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PEPPER II
promotion of participation by employed persons
in profits and enterprise results
(including equity participation)
in Member States

1996

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EXECUTIVE SUMMARY

This report gives an overview of the ways Member States have promoted the participation by employees in profits and enterprise results since 1991, following the adoption of Council Recommendation of 27 July 1992 (92/443/EEC). It has been prepared on the basis of the replies by the Member States to a questionnaire.

The consistency of the findings of the incentive effect of schemes on profitability is remarkable. In all cases profit-sharing is associated with higher productivity levels no matter what methods, model specification and data are used. Other positive effects of the schemes are on wage flexibility, employment and employee involvement. The development of financial participation schemes is strongly influenced by government action, in particular, by the availability of tax incentives.

The divergency of government policies in individual EU-countries must be seen against a background of differing traditions and practices concerning financial participation schemes. Since the first PEPPER report in 1991 there have not been any great changes in the general approach of government policy to PEPPER schemes in EU-countries. France and the UK have a long tradition of encouragement of financial participation. In Ireland, Netherlands and Finland government support for PEPPER appears to be increasing. In these countries reference is made to the need to achieve greater employee involvement, improved productivity, competitiveness and wage flexibility on labour markets. Very recently, in Germany, Spain and Italy, the authorities have made strong appeals to the social partners to promote these schemes in the course of their negotiations. In all other Member States, PEPPER has been discussed but official government support has been limited or lacking. With the exception of France and the UK, the legislation in the EU countries mainly favours share-ownership. A number of countries reported the trend towards privatisation of public bodies as a possible vehicle for greater interest in PEPPER schemes.

Most legislation on promoting financial participation schemes in Member States on PEPPER has to do with incentives such as fiscal or other financial advantages. The incentives range from the tax-free issue of shares or bonds to employees to tax-free amounts on distributed profits. Other advantages are exemption from social insurance contributions. These incentives are provided in some countries for both the employer and the employee. In addition, sometimes employers are allowed to deduct the costs of the scheme. In some cases problems arise with social charges due to disputes about whether the benefits should be regarded as normal wages subject to social charges or as some other type of remuneration not subject to these charges.

There are certain legislative requirements set in Member States that mainly relate to the possibilities of eligibility for tax relief. These requirements consist of a minimum percentage of personnel covered by the scheme, eligibility criteria, retention periods and statutory and trustee requirements, etc.

Recent arguments for enhancing productivity, employment and wage flexibility are stimulating discussions on proposals. Occasionally companies issue shares to their employees when they are

facing economic and financial problems. Without sufficient information this carries great risks for employees and has led to scepticism on the part of parties concerned.

Active campaigns on promotion of PEPPER schemes are found in France, the UK, Finland, the Netherlands and Ireland. Other countries like Germany and Italy refer in this respect to the responsibilities of the social partners. In Ireland, a specific National Programme was launched. In Austria representative parties have developed a learning programme which was included in the training for works councils and employers. There is at present no exchange of information between Member States regularly either on legislation or good practices.

In the framework of their respective competence the following ideas for the reinforcement of PEPPER could be explored further by Member States, Social partners, and in matters of exchange of information and good practices by the Commission:

- Consider the development of national framework legislation .
- Clear the distinction between wages subject to social charges and the advantages derived from PEPPER schemes.
- Enhance the eligibility of categories of beneficiaries to PEPPER schemes.
- Provide for a stimulating climate. The development of National Institutional Bodies that creates systems for promoting PEPPER in the national context could be helpful.
- Set up PEPPER schemes during privatisation of public bodies thus getting experience and gaining and creating awareness of the possibilities of these schemes with a wider audience.
- Integrate PEPPER schemes into programmes on employee-involvement to unleash the productive power of the workforce and to improve competitiveness and quality of production.
- Make an appeal to the social partners to promote these schemes during their negotiations, and making references to the expected positive effects of the schemes on productivity, wage flexibility, employment and employee involvement.
- Avoid irresponsible risks for employees in case of the issue of shares to employees when companies have economic and financial problems.
- Tackle the problems with intra-community schemes of subsidiaries in different national circumstances by promoting the exchange of good information about the different rules and procedures of PEPPER in the Member States.
- Promote the development of clear and understandable models and plans for introduction of schemes that are manageable and understandable by management and labour as to avoid the complex and expert character of PEPPER schemes

demonstration projects on good practices and the promotion of the exchange of information in workshops and conferences, and other communications. Preferably, these actions should be directed to the social partners.

I INTRODUCTION

1. Scope and Objectives

Council Recommendation (92/443/EEC) of 27 July 1992 on the promotion of participation by employed persons in profits and enterprise results (including equity participation) commits the Commission to prepare a report within four years of the adoption of the recommendation. This report has been prepared on the basis of the replies by the Member States to a questionnaire on possible actions based on the recommendations.

The Explanatory Memorandum of the Recommendation of July 1992 contains an extensive description of the context within which the Recommendation was made. In the process of preparing this Community instrument of July 1992 the Commission had funded a research project with the specific aim of obtaining a good overview of "the state of the art" concerning financial participation by employees in the EC. The results of this project were described in the so-called "PEPPER-Report" (PEPPER standing for "Promotion of Employee Participation in Profits and Enterprise Results")¹.

The Recommendation of July 1992 was largely based on this report. The Recommendation invited the Member States to acknowledge the benefits of a wider use of schemes to increase the participation of employed persons in profits and enterprise results by means of profit-sharing, employee share-ownership or a combination of both, taking into account the responsibilities of management and labour, in accordance with national law and/or practice. The Recommendation called upon Member States to:

- ensure that legal structures are adequate to allow the introduction of the financial participation schemes referred to in this recommendation;
- consider the possibility of according incentives such as fiscal or other financial advantages to encourage the introduction of certain schemes;
- encourage the use of such schemes by facilitating the supply of adequate information to all relevant parties;
- take account of experience gained in other Member States when deciding on which participation schemes to promote;
- ensure that in the context of the laws, regulations and practice possibly existing in the Member States the parties concerned 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;
- ensure that this choice can be made at a level which, taking account of national collective

¹ Publication: Supplement 3/91 to Social Europe.

bargaining legislation and/or practices, is as close as possible to the employed person and the enterprise;

- contemplate and/or encourage consideration of the points set out in the Annex of the Recommendation (see Annex II) when new financial participation schemes are being prepared or when existing schemes are being reviewed;
- examine, after a period of three years following the adoption of this recommendation, the data available at a national level on the development of financial participation by employed persons and communicate the results to the Commission;
- enhance management and labour's awareness of the above matters.

Finally, the Commission said that it would present a report to the European Parliament, the Council and the Economic and Social Committee on the application of the recommendations on the basis of the information supplied to it by the Member States. The questionnaire that was distributed to the Member States asked for developments and any actions in respect of the above recommendations.

In general, the objective of this report is to give an overview of the ways Member States have developed schemes and performed actions to promote the participation by employed persons in profits and enterprise results since the Council Recommendation adopted in 1992.

2. Overview of schemes for financial participation by employees

There is a wide range of different forms of employee participation in enterprise results. These can be grouped into two main categories, which may or may not co-exist and may in some cases overlap: profit-sharing, and employee share-ownership².

A Profit-sharing

"Profit-sharing" in a strict sense implies the sharing of profits by providers of both capital and labour, by giving employees, in addition to a fixed wage, a variable part of income directly linked to profits or some other measure of enterprise results.

Profit-sharing provides employees with a regular bonus paid out of profits which would normally be allocated to capital but, contrary to traditional bonuses linked to individual performance (e.g. piece rates), profit-sharing is a collective scheme applied to all, or a large group of employees. In practice, profit-sharing can take various forms. At the enterprise level, it can provide employees with immediate or deferred benefits; it can be paid in cash, company shares or other securities; or it can take the form of allocation to specific funds invested for the benefit of employees. At higher levels, profit-sharing takes the form of economy-wide or regional wage-earners' funds.

Cash-based profit-sharing links employee bonuses directly to some measure of company performance (profits, revenue, value-added, or other), most frequently providing an immediate payment. However, it can also be a deferred scheme: e.g. if a certain percentage of profits is allocated to company funds which are then invested in the name of employees. A distinction is also made between gain-sharing and profit-sharing although both are clearly related; gain-sharing typically consists of a group incentive pay system that is geared to productivity, cost reduction or other criteria, less comprehensive than profitability.

Share-based profit-sharing consists of giving employees, in relation to profits or some other measure of company performance, a portion of shares of the company where they work. These are usually frozen in a fund for a certain period of time before the workers are allowed to dispose of them. When shares are subject to a minimum retention period the term "deferred profit-sharing" is used.

B Employee share-ownership

Employee share-ownership provides for employee participation in enterprise results in an indirect way, i.e. on the basis of participation in ownership, either by receiving dividends, or the appreciation of employee-owned capital, or a combination of the two. While such schemes are not

² See for more details on the theoretical discussion and empirical research *The Pepper Report: Promotion of Employee Participation in Profits and Enterprise Results in the Member States of the European Community*, by M. Uvalic, Supplement 3/91 to Social Europe, Brussels, 1991

directly related to company profits, they are related to company profitability and so enable participants to gain from the growth of company profits.

Employee share-ownership can be both individual and collective. Shares can be in the company where the employee works or elsewhere. However, the draft Recommendation mainly focuses on those employee share-ownership schemes set up with the explicit intention of providing employees with an additional source of income related to enterprise results.

Employee share-ownership can take many different forms. Typically a portion of company shares is reserved for employees and offered at privileged terms; or employees are offered options to buy their company's shares after a determined amount of time, under favourable tax provisions. Alternatively, an employee benefit trust is set up through Employee Share-Ownership Plans (ESOPs), which acquire company stock that is allocated periodically to each employee's ESOP account. Workers' or employee buy-outs of their companies are a special form of employee share-ownership.

