based on questioning a panel of representatives of undertakings in each of the countries concerned. The project, which enjoyed a Community subsidy until June 1997, is now in its final stage. It will conclude with the publication of a book and the holding of a colloquy in Paris in November 1997 which will also celebrate the 30th anniversary of the French financial participation ordinances.

IV. New approaches

Whereas it is clear that attempts to set up a European legislative framework to encourage growth in PEPPER schemes will clash with the exclusive authority of Member States in fiscal affairs, other less binding means are available for giving new impetus to such schemes in the Member States. Your rapporteur proposes in particular relaunching the idea put forward by the Commission in 1992 and strongly supported by the European Parliament of setting up a working party responsible for encouraging the establishment of PEPPER schemes in equivalent conditions across the Community.

Your rapporteur proposes giving priority to the following actions:

(a) Action to be taken by Community Institutions:

- implementing an adequately financed programme to promote information exchanges between Member States and demonstration projects highlighting best practice;

  to that end, your rapporteur proposes that it be made possible to finance pilot schemes to promote employee financial participation (information exchanges, training programmes for the two sides of industry) under Chapter B3-40 (social dialogue and employment);

- running a study on the impact of PEPPER schemes on employment, productivity and wage flexibility, as well as the conditions of their application to undertakings, in particular small and medium-sized undertakings;

- setting up a working party to promote the introduction of PEPPER schemes in equivalent conditions across the Community, and in particular in transnational enterprises, with the participation of representatives of the two sides of industry, Members of the European Parliament and Commission experts.

(b) Action to be taken by Member States:

- setting up national institutions responsible for introducing arrangements to promote and encourage PEPPER schemes (to this day only France has set up an executive council (*Conseil Supérieur de Participation* - CSP) for employee participation);

- extending eligibility for PEPPER scheme membership to other categories of participants (part-time or fixed-contract workers; relevance of seniority); this would help to make part-time working more attractive;

- setting up PEPPER schemes in connection with privatizing public-sector organizations;

- safeguarding against unreasonable risks associated with the issue of employee shareholdings when an undertaking faces economic and financial problems;

(c) Action to be taken by the two sides of industry:

- mounting information campaigns targeting the parties concerned and raising general awareness of the options;

- promoting PEPPER schemes in the context of collective bargaining and highlighting the favourable impact these schemes are expected to produce in terms of productivity, income enhancement, resources, employment and employee participation.

4 September 1997

OPINION
(Rule 147)

for the Committee on Employment and Social Affairs

on the Commission report 'PEPPER II - promotion of participation by employed persons in profits and enterprise results (including equity participation) in Member States, 1996' (COM(96)0697 - C4-0019/97)

Committee on Economic and Monetary Affairs and Industrial Policy

Draftsman: Mr Winfried Menrad

PROCEDURE

At its meeting of 24 March 1997 the Committee on Economic and Monetary Affairs and Industrial Policy appointed Mr Winfried Menrad draftsman.

It considered the draft opinion at its meetings of 7 July and 3 September 1997.

At the latter/last meeting it adopted the following conclusions unanimously.

The following took part in the vote: von Wogau, chairman; Garosci, Katiforis and Secchi, vice-chairmen; Menrad, draftsman; Argyros (for Christodoulou), Areitio Toledo, Arroni, Barton (for García Arias), Billingham, Blokland (for de Rose), Camisón Asensio (for Ilaskivi), Carlsson, Caudron, Cox, de Brémond d'Ars, Alan John Donnelly, Falconer (for Glante), Fayot, Fourçans, Friedrich, Gallagher, García-Margallo y Marfil, Gasòliba i Böhm, Harrison, Hendrick, Herman, Hoppenstedt, Ilaskivi, Imbeni, Kestelijn-Sierens, Konrad, Kuckelkorn, Langen, Larive, Mather, Metten, Miller, Murphy, Paasilinna, Peijs, Pérez Royo, Randzio-Plath, Rapkay, Read, Riis-Jørgensen, Rübig, Skinner (for Berès), Soltwedel-Schäfer, Tappin (for Torres Marques), Thyssen, W.G. van Velzen (for Lulling), Watson, Wibe and Wolf (for Hautala).

1. Introduction

In July 1992 the Council adopted a recommendation concerning the promotion of participation by employed persons in profits and enterprise results. This recommendation was largely based on studies carried out by the European University Institute in Florence to give an insight into employee participation in profits and equity in the Member States. The research report was published by the Commission as the PEPPER Report, PEPPER standing for promotion of employee participation in profits and enterprise results. A number of the European Parliament's resolutions (e.g. the resolution of 14 July 1995 on the Annual Report from the Commission, 'Employment in Europe - 1994', OJ C 249, 25.9.1995, p. 208, and the resolution of 10 March 1994 on employment in Europe, OJ C 91, 28.3.1994, p. 224) have since called for the development of voluntary schemes for employee participation in earnings and investment (in the creation of jobs) which would not have occurred if the employees had not exercised restraint in their wage demands.

In early 1997 the Commission brought the report on participation in profits and equity up to date and published it as the PEPPER II report. The report shows that, regardless of the method applied, the approach on which the scheme is based and the data used, profit and equity participation schemes lead to an increase in productivity. They also have a favourable effect on wage flexibility, the employment situation and the general attachment of employees to their companies. The report also shows how the Member States have promoted the participation of employees in profits, enterprise results and equity since the publication of the first report. Unfortunately, the basic attitudes of governments towards PEPPER schemes have not changed significantly since 1992. The development of financial participation schemes very much depends, after all, on the position of the government concerned, especially on general conditions for tax and other financial incentives.