In the literature, the generic term "employee share-ownership" is frequently used to denote both share-based profit-sharing, and employee share-ownership; "profit-sharing" is sometimes used to refer to both profit-sharing in the strict sense of profit-related pay, and to share-based profit-sharing. The distinction between individual and collective employee share-ownership is also not always clear-cut.

This report refers primarily to those schemes which are: internal (applied within a company); collective (available for all, or a major part of employees); continuous (applied on a regular basis); and providing for employee participation in some measure of enterprise performance (whether directly or indirectly).

In summary, the following PEPPER schemes can be distinguished:

- PS: profit-sharing
- SPS: share-based profit-sharing
- BPS: bond-based profit-sharing
- CPS: cash-based profit-sharing
- DPS: deferred profit-sharing
- ESO: employee share-ownership
- SO: stock options
- DSO: discretionary share options
- ESOP: employee share-ownership plans
- EBO: employee buy-outs

See for the abbreviations used: Annex 2

3. PEPPER schemes and their effects

Whereas employee participation in decision making had been widely discussed, more limited

attention has been paid to PEPPER. In particular until the PEPPER-report of 1991, little was known about the concrete application of PEPPER schemes in practice, their diffusion or conditions. The first PEPPER-report gave a first insight into the practice in Member States and highlighted the main findings on the effects of PEPPER schemes on company performance.

A complete explanation of the reasons why firms adopt PEPPER schemes seems impossible on the basis of current evidence. However, they are found more often in larger, more profitable firms, multinationals, financial sector companies and firms with higher than average skills. A considerable body of evidence suggests that the introduction of profit-sharing is associated with a rise in the level of productivity in the firm.

Productivity effects

As increased competition in product markets has led to a search for better company performance, attention has been given to ways of rewarding workers for their output, rather than for their time (input). The consistency of the findings on the incentive effect on profitability is remarkable. Profit-sharing is associated with higher productivity levels in every case, regardless of methods, model specification and data used³. The experience to date suggests that probably cash-based schemes may have had more significant incentive effects than share-based schemes. This is supported by both econometric estimates and by attitude surveys⁴. To attain the same beneficial effects as from cash-based schemes, firms setting up share-based schemes would have to offer more generous conditions than has been the case to date.

Wage flexibility and employment

The effects of profit-sharing on employment through greater wage flexibility are much more debatable, as the econometric evidence is inconclusive. On the one hand some earlier evidence for the UK suggested that profit-sharing has a positive and significant effect on employment, but more recent estimates show that the size of the effect is not necessarily very large. On the other hand, evidence from France suggests that profit-sharing has resulted in greater wage flexibility, less frequent adjustments in employment, and in higher and more stable employment growth. For the United States, there is some evidence that profit-sharing firms display lower employment variability over the cycle⁵.

These results on productivity and wage flexibility could have at least two beneficial effects which favour public policy attention and support. First, it would reduce the level of unemployment. Second, it would increase the degree of attachment between employees and their companies, encouraging skill formation. The Pepper-report of 1991 reports that the incidence of PEPPER is still comparatively low despite recent growth in some cases. Given its potential benefits, this is surprising and underlines the importance of efforts to encourage the flow of relevant information

³ See Pepper-report (1991) p187-188; OECD (1995) *Employment Outlook*. Paris, July 1995, p.160; See for UK: Wadhvani and Wall (1990), and, Cable and Wilson (1990).

⁴ See Pepper-report (1991), p.187

⁵ See OECD (1995), p.160; see for UK: Bradley and Estrin (1992).

both about schemes and about appropriate ways of introducing schemes in different types of companies and in different national circumstances. For example, some studies have noted that productivity gains are more likely to occur in firms with a participatory atmosphere, i.e. with more employee involvement in general (industrial

democracy and direct participation). In recent years there has been more discussion⁶ on the potential opportunities for public policy and action at other levels to promote employee involvement.

Role of governments

In addition to the above arguments in favour of PEPPER schemes, reference can be made to an important argument in the explanatory memorandum of the Commission's proposal for the Recommendation of July 1992. The development of financial participation schemes is strongly influenced by government action. Governments are primarily responsible for the creation of a legal and fiscal framework that may favour such schemes but may also impede their introduction. This is illustrated by the finding of the PEPPER-report that in those countries where a particular type of financial participation scheme has been encouraged by government, the schemes most commonly introduced by companies are indeed the ones promoted through official government measures. In particular the availability of tax incentives makes a big difference. Such incentives may only be needed temporarily: once the relevant scheme has gained a certain momentum, the incentive can often be reduced or phased out. The findings of the PEPPER-report suggest that the potential advantages of financial participation schemes are largely enhanced by tax incentives.

Finally, governments can encourage the use of financial participation schemes by supplying adequate information to all potentially interested parties including in particular information about the experiences acquired in other Member States.

Different official government positions in individual Member States must be seen against a background of differing traditions and especially large differences in actual experience in practice with regard to financial participation schemes. In 1991, it was reported that in France and the UK government policies had been actively encouraging the use of financial participation schemes for a considerable number of years. In Belgium, Denmark, Germany, Greece, Ireland, Italy and the Netherlands, financial participation schemes of various types had been the subject of national debate but government support had either been limited or lacking, or had emerged fairly recently. An important issue in political discussions in many countries had been, and to some extent still is, whether schemes at company-level, or more central collective schemes, ought to be encouraged. In Denmark, Germany and Italy in particular, the issue of economy-wide wage-earners' funds was at the centre of the debate, but due to the absence of a general consensus and insufficient support for compulsory collective arrangements, none of the proposals advanced had been adopted. In Luxembourg, Portugal and Spain, the financial participation issue had so far received only limited attention, nor had it been among the priority issues for discussion between the social partners. In the next chapter we will investigate whether interest in financial participation matters has increased in some of these countries.

II OVERVIEW OF THE SITUATION IN THE MEMBER STATES

⁶ See for instance, Ida Regalia (1995) *Humanize Work and Increase Profitability? Direct participation in organisational change viewed by the social partners in Europe*. European Foundation for the Improvement of Living and Working Conditions, Dublin; and the follow up of the White Paper Growth, Competitiveness, Employment, of the Expert Working Group *Flexibility and Work Organisation*. Report by G. Bosch, Supplement 1/95 to Social Europe, Brussels, 1995.

This chapter gives an overview of the situation in each Member State. The general PEPPER tables included in this chapter present the diffusion of the schemes in the Member States.

Belgium

Since the adoption of the EU-Recommendation on PEPPER-schemes in 1992, the Belgian government has not taken new initiatives for the promotion of employee financial participation. The growth of financial participation in Belgium is still hampered by the lack of a consistent and specific legal framework and tax incentives, particularly for profit-sharing. From 1994 until the end of 1996 the Belgian government has even prevented the further growth of schemes by prohibiting the establishment of new financial participation plans in the context of the general wage freeze.

However, since June 1995 under the new government programme financial participation is being actively discussed in Belgium during the examination by the government of legislative measures to encourage profit-sharing, as part of income-policy and wage moderation to stimulate employment. These plans, although still unclear, are now being discussed by the social partners in the context of a revision of "the Competitiveness Act" of 1989 and the wage formation system.

Current legislation offers tax deductions for the acquisition of new shares by employees in the employing company, which cannot be sold before 5 years, and regulates some forms of employee share-ownership, such as new share issues reserved to employees on preferential terms, and stock-options plans. There is no specific legislation, nor tax incentives for profit-sharing, either cash or deferred.

There are no statistics available on the diffusion of Pepper-schemes in Belgium. A survey carried out in 1991-1992 indicated that share schemes are more widespread than profit-sharing plans. They are applied in a variety of sectors but seem to be more usual in large industrial and commercial firms, in the financial sector and in multinational companies. PEPPER schemes in Belgium are mostly established on the initiative of management and much less as a result of collective bargaining.

Up to last year, the Belgian government has remained very passive about the promotion of Pepper-schemes. Experiences from other EU-countries have only served as inspiration for a few proposals for laws formulated in the nineties.

GENERAL PEPPER TABLE 1

Country	General situation:	Legislation		Diffusion of PEPPER schemes				Change 1991-1995
		Specific laws & Year of introduction:	Tax benefits	Prevalent types:	No. of schemes/ firms Involved:	Employees involved:	Employee benefits or profit share / employee:	
Belgium	unfavourable but discussed today; PS and ESO prohibited due to wage freeze	ESO: (1983,1986) SO: (1984,1990) Preferential share offers (1991 Act)	Rather limited especially for ESO an SO	ESO	Quoted companies	1994: 36,900 employees	d.n.a.	d.n.a.
				Various of CPS & DPS, incl. PS certificates	multinationals; financial sector, 10% of large companies(survey)	d.n.a.	5% distributable profits; roughly 1,5% to 6% of salary	government plans for legislation of PS in near future;
Denmark	Discussions in 1994	On SPS and ESO (since 1958)	Some for SPS, BPS and ESO	BPS	27 (1995)	d.n.a.	d.n.a.	modest but relatively steady interest
				ESO	16 (1994)	d.n.a.	d.n.a.	
				SPS	d.n.a.	d.n.a.	d.n.a.	
Germany	Favourable except for CPS; appeal to social partners	Some on ESO; minor changes: 1994	Only for ESO	ESO & DPS	1,500-2,000 firms	about 1.5 million (inventory 1994)	300 DM per year=0.6% of the average gross wage	slight increase
Greece	No discussions	Some on CPS (1984) and ESO (1987)	For both firms & employees substantial	d.n.a.	d.n.a.	d.n.a.	d.n.a.	d.n.a.
Spain	Appeal to social partners	Only general provisions in Workers' Statute & EBO (1986)	Minor, except for EBO	CPS	No. of collective agreements with clauses on CPS: 1,087 (1994)	Covered by these agreements: 1.8 million	d.n.a.	slight decrease

d.n.a = data not available; for abbreviations used see annex 1 of this report

Denmark

In Denmark there was much discussion of national employee funds during the 1970s and 1980s, but none of the proposals has been implemented. Denmark currently has no legislation designed to encourage cash-based profit-sharing, which is thought to be rare.

There are, however, three PEPPER schemes: two based on shares (SPS) and (ESO), and one on bonds (BPS). All schemes are voluntary in that it is up to the individual undertaking to apply for permission to apply them (schemes involve certain tax concessions and must therefore be approved by the Minister for Taxation).

There are two separate schemes covering employee shares. The first allows employees to buy shares at a preferential rate. It is a condition that each individual employee is entitled to purchase shares with a value of up to 10% of his or her wage. Employees are not taxed on shares, but if they dispose of them the normal rules on share profit taxation apply. There are no special statistics on the number of schemes or the number of employees covered by such schemes.

The second type of share scheme was introduced in 1987 and allows each employee to be allocated free shares with a value of up to DKR 6 000 per year (but not exceeding 10% of his or her wage). A condition is that the shares are retained for seven years. The shares are not taxed on allocation, but the normal rules on share profit taxation apply when they are disposed of.

There are no statistics of how many employees are covered, but the number of schemes is as follows:

1987:	6	1991:	14
1988:	10	1992:	16
1989:	20	1993:	16
1990:	20	1994:	16

The figure for 1995 is not yet available.

Since 1958 it has been possible to issue bonds to employees free of charge and tax-free. Employees do, however, have to pay tax on dividends. As of 1 January 1996 there are no tax implications for the employer, up to DKR 1 800 per employee. If the value of bonds exceeds this amount, the employer must pay a levy of 45%. To compensate, the full cost, i.e. the value of the bonds plus the 45% levy and dividends, is tax-deductible for the employer.

To be approved, a scheme must be open to all employees and the value of bonds plus the 45% levy must not exceed 10% of the employee's annual wage. Bonds must be retained for five years.

No statistics are kept of the number of employees issued with employee bonds, but the number of schemes is as follows:

1992:	32
1993:	25
1994:	28
1995:	27
1996:	5 (first quarter only).

It is difficult to provide an overall view of the diffusion of PEPPER schemes in Denmark, as only those mentioned above (which require approval) are registered. Similarly, there are no statistics of the number of employees covered. The number of schemes approved suggests a relatively steady but modest use of PEPPER schemes.

In recent years a number of public limited companies have been set up in the state sector. The operation of the individual companies is subject to market conditions and the laws setting up these companies provide for the possibility of issuing employee shares. Furthermore, it is possible to pay performance-related salaries to employees in the state sector.

Germany

German legislation provides no incentives for profit sharing. However, there is a considerable body of regulations designed to encourage employee share-holding and capital accumulation. Direct guidelines to the parties concerned are not considered to be a responsibility of the German government. Employees' savings are invested in accordance with agreements with workers. It is possible for the social partners to develop their own type of scheme. The German government has recently taken the initiative to develop legislative regulations in which individual firm level schemes could be promoted, developed, disseminated and sustained within the context of central agreements between social partners.

The regulations offers incentives related to individual workers' savings. Concessions are offered to low earners (single people: up to 27,000 DM; married: up to 54,000 DM annual income) and if the participation is committed in a specific form of investment for a minimum retention period of 6 years.

The concessions offered consist of a low bonus paid by the State which amounts to 10% of the invested money in productive capital up to maximum of 936 DM per year.

In addition the Income Tax Law enables employees, who are offered price-reduced shares by their employers, to receive for these benefits exemption from tax and social insurance payments up to a maximum tax-free amount of DM 300, on condition that companies subsidise the acquisition up to 50% of the interest value and that shares are frozen for a period of 6 years.

While Germany grants no concessions to cash-based profit-sharing schemes, they are relatively common in the small number of firms which also have deferred or share-based schemes. The number of the schemes in Germany has changed only slightly. Specific figures on the number of general profit sharing schemes are not available. The value of employee capital has risen from DM 15 billion to DM 20 billion. Other sources report a slight increase in the number of employees covered.

In 1995, the German government appealed to the social partners to consider employee share-ownership and other related schemes as part of their wage-agreements. The possible advantages of that wage policy for employment-growth, a more equitable income and capital distribution were also stressed in new initiatives regarding employee share ownership. The German government has tried to convince the social partners to encourage these schemes, but despite this appeal their use is not widespread in Germany. The situation in former East Germany is expected to be even worse. The German government reports the need for new initiatives from the social partners to help to create an environment for private employee investments to enhance employment growth; to encourage employee participation in capital; and to improve employee involvement in enterprise.

Greece

During the 1980's, especially after 1987, the Greek government actively supported PEPPER schemes through legislation offering tax incentives to both companies and employees. There is a special legal framework for employee participation in both enterprise profits and assets. Provisions regulate two principal types of PEPPER scheme, namely cash-based profit-sharing and employee share-ownership. They are voluntary. Since 1990 no specific regulations have been reported.

Companies are allowed to distribute part of their net revenue or profits to their employees in cash. This may not exceed 15% of annual net profit per financial year. Companies adopting this form are obliged to draw up a list enumerating the beneficiaries, and the amounts granted to each individual employee, a copy of which must be sent to the workers' council. Both the employees and the company are granted tax benefits. The employee benefits are considered as income from moveable goods. Distributed profits are not included in employees' social security contributions and also since 1990 these distributed profits are exempt from employers' social security contributions.

Companies are also allowed to distribute shares to their personnel or to the personnel of ancillary firms. For the employees the income deriving from these shares is exempt from tax and from social charges, while dividends and interest payments on shares distributed to personnel are subject to income tax on moveable assets. For the company, capital allocated for shares to be distributed to employees is exempt from tax, but cannot exceed 20% of profits.

The general attitude is that interested parties (employers and workers) can make arrangements for promoting these schemes on a national, local, sectoral or occupational level. The bodies concerned are responsible for any agreements made in respect of specific arrangements and subsequent practices. In addition parties may also introduce arrangements by means of individual contracts and regulations. Choices may be included in collective labour agreements.

Spain

In Spain, any provisions concerning extra payments are regulated by the Workers' Statute. There is no discussion of specific policy and activities regarding PEPPER schemes. Spanish legislation does offer the possibility of introducing employee participation in enterprise profits, although no special benefits are provided either to firms or to employees. A 1986-law regulates employee buy-outs. There are no plans to introduce legislation to change these tax arrangements.

Profits can be distributed in two different ways: as direct labour compensation or through the establishment of funds for specific collective goals. According to company tax law these profits are considered as labour costs on two conditions: that such compensation is included in collective agreements, and that the motive behind the compensation is for work done. For the allocation of funds specific categories are treated as reducible expenses. From the fiscal point of view profits related payments to employees are treated as normal wages.

Since 1986 employees are allowed to take over companies, so called workers' companies (SSAALL). This type of worker-owned company, in which no less than 51% of capital is owned by its employees, may under certain conditions have the right to a 99% tax exemption from capital transfer tax.

There are no specific statistics on the schemes. General information on the content of collective agreements which include clauses on financial participation, suggests a slight decline in the number of clauses concerning bonuses directly related to productivity. Tax investigation has revealed that mainly large companies use this kind of incentive for their workers.

As a result of the limited rules in Spain in this area the social partners choose which particular participation scheme they want to use. It is through collective agreements and individual employment contracts that the type of participation which companies and employees regard as appropriate is fixed. A basic criterion in all cases is that participation should not be part of the basic wage but a supplement to it. Recently, as a major breakthrough, in the negotiations now under way account is being taken of the Government's proposal to link increases in wages and salaries with productivity improvements.

France

As a result of continuous government support for employee financial participation since the end of the fifties, French legislation offers a legal framework and generous tax advantages to a variety of financial participation forms: voluntary cash-based profit-sharing, deferred profit-sharing, employee share-ownership and company savings plans. The political consensus that PEPPER schemes should further be encouraged through official government policies has led to new legislative initiatives in 1993 and 1994. The principal objective was to give financial participation a new impetus by removing a number of obstacles originating from the 1990 legislation, a simplification of existing regulations in the legislative framework of 1986 and an extension of fiscal incentives.

Besides the already substantial tax benefits, the law of 1994 has particularly increased the tax advantages for deferred profit-sharing and company savings plans. Notably, these measures which aim to encourage long term savings and investment, are combined in the same law with specific measures to stimulate short-term consumption and encourage work-sharing by means of profit-sharing.

Cash-based profit-sharing in France is intended to provide a supplement to basic wages, linked to some measure to the economic performance of the firm. The 1994 law has reinforced and adapted some of the conditions to be fulfilled for tax relief (including social security contributions), such as:

- the collective and variable character of the scheme;
- the principle of no-substitution with other forms of remuneration;
- the increase of the maximum proportion of the total gross payroll allocated as profit-sharing to 20% (10% since 1990);
- the principle of uniform calculations for all categories of employees.

More than 2.5 million employees are now covered by about 8,000 agreements for cash-based profit-sharing. After a period a spectacular expansion in the second half of the eighties, the number of agreements declined markedly in the early nineties, due to a number of extensions of the compulsory deferred scheme to smaller companies. Since 1993 the number of schemes for cash-based profit-sharing increased again. Large disparities have been observed in the amount of the bonus in different sectors and companies of different sizes.