Traditions and experience vary in the EU countries. France and the United Kingdom, for example, have a long tradition of encouraging financial participation. They have made steady progress as regards the range of schemes available and tax incentives granted. The legislation of other countries primarily encourages the acquisition of bonded shares. In Ireland, the Netherlands and Finland government support for PEPPER schemes appears to be growing. In these countries the emphasis is on the goal of achieving greater employee involvement, rising productivity and competitiveness and improved wage flexibility in the labour market. Very recently, the governments of Germany, Spain and Italy have urged the social partners to consider such schemes in their negotiations as a means of compensating for the limited money wage increases previously agreed.

Active campaigns to promote PEPPER schemes have been launched in France, the United Kingdom, Finland, the Netherlands and Ireland, while such countries as Germany and Italy see them as the social partners' responsibility. In Austria the Federal Chamber of Labour decided to develop a learning programme and include it in the continuing training measures for works councils and other employee representatives.

2. Evaluation

Despite a recent improvement in the economic situation, unemployment is and, until the end of the decade, will continue to be the fundamental economic problem facing the Community. Whether sustained growth is possible and whether it can be successfully converted into jobs partly depends on events outside the Community and especially on how growth continues and spreads in the world markets. However, it also depends on what happens within the Community itself and especially on the extent to which the structural problems identified and analysed in the Commission's White Paper on growth, competitiveness and employment can be solved.

New remuneration systems will be needed. The present, often antiquated systems no longer satisfy needs. If growth that has a favourable impact on employment is not to be thwarted by conflicts over distribution, employees' justified claims to a fair reward for their labours must be satisfied by new kinds of remuneration. PEPPER schemes are a good way of compensating employees for exercising restraint in their wage claims. The link already referred to by the Commission in the context of the 1989 Social Charter should not be overlooked: employee participation in the profits and investments of companies ensures that national wealth is distributed fairly, tensions between capital and labour are reduced and the financial strength of companies is increased. The idea of employees jointly owning productive assets which PEPPER schemes are intended to put into practice can succeed, however, only if, as the PEPPER II report says, the politicians are willing to use government measures to promote such remuneration systems. Appropriate incentives might be:

- the tax-free issue of shares or bonds to employees
- generally favourable arrangements for participation schemes as regards tax and social insurance contributions

In its opinion of April 1992 on the Council recommendation concerning participation in profits and enterprise results the European Parliament went even further by referring explicitly to savings bonuses as a state promotional instrument since, unlike mere tax concessions, they can also benefit low-income employees who pay little or no tax and are willing to save. It was also proposed that state-promoted company participating interests should be protected against insolvency during the period in which employees do not have access to the shares they have acquired. If participation in the company's equity is not possible, alternative models for employee participation external to the business will be needed, e.g. through investment companies or investment cooperatives, which for their part provide small and medium-sized enterprises (SMEs) with sufficient capital for investment. The legal environment may need to be adjusted.

Mention should also be made of the possibility of such PEPPER schemes playing a part in the development and restructuring of the economy in the Central and Eastern European countries. They can help not only to improve the financial endowment of enterprises and so provide them with the capital needed if they are to become nationally and internationally competitive but also generally to facilitate the transition from planned to market economy.

The draftsman therefore very much welcomes the Commission's idea of reviving the debate on employees' participation in their company's profits and equity by publishing the PEPPER II report at a time when new approaches to wages policy must be found. However, he expects the Commission to contribute to the spread of such PEPPER schemes by being prepared to set up a working party in which the social partners are represented at national and European level. It should consider the aspects of financial participation that are important for the EU and the possibility of a legal instrument (e.g. a recommendation for the coordination of promotion) for enterprises with a European dimension and for ensuring the promotion of contributions by migrant workers to capital formation.

3. Conclusions

The Committee on Economic and Monetary Affairs and Industrial Policy calls on the Committee on Employment and Social Affairs to take account of the following reflections on participation in profits, enterprise results and equity. It

1. refers to the valuable experience of profit and equity participation schemes gained in France and the United Kingdom;

2. recalls the idea expressed in the White Paper on growth, competitiveness and employment of a productivity-oriented wages policy with a view to the generation of profits from which investment should be financed;

3. calls for a favourable response to the demand therefore voiced in various of Parliament's resolutions([1]) that employees should participate voluntarily in the profits and investments that would not have been possible if they had not exercised restraint in their wage demands;

4. refers to appeals to this effect by the governments of Germany, Spain and Italy to the social partners;

5. calls for particular attention to be paid to the proposal put forward in PEPPER II that the social partners should be officially urged to consider such schemes in their negotiations, given the expected positive effects on productivity, wage flexibility, the employment situation and the general involvement of employees;

6. emphasizes the need for the development of framework legislation in the Member States (promotion through fiscal law and/or bonuses);

7. expects SMEs to be included in any promotion through favourable treatment not only of the acquisition of bonded securities but also of forms of participation that are typical of these enterprises;

8. emphasizes the need to develop alternative forms of investment where it is impossible for employees to participate in equity, e.g. in the public service, or where such participation is rejected; such alternatives should provide SMEs with sufficient accumulated capital with which to create jobs;

9. calls for the involvement of enterprises in Central and Eastern Europe and the new German Länder in the pilot projects suggested by the Commission not only but also in connection with the privatization of state-owned enterprises.

([1]) For example, resolutions of 10 March 1994 and 14 July 1995