Deferred profit-sharing has been an important vehicle for financial participation in France. France is the only European country where the participation in company profits is obligatory for companies of a certain size. All firms with a minimum workforce of 50 employees (100 in 1990) are required to establish a deferred profit-sharing fund. This explains why France is also the European country where financial participation is most widespread. Employees can only get the accumulated amounts at their disposal after 5 (or 3) years. The amounts are then exempted from income tax and social security contributions (in part).

The 1994 law extended the deferred profit-sharing schemes to smaller companies which apply the scheme on a voluntary basis (fewer than 51 employees), and has also increased the tax incentives for these companies. In 1994 the participation increased to nearly 16,000 agreements covering more than 19,000 companies and more than 5 million employees.

In addition to the adaptations made the new law of 1994 introduced some remarkable new measures, inspired by industrial democracy and macro-economic developments, such as:

- the encouragement of the participation of employee-shareholders in the management of the firm;
- the possibility of introducing a "time savings account" by collective agreement, allowing employees to convert their profit-sharing bonuses into paid time off;
- the possibility for companies to "un-freeze" their deferred profit sharing funds for the purchase of a new car or for construction works;
- the creation of the Superior Council of Participation (CSP).

The creation of the CSP illustrates the importance of the issue of employee (financial) participation to the French government. The principal objectives and responsibility of the Council are to watch over the application of financial participation and participation in management by French firms, coordinate all initiatives leading to their further extension and produce an annual report for the Prime Minister and the Parliament summarising all developments in financial participation plans (voluntary and compulsory profit-sharing and company savings plans) and in wage bargaining in those companies where voluntary profit-sharing agreements have been concluded.

The involvement and information of the social partners has been activated by the presentation of an annual report on the use of the schemes promoted by the government and by the publication of brochures on financial participation by the Ministry of Labour. One possible new development which could result from the present discussions in the Superior Council would be the extension of company savings plans to retirement savings plans.

GENERAL PEPPER TABLE 2

Country	General Attitude:	Legislation		Diffusion of PEPPER schemes				Change 1991-1995
		Specific laws & Year of introduction:	Tax benefits	Prevalent types:	No. of schemes/ firms Involved:	Employees involved:	Employee benefits or profit share / employee:	
France	very favourable and discussed	Since 1995 on CPS and since 1967/70 on DPS, SO and ESO several changes; Important improvements in legislation in 1994	Substantial for both firms and employees; further improved in 1994	DPS	19,000 firms and 15,780 agreements	1993: 5.15 million	Average PS 4.2% of earnings	Substantial increase
				CPS	8,800 agreements	2.5 million	average 2.9% of earnings	Substantial increase
				ESO		0.75 million	d.n.a.	
				DSO	200 quoted companies	d.n.a.	d.n.a.	
				EBO	600 from 1984-1990; 55 since 1992 (estimate)	d.n.a.	d.n.a.	
				CPS	2500 to 3000	d.n.a.	d.n.a.	
Ireland	Discussed in National Programme	Only for ESO, SPS and SO	Considerable improvement in 1995	ESO, SPS & SO	d.n.a.	d.n.a.	d.n.a.	Expected increase
Italy	Discussed today; appeal to social partners (1993)	Some provisions in Civil Code and Workers' Statute	No incentives	PS	300 schemes (estimate 1991); Survey: in 21% of companies employee incentives based on productivity	900,000 (estimate 1991) approx. 6% of employees	d.n.a.	unknown
				SO	quoted (privatised) companies	d.n.a.	d.n.a.	slight increase

d.n.a = data not available; see for abbreviations used annex 1 of this report

Ireland

The legislation covering approved PEPPER schemes in Ireland is essentially set out in the Finance Act of 1982 and the Finance Act of 1986. Under such schemes, as approved by the Revenue Commissioners, companies can allocate shares to their employees. These are, subject to certain conditions, exempt from a tax charge on the initial value and subsequent growth of the shares. There are no specific legal provisions for cash-based profit sharing.

The legislation grants certain tax relief to participants of approved shared-based profit sharing and stock option schemes. The Finance Acts of 1982 and 1986 introduced tax concessions for employees and for their companies under the obligation of the establishment of a trust, which acquires the shares on behalf of the employees. In order to gain full income tax relief, the shares must remain in trust for 5 years. The Finance Act 1995, increased the annual limit on relief for approved employee profit sharing schemes from £2,000 to £10,000. This substantial increase in the relief limit is expected to generate a proportionate increase in the number of approved profit sharing schemes, thus promoting greater participation by employees in the ownership of their enterprises with the consequent and attendant benefits of greater productivity, improved industrial relations etc.

Following the changes introduced by the Finance Act, 1995, a significant increase is expected in the use of PEPPER schemes. The adoption of employee share ownership schemes has received a greater degree of attention in view of the recent equity participation by employees in a number of high-profile semi-State organisations.

Under a current National Programme in Ireland, the Programme for Competitiveness and Work, (which is a Programme agreed at national level between the Government and the social partners) both the Government and the social partners are committed to publicising and encouraging the adoption of a number of employment level initiatives including financial involvement by employees. The choice as to whether an organisation introduces a profit sharing scheme or a stock option arrangement is, however, ultimately a matter for the employer.

Italy

PEPPER related schemes were given a major breakthrough in Italy by the agreement of 23 July 1993 between the Government and the social partners. This agreement made it possible to overcome the main obstacle to greater use in Italy of schemes to promote employee participation in a firm's profits and results, i.e. the wage-setting system, which gave businesses little scope for raising employee remuneration over and above the increases established by collective agreements. Through this agreement the Social Partners and the Government took note of the need to introduce all the necessary measures to increase participation by employees in company performance, by providing that at company level the amounts paid would be related to the company's economic results and based on three indicators: productivity, quality and profitability.

There are currently two main forms of participation: participation of employees in a company's results and in its equity. There are no specific incentives.

Workers may be remunerated in whole or in part through participation in company profits or yield. The contributions are linked to pay and may not exceed 10% (1993). The Civil Code and the Workers' Statute stipulate that any form of payment made to workers for whatever reason must be considered to be part of remuneration.

Employees are offered three ways of participating in equity:

- a proportion of the shares which the business puts on the market is earmarked for employees at a price below the market value, but the majority of shareholders may decide that these shares will not be accompanied by voting rights;
- a fixed number of shares offered to employees in the event of a public share offer;
- an offer of investment plans to employees as part of the shares package earmarked for them.

One interesting development which has certainly enhanced profit sharing in Italy relates to what is known as direct participation in business-employee relations. Total quality plans are to be used to establish forms of direct employee involvement in the production objectives of the business in order to emphasise in a progressive way significant shared interests of the business and its employees.

There are, as yet, no official estimates of the incidence of financial participation schemes in Italy. A survey carried out in 1991 on a sample of 104 companies showed that employee incentives in 21% of the companies were based exclusively on productivity. In 62% of the companies, payments were related to profitability, quality indicators and attendance indicators. In most cases these payments were based on in-company data. It has been estimated from other sources that, in 1991, around 900,000 workers were involved in 300 schemes providing for at least some element of profit sharing. These figures represent just under 6 per cent of the total number of employees in Italy.

In recent years many companies have taken steps to offer shares to their employees, notably companies in the banking, finance and insurance sectors. In the past year in particular the acquisition of shares by employees has been encouraged, as public undertakings have been privatised. In collective labour agreements renewed in 1994 in the banking, textiles and clothing, chemicals, fruits and vegetable sectors and a number of industrial and manufacturing sectors, joint committees have been set up for the establishment of supplementary benefit funds.

GENERAL PEPPER TABLE 3

Country	General Attitude:	Legislation		Diffusion of PEPPER schemes				Change 1991-1995
		Specific laws & Year of introduction:	Tax benefits	Prevalent types:	No. of schemes/firms Involved:	Employees involved:	Employee benefits or profit share / employee:	
Luxembourg	Discussed; government considers initiatives: Law proposal on ESO by parties	None	No incentives	CPS	26% of companies (mainly banks) (1995)	d.n.a.	4.5-8% of net taxable profits	slight increase
Netherlands	favourable and discussed	In 1994 improved legislation on CPS; BPS and SO on the basis of company saving schemes	Substantial improvements in 1994	CPS	5.2% of firms	11.5%	5.7% of average earnings	increase in number of employees
				SO	d.n.a.	d.n.a.	d.n.a.	Expected increase due to integration with company-saving schemes
				"DPS"	d.n.a.	d.n.a.	d.n.a.	
Austria	favourable, but sceptical especially on ESO	Labour Law 1974/ revised: 1994; Income Law 1994	only for ESO	Data only for large enterprises				
				ESO	20 schemes	approx. 18,000	1%-45% of capital	Expected increase
				SO	1	400	d.n.a.	unknown
				ESOP	2	approx. 340	d.n.a.	unknown
				PS	1	d.n.a.	d.n.a.	unknown
Portugal	Minor discussions	Since 1989 privatisation law provides for ESO; PS based on 1969 law	Incentives for firms with PS; ESO incentives for both firms and employees	PS	d.n.a.	d.n.a.	d.n.a.	unknown
				ESO	quoted companies	employee shareholders: 12.4% of shareholders (1994)	d.n.a.	since 1989 increase under privatisation

d.n.a = data not available; see for abbreviations used annex 1 of this report

Luxembourg

In Luxembourg there are still no legal structures to regulate or facilitate the introduction of employee financial participation, although there is a growing interest on the part of the government and the social partners in recent years. At present views about the type of schemes that should be encouraged, differ strongly among the parties concerned.

Proposals to favour employee share schemes are not directly supported neither by trade unions, who fear the loss of control of their bargaining independence, nor by employers. Employers are more in favour of flexible pay, by adding a variable element of remuneration to a fixed base wage, whereas the government considers profit-sharing to be a voluntary and motivating instrument separate from wage negotiations.

Despite the absence of a legal framework and tax incentives, a modest but real growth of financial participation practice has been observed since 1990, compared to the eighties. Cash-profit sharing is more widespread than share-ownership and occurs mostly in the financial sector and as a result of management initiatives.

After minor interest in the eighties, financial participation is now being discussed seriously by the social partners and in Parliament. Up to now the government has not taken part in the debate, but is considering legal initiatives to encourage the growth of financial participation in Luxembourg.

Netherlands

In the eighties discussions on encouraging PEPPER schemes in the Netherlands took place at a national level. This resulted in a detailed proposal on tax-incentives for profit sharing. From January 1st 1994 a number of financial participation arrangements have been modified and some fiscal incentives enhanced in order to encourage employers to set up financial schemes and employees to participate in them (Law Vermeend/Vreugendenhil). The main basis of the law is for a saving scheme or personnel fund. It also provides an adequate legal structure for financial participation in general.

In the Netherlands, the variety of profit sharing schemes is limited, certainly in comparison with other countries, such as the United Kingdom and France. There are two different profit-sharing schemes for which fiscal incentives are available: cash-based profit sharing and deferred profit sharing. However, cash based a profit sharing appears to be the prevalent form. Of course, employers can take other measures in order to calculate the profit sharing benefit, and instead of payments they can opt for options on stocks etc. A central feature of the 1994 Law is the wage-saving scheme. The wage saving scheme and the premium saving scheme are the most important savings systems practised by companies. Both schemes were established with the aim of moderating annual wage growth. Workers are encouraged to save money, and employers to set up schemes, by means of fiscal incentives. It is possible to make use of both schemes at the same time. Savings can be converted into shares. However, there is no direct relationship between savings on the one hand and performance and results (profits) on the other.

To encourage participation in profit-sharing, the Government in 1994 raised the tax free benefit and shortened the retention period. Employers who use this scheme need to pay a total charge of 20% (instead of 35% before 1994). In exchange for payments, the employer may offer the worker an option on the firms shares. The total value of this option is limited to a maximum of HFL 1580 a year.

Stock options can be part of a saving scheme and are subject to the same tax-incentives as the wage saving scheme. An additional requirement is that the value of the options is fixed at 7.5 per cent of the value of the respective shares. Any revenues from the use of these options is allocated to a special savings account with a retention period of four years. The amount will be tax free to a maximum (HFL 1580 in 1995). This maximum will be determined yearly by the government.

Some changes are in preparation. At the moment a total charge of 10% has to be paid by employers when they make use of the wage saving scheme. It is proposed that this charge will be reduced to 0% provided that the saving sum consists of company stocks belonging to either the employers' company, or a partnership connected with the employer. The second adjustment concerns the charge of 20% of the cash based profit sharing employers have to pay. This charge might be reduced to 10%, but only if the employer requests a reduction.

The total number of employees receiving a cash-based profit sharing benefit has grown, but at the same time the benefit level has dropped significantly. In 1994, this scheme applied to about 11.5% of all employees, against 7.3% in 1993. The total benefit averaged HFL 2426, in 1994, 5.65% of the average earnings hourly. This was about 55% lower than the average benefit in 1993. The existing arrangements do not discriminate between men and women or other categories of beneficiaries. This does not mean, however, that there is equal participation. As noted above, the extent of participation depends on several aspects, of which wage levels are the most important. For higher paid jobs, the benefit is about 1% of total average hourly earnings (non-participants included) and for low paid jobs less than 0.3%.

In December 1994 almost 26% of all workers took part in wage-saving schemes. Reliable information on stock options and employee share ownership is not available.

The introduction of profit-sharing systems is to the responsibility of employers. Because of this, and the fact that, generally, not all the workers in firms exercising cash-based profit sharing schemes are entitled to benefit, unions do not support their introduction. This is particularly true if such a system implies a lower rate of growth in the underlying level of wages or in lower basic wages. No figures are available concerning the extent to which cash-based profit sharing systems are the subject of collective bargaining. However, the figure is believed to be low.

Austria

Schemes to promote employee share-ownership or share based profit sharing in Austria have little impact. There is a legal basis only for profit sharing. The social partners are sceptical about share based-schemes. According to Austrian Labour Law the Works Councils and the employer can agree upon a profit sharing scheme. Parties can develop and regulate individual profit sharing schemes provided that they agree on certain conditions. The scheme cannot be eligible to individual employees as such, but must be company wide.

In Austria the law allows the profit share bonus for white collar workers ("Angestelltenengesetzes"), personnel cannot be made responsible for the company's losses. It also provides for the company's books to be inspected by the personnel.

If there is any provision for tax-relief on profit-sharing it was not reported

In general the law permits employee share ownership as part of collective agreements. Since 1994 the law permits tax-free distribution of shares at a reduced price to employees. The maximum tax

free amount is 10,000 S per year. In addition, this scheme must be eligible to all personnel or to a specific group of personnel. Dividends are subject to normal tax regulations (22% tax) with the option for the amount to be taxed as income tax (which in most cases is beneficial to employees). In 1994 tax provisions on capital and capital gains were repealed.

There are no statistics on employee share-ownership or profit sharing. However, the information available on employee share-ownership in large firms points towards a number of around 18,000 employees. It is expected that this number will increase given the rather short period since the tax free arrangement was granted. PEPPER systems at branch level are mainly found in metal industry.

Only recently has the question of PEPPER been discussed and evaluated by employee representatives. As a result the Bundesarbeitskammer has decided to make PEPPER part of the training programme for employee representatives and works councils. However, experience shows that employee share-ownership appears to be implemented only when the company goes on to the Stock Exchange or when the company has economic and financial problems. Because of the great risks the latter imposes on employees, the Bundesarbeitskammer and the works councils view these schemes with scepticism.

Profit sharing is considered important in the collective agreements policy of the trade unions for developing more flexibility in the wage systems. However, PEPPER agreements and discussions have a marginal impact and are treated somewhat sceptically. This situation is unlikely to improve in the foreseeable future.

Portugal

In Portugal employee participation in enterprise results is covered by labour law and since 1969 has not been considered as remuneration. Equity participation is closely linked to the public sector privatisation policy which was introduced in 1989. The framework law on privatisation provides that a percentage of the equity to be privatised must be reserved for small subscribers and employees of the enterprise undergoing privatisation.

The profit-sharing amounts can be deducted from the taxable profit for the financial year in question on condition that it will be paid or made available to the beneficiaries by the end of the following financial year. Participation in the profits of the company has ceased to be a basis for imposition of statutory deductions towards social security.

Equity participation incentives include option plans for the subscription or purchase of shares under agreements between firms and their employees and the purchase of shares offered for public sale by the State.

Tax incentives comprise:

- for employees: a deduction from total taxable income of 50% of the amount applicable in 1991 to option plans created by employers, up to a limit of ESC 250,000.
- for companies: a deduction from corporation tax equivalent to the losses and other expenditure as a result of employees exercising their rights to share subscription or purchase options.

The tax concession granted with regard to the purchase of shares offered for public sale by the State, comprises a deduction from the total taxable income equivalent to 30% of the amount applicable up to a certain maximum for a single person, and double the amount for both partners were they are not legally separated.

No information is available regarding the number of workers who have subscribed to option plans or who have purchased shares under privatisation schemes, nor with regard to profit-sharing. Since 1991 there has been no change to the tax structure.

As far as the present situation is concerned, the only information available is that, in the case of equity participation up to the end of 1994, 130 operations modifying public participation in the share capital of 100 companies were carried out. The equity owned by small shareholders and employees in their own companies represents 12.4% of the total number of shareholders.

It is important to note that Portugal does not have a tradition of financial participation by employees in profits and enterprise capital, a fact which is attributable mainly to historical and socio-cultural factors. Moreover, a large number of national companies (even quite sizeable ones) have been under continued ownership and management and are predominantly family-based. In addition, attention should be paid to the fact that the majority of businesses in Portugal are small and medium-sized businesses, which are not very likely to produce accumulated capital. The financial and insurance sector has been the main sector in which the application of this principle of participation and redistribution has been promoted. Recently, there has been particular interest in the subject, as demonstrated by the two trade union confederations (UGT and CGTP), which attempted to include the subject in the Economic and Social Agreement for the year 2000.

As a rule, the setting up of profit-sharing schemes is not negotiated beforehand with employees' representatives. However there are many cases in which prior consultation with employees' representatives does take place, which in some cases leads to substantial improvements in the profit-sharing scheme.

One of the sources of inspiration for the system under the Law on privatisation was the French model. The regulations in the United Kingdom and Ireland also served as an example with regard to tax incentives for the financial participation of employees in enterprise capital.

GENERAL PEPPER TABLE 4

	General Attitude:	Legislation		Diffusion of PEPPER schemes				Change 1991-1995
		Specific laws & Year of introduction:	Tax benefits	Prevalent types:	No. of schemes/ firms Involved:	Employees involved:	Employee benefits or profit share / employee:	
Finland	Affirmative and discussed with social partners	Personnel funds (1990) with amendments in 1996	incentives for personnel funds; none for CPS/ESO	DPS (personnel fund)	41 firms or group of firms (1994)	90,000	1994 approx. 2% of year-income to funds	increase immediately after personnel fund introduction in 1990; since then very few new
				CPS/ESO	d.n.a.	d.n.a.	1-2% of paid wages	unknown
Sweden	Not discussed	Only for profit-sharing funds	For employees and firms on payments to the funds	d.n.a.	d.n.a.	d.n.a.	d.n.a.	d.n.a.
United Kingdom	Very favourable & discussed Continuous improvements	SPS (1978); SO (1980) DSO (1984) CPS (1987) ESOPs (1989) ESO (1978-) In 1991, 1992 and 1994: easing regulations; All schemes improved in 1995: equal treatment for part-time employees July 1995: introduction of new Company Share Plan (DSO), replacing the 1984 Executive Scheme	Substantial for both firms & employees In 1991, 1992 and 1994: increases in tax-relief DSO: Change from Executive Scheme to Company Share Option Plan refocused tax relief onto those in lower and middle income ranges	DSO	4,339		Substantial	Executive Scheme replaced by Company Share Option Plan with effect from July 1995

CPS	12,740	approx. 3.5 million	Maximum profit-related pay of 20% pay or £4000 per employee (whichever is the lower)	very substantial growth since 1991
SPS	868	approx. 1 million	Average value of shares appropriated 1994/95: £ 550 per employee	strong increase, little change
SO	1,174	approx. 1 million	Average value of shares over which options granted 1994/95: £ 2,900 per employee	strong increase
ESOP's	27	d.n.a.		slow increase
Total	19,148 schemes	5.5 mln employees		Numbers doubled since 1991

d.n.a = data not available; see for abbreviations used annex 1 of this report

Finland

In 1990, Finland introduced a deferred profit sharing scheme, the "Personnel funds and profit bonus system", which provides tax incentives to employers and is designed to facilitate the accumulation of capital by employees over the longer-term. Payments made by employers into personnel funds are deductible in taxation of employers and no social security contributions are to be paid. After 10 years from the beginning of the employee's membership in the fund, the employee is allowed to withdraw annually one-tenth of the money in the fund, though the whole may be withdrawn on leaving the company. Income tax is payable only on withdrawals. The amendments to the Personnel Fund Act (1660/95) which came into force at the beginning of 1996 shortened the waiting period for withdrawal from 10 years to 5 years and the proportion which can be withdrawn each year was raised to 15%. Amendments to the Income Tax Law (227/96), which also came into force in the beginning of 1996, eased the taxation of members of Personnel Funds, so that 20% of the earnings from the Personnel Fund are free of tax and the remaining 80% are taxable as income under income tax laws.

The fund may invest its assets in the employer's company or in a company which belongs to the same group. If the fund invests its assets in the shares of the employer's company, the personnel will, through the fund, become a share owner of the company. When the fund invests its assets outside its own company, the investment must be secure and yield profit. The yield of the investment activity is added to the members' fund shares each year.

In Finland there are no legal obstacles to cash-based and share-based profit-sharing schemes. The staff are given additional rewards in cash on the basis of the profit or other economic result of the company, but the law itself does not provide any special treatment. These profit premiums paid in cash are taxed in the same way as employees' other earned income.

The Income Tax Law provides a right for employees to subscribe to shares or interests at a favourable price. The advantage is tax-free if the discount is at most 10 percent of the current price, with a further condition that the majority of the personnel has access to the advantage.

When the Personnel Fund Act came into force at the beginning of 1990, it was greeted with considerable enthusiasm. The majority of the present funds came into existence either in the year the law entered or during the following year. Since then very few new funds have been set up. The main reason for the decline of interest has probably been the recession at the beginning of the 1990's which did not create a climate for the establishment of new funds.

In 1994, the general personnel funds were found in 41 companies (or groups of companies) covering 90,000 employees. There is no reliable and complete information available with regard to other profit schemes in Finnish companies. According to a survey in manufacturing, construction and some service sectors, the profit-based instalments paid to manual workers were 1.2 percent of total wages. For clerical employees the share of the profit and incentive wages was 1.8 percent of the monthly earnings. The number of clerical employees who receive wages based on profit and performance has grown considerably during the last 10 years. In 1994 on average every fourth clerical employee received profit and incentive wages, in 1984 it was less than five percent. On the other hand the proportion of monthly earnings derived from profit and incentive wages has declined amongst those clerical employees who receive them. The share varied between 5 and 7 percent in different groups of clerical employees in 1994 and in 1984 between 5 and 13 percent.

The closest models for the Finnish personnel fund model are found in Swedish foundation-based voluntary funds, in particular the Handelsbanken fund. The French systems of voluntary profit

premium and fund schemes have also served as models.

During the last year there have been animated discussions regarding the funds. The negotiations concerning the social-economic, employment and labour market policy agreement for the years 1996-1997 between the State and the social partners in Autumn 1995 also dealt with matters relating to the personnel funds. It is envisaged, that the lively discussion about personnel funds and law reforms with regard to the funds, when implemented, will promote the establishment of new funds, and the introduction of other forms of profit-sharing schemes in companies.

Sweden

Sweden does not have any specific system for direct promotion of participation by employees in companies' profits. Swedish fiscal legislation is mainly based on the principle that all employment-derived remuneration, in the form of wages or other benefits, is subject to tax. At present, result/profit participation schemes attract no special tax relief for either employers or employees.

However, there is statutory provision, in the Act of 1981 on Social Contributions, for an exception aimed at promoting certain specific indirect benefits for employees. This applies to the transfer of profits to special statutory funds established by the employees or workers' organisation in an enterprise (known as "profit-sharing funds"). The funds transferred to the foundations are mainly intended to reward employees for their efforts.

Employees do not pay tax on payments to a profit-sharing foundation at the time when the payment is made, nor does the payment create entitlement to benefit. Employers' contributions are therefore not payable on the funds transferred. When funds are disbursed from a profit-sharing foundation, the recipient is liable to tax on the payment received. However, the foundation is not required to pay employer's contributions on the disbursement, which therefore does not give rise to benefit entitlement. This exception applies only on the condition that the funds

- are to be held by the foundation for at least three calendar years;
- benefit a substantial proportion (at least one third) of the employees on similar terms; and
- are not paid to managers, co-proprietors or their relatives in close companies or firms with a small number of owners.

United Kingdom

There is a long tradition of financial participation in the United Kingdom. Since 1978, significant growth has been encouraged in legislation granting tax concessions to approved profit sharing and employee share ownership schemes. The legislation is permissive, in that it is designed to offer tax incentives which employers and employees can take up on a voluntary basis.

Employers and employees can decide which scheme allows them to promote financial participation in the way best suited to their particular needs. The rules for the schemes have been updated in the light of experience.

In the 1995 Finance Act significant changes were made to the eligibility criteria for all five of the United Kingdom tax-relieved employee financial participation schemes. The changes were intended to remove the previous restrictions on the inclusion of part-time employees from the schemes and to ensure that the tax reliefs give equal treatment to part-time employees, most of whom are women. The new rules ensure that part-time employees are - for the future - eligible to participate in those schemes.

The 1996 Finance Act introduced a new Company Share Option Plan aimed at middle managers and those in middle and lower income ranges. It replaced the 1984 discretionary "executive share option scheme" which was designed for high earning executives and senior managers. At the same time, improvements were made to the other share incentive schemes to make them more flexible and attractive to employers and employees alike.

There are several types of statutory profit sharing, share ownership and share option schemes as well as many non-statutory schemes.

Profit Related Pay (PRP) schemes link a part of employees' pay to changes in the profits of the business they work for. PRP paid to employees under a scheme which has been registered by the Inland Revenue is eligible for tax relief up to a limit of 20 % of pay or £4,000, whichever is the lower. The costs of setting up a registered scheme are tax deductible. Separate schemes can be set up for any unit producing separate profit and loss accounts, but must cover 80% of those employed in any unit covered by PRP. All employees must benefit on similar terms. At 31 March 1996 there were approx. 12,800 registered PRP schemes covering almost 3.5 million employees.

Approved employee share schemes provide significant advantages. They allow employees to receive shares free or at a reduced price from their employer without paying income tax on the value of those shares. The costs a company incurs in setting up approved schemes are also tax deductible.

There are three types of approved share schemes. The first two provide that all employees of a company with over five years' service must be allowed to participate by the employer. The third scheme allows a company to restrict participation to selected employees. If the employer wishes, new employees or employees with fewer years' service may be able to participate on similar terms.

By the end of March 1994 about 3 million employees had benefited from all-employee profit sharing and share option schemes, receiving shares or options over shares initially worth some £14 billion.

In addition to the all-employee schemes, the Finance Act 1984 introduced tax relief for approved discretionary share option schemes (also known as executive share option schemes). By the end of March 1995, 4469 discretionary share option schemes had been approved and were still being used. This tax relief was removed with effect from July 1995 and replaced in the 1996 Finance Act by the Company Share Option Plan;

In addition to the statutory schemes described above, there are many profit-sharing and share option schemes in existence which are not approved.

Employee Share Ownership Trusts (ESOTs) provide a further means in which shares can be transferred to employees. There can be statutory or non-statutory ("case-law") ESOPs. Under the statutory scheme, companies set up a trust which acquires and distributes shares to employees. The trust is responsible for buying and selling the shares and for distributing them to employees, either directly or through an approved profit sharing scheme. Since 1996, an ESOT may also be operated in conjunction with an approved savings-related share option scheme and so may grant employees options over shares and may distribute shares to employees on their exercise of those options. Beneficiaries must include as a minimum all employees of the company and its subsidiaries who have been employed for five years or more. The Finance Act 1995 removed the requirement that employees must work twenty or more hours a week.

Some companies prefer to implement non-statutory or "case law" ESOTS. While company

contributions under such schemes may qualify as deductions for corporation tax purposes - if the contributions fulfil certain conditions - they do not attract all the reliefs which are available to a statutory ESOT. Evidence suggests that "case law" ESOTS are much more numerous than statutory ESOTS. Their rules are negotiated with the tax inspector, giving employers the flexibility to adapt schemes to the particular needs of the company and its employees. A significant development since 1989 has been the growth of the use of ESOTS in medium-scale privatisation. It has been estimated that there have been about forty of these (see "Employee Share Ownership Plans", Incomes Data Services Ltd (IDS study 568), December 1994).

The information on the UK in the PEPPER table demonstrates that the growth of financial participation has been impressive over the last decade or so.

The UK Government supports a number of initiatives to promote financial participation and is actively involved in the dissemination of information and promotion of good practice. In 1991, the Inland Revenue published a report which indicated that there was a need to increase awareness of the tax incentives and benefits available for such schemes particularly amongst small firms and in the non-service sector, about the tax incentives and benefits available for such schemes. Subsequently, the UK Government launched a campaign. The importance of this campaign is that financial participation is embedded in a total integrated approach to employee involvement. In addition to initiatives involving the Government, a myriad of independent organisations and private companies provide information, advice, guidance, consultation, education and research on financial participation schemes, as well as promotion and publicity.

The UK has taken note of other experiences in the rest of the EU and beyond. The present arrangements in the UK appear to be successful in encouraging financial participation. There have been regular developments throughout the 1980's and 1990's in both the range of schemes available and the scope of the tax incentives which accrue to them. The extensive programme of privatisation also has provided opportunities for employees to acquire a stake in the businesses they work for.

III CONCLUSIONS

Legal structures and provisions for financial participation

There has been no great change to government policy on PEPPER schemes in EU countries since the first PEPPER report was introduced in 1991, although the situation is improving slightly. Official government positions in individual EU countries still range from those which are strongly or partly in favour of PEPPER, to those with no defined view. France and the UK have a long tradition in the encouragement of financial participation and this also has been directed towards a variety of schemes. In the period under consideration (1991-1995) these countries have made regular improvements in both the range of schemes available and the scope of the tax incentives which accrue to them.

In other countries, such as Belgium, Denmark, Germany, Greece, Spain, Italy, Luxembourg, Portugal, Austria and Sweden, the governments discussed PEPPER but official government support has been limited or lacking. Most of these governments have held that these schemes are mainly the responsibility of the social partners or the employer and employee-representatives in individual firms. However, we should note that very recently in Germany, Spain and Italy there have been strong official appeals to the social partners to promote these schemes when in negotiation. Spain reports that during current negotiations the notion of taking account of productivity is a new feature on the agenda. They expect a positive effect on productivity, wage flexibility, employment and employee involvement. In Italy, this has led to a tripartite agreement in which the government says that they will introduce tax concessions. This has not yet been implemented. In Luxembourg, requests were made to the government by representatives of private sector employees and executives and the Liberal Party to further regulate participation in capital by means of share offers on preferential terms. These proposals were strongly opposed by the two principal trade unions fearing an intervention in their bargaining independence. This opposition is also found in other countries where PEPPER is less well developed: Belgium, Germany, Spain and Italy, and also in the Netherlands.

In Belgium the government announced initiatives for legislation before the end of 1996, but previous proposals on profit sharing in 1993 did not receive any support.

In Ireland, the Netherlands and Finland there appears to be a development towards increased government support for PEPPER. Very recently, in 1995, Ireland increased tax incentives by five times the earlier amount and promoted the schemes in a national Programme on employee involvement and productivity in co-operation with the social partners. In 1990, Finland introduced legislation on personnel funds for profit sharing mainly directed towards share-ownership. The Finnish government made proposals in 1995 for further improvements. In 1994, the Netherlands introduced more detailed legislative procedures and improved incentives for profit sharing to stimulate employee capital accumulation related to wage saving systems. These countries have mentioned as their objectives greater employee involvement, productivity and competitiveness and wage flexibility on labour markets.

The macro-economic situation has not affected government support and that of the social partners for any proposals for financial participation. Recent debates relating to enhancing productivity and wage flexibility are also stimulating discussions on proposals. However, in most of the Member states trade unions can be expected to oppose the use of financial participation schemes to promote wage flexibility on labour markets. The perceived conflict between greater flexibility in labour terms on the one hand and the need for solidarity and greater involvement on the other hand

might, sometimes, hamper the introduction of proposals for financial participation.

With the exception of France and the UK, the legislation in the EC countries only favours certain schemes. The share-ownership is most favoured while cash-based profit sharing is least favoured.

Most Member States have no restrictive regulations that might hamper the introduction of financial participation schemes. However, there are certain legislative requirements set out in Member States that concern eligibility for tax relief. These refer, for example, to a minimum percentage of personnel covered by the scheme, eligibility criteria, retention periods and statutory and trustee requirements, etc. These requirements might reduce flexibility in introducing these schemes. However, in several cases the choices and options were improved. In other cases the possible administrative burden and/or set-up costs by the employer to meet the legislative requirements are deductible as operational costs.

An important improvement in the UK's 1995 legislation is the extension of eligibility to part-time employees. In France, too, improvements have been made to eligibility criteria. In some countries both in legislation and in practice eligibility criteria prevent the participation of part-time employees and temporary employees on a short-term fixed contract. Further more, schemes are sometimes open only to personnel with a certain minimum length of employment in the company.

Privatisation

Several countries reported that the trend towards privatisation of public bodies has given rise to greater interest in PEPPER schemes. In Portugal, specific legislation was developed in 1989 to provide for the issue of shares to employees when their public organisation was privatised. The impact was a substantial increase in employee share-ownership. In Denmark, privatisation appears to have led to remuneration systems that are more closely related to the performance of the privatised firms and to possibilities to issue employee shares. In Ireland, the adoption of employee share ownership schemes has received a greater degree of attention in view of the recent equity participation by employees in a few high-profile semi-State organisations. The acquisition of shares by employees in Italy has been encouraged as public undertakings have been privatised. The same can be seen in the UK and the Netherlands. This suggests that governments can set up PEPPER schemes within this privatisation development, thus getting and gaining experience and creating awareness of the possibilities of these schemes for a wider audience.

Incentives and tax provisions

Most of the legislation on promoting financial participation schemes in Member States on PEPPER has to do with incentives such as fiscal or other financial advantages. In the period under consideration the main PEPPER countries, UK and France, have made further improvements in the variety of incentives for the different schemes.

No specific incentives for any scheme were found in Spain and Italy. Belgium, Denmark, Germany, Ireland and Austria reported incentives only for share-ownership schemes and not for profit-sharing schemes. Incentives range from tax-free issue of shares or bonds to employees through tax-free amounts on distributed profits, to more favourable tax arrangements. Other advantages include exemption from social insurance contributions. In some countries these incentives are provided for both the employer and the employee and sometimes they allow employers to deduct the costs of the scheme for tax purposes.

Occasionally problems arise with social charges especially when some argue that the benefits should be regarded as normal wages subject to social charges while others argue that this type of remuneration should not be subject to these charges. For instance, in Belgium, these discussions hamper the development of PEPPER schemes.

The levels of incentives are modest. However, there have been recent improvements in this respect in Ireland (1995), the UK (1991) and France (1994). Other minor improvements in the period under consideration (1990-1995) were reported in Austria and the Netherlands in 1994, and in the 1995-proposals in Finland. With the exception of Austria, these improvements in the latter countries also concern a reduction in the retention periods.

Other incentives are the possibility of withdrawals before the end of the retention period for specific expenses (new housing, insurance and specific capital savings, retirement funds and in one case even cars (France) without any or only minor taxation on these withdrawals.

Noteworthy incentives were found in France: In 1994, France introduced the concept of a "time savings account" (compte d'épargne temps) allowing the allocation of profit sharing bonuses (intéressement) in the form of paid time off, for a minimum period of six months. Such schemes would enable employment. These examples of incentives illustrate that, at least for the countries with a well developed system for financial participation schemes, the policy on incentives and other financial advantages seems to have become an integral part of macro-economic policy in relation to wages and consumption.

Diffusion of PEPPER

Diffusion of PEPPER schemes (see also the general tables in chapter II)

Belgium:	decrease of profit-sharing
Denmark:	modest, but relatively steady interest in employee share and bond schemes, there are no data on profit sharing
Germany:	slight increase in number of schemes and employees involved
Greece:	there are no data available
Spain:	slight decline in profit sharing agreements; also in employees involved
France:	increase of all schemes
Ireland:	there are no data available; increase expected due to 1995 increase in tax relief
Italy:	expected increase due to tripartite agreement and privatisation of public bodies
Luxembourg:	increase of cash-based profit-sharing
Austria:	expected increase since 1994
Netherlands:	slight increase

Portugal:	increase under privatisation
Finland:	increase; expected further increase
Sweden:	there is no data available
United Kingdom:	substantial growth; doubling total number of schemes and employees involved.

While there are substantial developments in the schemes and the number of employees involved in countries with a longer tradition on PEPPER, UK and France, other States with only a modest government policy and legislative arrangements experience a slight growth (Germany), a steady situation (Denmark) or even a decline (Spain). In other countries where policy is being developed, there has already been an increase or one is expected (Finland, Ireland, the Netherlands and Italy). However, it appears that a growing disparity is developing between the acknowledge PEPPER countries and those countries that have less well-developed arrangements.

Another observation is that with the exception of the UK and France, most Member States do not have a clear view of the development, the possibilities, the experiences, or the problems of PEPPER schemes in their countries because no specific registration is provided nor any minor research done on these schemes.

In considering the development of PEPPER in EU-countries so far, we can conclude that France and the UK have reached the level of an integrated legislation and a policy of a high level of distribution of these schemes. Initially, a nationally supported, deferred profit-sharing scheme is the one that is supported most strongly. At a company level the most pronounced development arises from a nationally promoted company savings scheme. These observations suggest that countries might develop their scheme by introducing a modest deferred profit-ownership and company savings system as a framework for legislation and then carefully develop these further with the integration of cash-based profit-sharing on the one hand and employee share-ownership on the other, gradually improving the offered incentives. The beneficial tax treatment in these schemes has without any doubt contributed to the spread of financial participation in the Member States. This development might be stimulated through an environment in which profit-sharing is considered as a voluntary and motivating instrument separated from wage negotiations leaving bargaining independence to the social partners. Also, given the positive relationship between the schemes' occurrences in the individual companies the development path suggested above might lead to in a situation in which PEPPER schemes became more independent later on.

Encouragement

Only a few countries encourage the use of such schemes by making sure that adequate information is available to all parties. Active campaigns for the promotion of PEPPER schemes are found in France, the UK, Finland, the Netherlands and Ireland. The information provided in the UK and France is impressive and exemplary. In this respect, the other countries see it as the responsibility of employers and their representatives. Only Germany and Austria reported that the employers organizations in the respective countries have set up campaigns for specific information. Austria is an interesting case because the Chamber of Labour has initiated different actions to promote PEPPER both to employers and employees. They have also developed training programmes.

Most countries that adopt a more developed policy to promote PEPPER are aware of the possible

arguments against it and are taking initiatives to convince the social partners of the positive effects. It is to be noted, however, that on occasions companies issue shares to their employees when the company has economic and financial problems. This carries great risks for employees and has led to scepticism on the part of the parties concerned. However in the best schemes, these risks can be avoided. Moreover, the amounts involved and consequent risks are generally more modest. Other criticism on PEPPER was also the subject of regulation in several occasions. For example, the UK legislation on statutory ESOTs was designed to avoid the criticisms levelled against ESOTs in the United States, where, for instance, ESOTs are often used as a substitute for employee retirement benefits or as a "poison pill" protection against take-overs, rather than as a mechanism to encourage individual employee share ownership.

An interesting observation from the UK and Ireland is the integration of the promotion of PEPPER schemes with the promotion of employee involvement in general to unleash the productive power of the workforce and to improve competitiveness and quality of production. Italy also refers to this movement in the tripartite agreement between the government and the social partners. In France, a specific National Council promotes PEPPER in the general context of the employee involvement trend. This suggests that in line with the Council Recommendation Member States should develop a National Programme and/or National Institutional Bodies to develop systems for promoting PEPPER within the national context and particularly in relationship with the general employee involvement trend.

Exchange of experiences between Member States

In France, the latest PEPPER-Recommendations were considered along with the latest changes in the legislation of 1994. Some countries report that it learns from experiences of good (and bad) practices in other European countries and elsewhere. Other countries point to possible risks of placing too much emphasis on experiences from other Member States for the learning process in their country. This is due to varying industrial relations systems and legislation between Member States. There does not appear to be any regular exchange of information between Member States either on legislation or good practices. However, countries that have recently begun developing the scheme refer to other countries, for example Ireland refers to the French experiences and Finland to experiences in both France and Sweden. This observation suggests that an exchange of good practices between the respective parties from the different Member States might clear some of the problems of implementing PEPPER. It might also help the parties concerned to deal with the arguments against PEPPER and show them how these arguments can be resolved within the context of the schemes.

Another important aspect of the promotion of PEPPER is, what in the earlier PEPPER report they called the intra-community dimension: e.g. what obstacles are encountered by practising a Pepper scheme in country A and what solutions can be offered to companies practising such a scheme? Companies referred to here are those that have establishments in another EU country and which want to make the benefits available to their employees in the other EU country. The earlier report did not deal with these and similar questions. In France, it is noted that the authorities would welcome EU-actions favouring group-level agreements (i.e. PEPPER schemes for a group of companies within one enterprise) on a European level. Italy also made similar appeals.

This suggests that they also want to promote the exchange of information on different legislative rules and procedures promoting and monitoring PEPPER schemes. This could serve to support the distribution of many options on PEPPER in the Member States.

Available options to parties concerned

As has been put forward earlier, most governments have held that PEPPER schemes are mainly the responsibility of the social partners or the employer and employee-representatives in the individual firms. This means that any legislation or other regulations will provide a framework within the details can be negotiated. However, in the case of tax-incentives, regulations might limit the available options. Of course, any legislation will set a limit to the variety of options available. In cases where there are elaborate legislative procedures like the UK, there is a need to provide for specific individual arrangements. In the UK for instance there are "case law" ESOT's that allow part of the tax reliefs even though these schemes do not fully meet the general requirements. This tax reliefs can be allowed in negotiations between company or trustees and tax inspectors. Again in the UK there are many non statutory schemes, reflecting the non-prescriptive nature of the UK approach. However, it should also be noted that these schemes run in parallel to statutory schemes. This positive relationship probably derives from a general positive attitude in the UK towards PEPPER schemes. In another case, the Netherlands, this possibility of tax negotiations became limited with the introduction of the central law on wage savings and employee capital accumulation in 1994. It should be noted that in most countries and for most schemes participation is voluntary. France is the only country where deferred profit-sharing is compulsory for companies of a certain size.

There is also a need to reach a balance between general collective rules and provisions in cases where the possibility for PEPPER schemes, especially profit-sharing schemes, are based on collective agreements (Germany, Spain and in Italy). In these countries the government took initiatives to create negotiation space and enhance the choices made within the context of collective agreements. For instance in Italy, this was laid down in an agreement with social partners. The Italian government notes, that this agreement made it possible to avoid the main obstacle to greater use in Italy of schemes to promote employee participation in a company's profits and results, i.e. the rigid wage-setting system, which gives businesses little scope for raising employee remuneration above the increases established by collective agreements.

These initiatives are also related to the government appeal to social partners mentioned above in other Member State to promote these schemes in practice. In these countries they were taken initiatives to open up the possibilities for PEPPER. In Denmark, Greece, Ireland, and the Netherlands options and choices within the context of the law are for the individual employer and might be subject to negotiations at company level. They are therefore less a subject for agreement on a collective level.

It should be noted however that experiences in the past have shown that, in general, dissemination of the schemes could be improved when schemes are developed at a higher level, e.g. the social partners at a sector level. Schemes can then be applied at an individual company level, with clearly defined rules for individual employees at that level. This suggests that the recent appeal to the social partners in Germany, Spain and Italy, should be supported. The German government reports the need for new initiatives from the social partners, in order to create an environment for private employee investments to enhance employment growth, and to encourage employee participation in capital and also to improve employee involvement in enterprise.

Good practices as mentioned in the Annex to the Recommendation, concerning conditions for the introduction of schemes and other recommendations, are found in the UK and France. Finland and Austria are also interesting in this respect. When schemes are introduced, the latter countries have legislative provisions with regard to informing and consulting the respective parties and individual employees concerned. In Austria a collective institution made up of both representative parties is promoting the PEPPER schemes and provides for consulting and for training activities. In Greece,

companies adopting cash-based profit-sharing have an obligation to draw up a list enumerating the beneficiaries, and the amounts granted to each individual employee, a copy of which must be sent to the workers' council.

Enhancement of management and labour's awareness

In the UK and France activities concerning the enhancement of management and labour's awareness are almost institutionally embedded into different public and private bodies. These bodies provide for specific information campaigns and consulting practices directed to both employers and employees. We have already mentioned the official appeal to social partners in Germany, Spain and Italy. In Ireland, they launched a specific National Programme. Again Austria is an interesting case. There representative parties have developed a learning programme which is included in the training for works councils and employers.

Ideas for the reinforcement of PEPPER

In the framework of their respective competence the following ideas for the reinforcement of PEPPER could be explored further by Member States, Social partners, and in matters of exchange of information and good practices by the Commission:

Develop a framework law

The analysis of PEPPER schemes in practice in EU countries suggests that there are not many legal obstacles to their introduction. However, certain modifications of existing laws, and the adoption of a framework law by Member States could be useful to integrate the regulations for all possible PEPPER schemes.

Clarify the distinction between wages subject to social charges and the advantages derived from PEPPER schemes

Next to fiscal advantages most PEPPER schemes also provide exemption from certain costs and charges. Occasionally financial advantages such as the issue of shares or bonds at a price lower than the market price is regarded as income or wages that are subject to social charges. In some case these interpretations by the tax authorities are heavily debated and taken to court. Sometimes legislation has improved the matter but in other cases discussions are still going on. A clear legal distinction would be highly beneficial.

Enhancement of eligibility

Although most of the existing arrangements do not discriminate between categories of beneficiaries, this, however, does not mean that there is equal participation. In some countries, both in legislation and in practice, eligibility criteria still prevent the participation of part-time employees and temporary employees on a short-term fixed contract ; in addition schemes are usually eligible only to personnel with a certain minimum length of employment in the company. The eligibility for PEPPER schemes should be improved.

National wage saving system as a vehicle for share-ownership and profit-sharing

Nationally supported deferred profit-sharing schemes are most likely initially to promote the

development of PEPPER. This suggests that countries might develop their schemes by introducing modest deferred profit-sharing and a company savings system as a framework for legislation. They might then carefully develop these further with the integration of cash-based profit-sharing on the one hand and employee share-ownership on the other. In so doing they gradually improve the incentives offered. This might also end in a situation in which PEPPER schemes become more self-sustaining later on.

Provide for a stimulating climate

The development of PEPPER will be stimulated through an environment in which profit-sharing is considered as a voluntary and motivating instrument, in most cases separated from wage negotiations and leaving bargaining independence to the social partners. The establishment of National Institutional Bodies that develops systems for promoting PEPPER in the national context could also stimulate developments in Member States.

Set up PEPPER schemes in the course of privatisation of public bodies

Many countries reported the trend towards privatisation of public bodies as a possible vehicle for greater interest in PEPPER schemes. This suggests that governments can set up PEPPER schemes during this privatisation process thus gaining experience and creating awareness of the possibilities of these schemes among a wider audience.

Integrate PEPPER schemes into programmes on employee-involvement

It is interesting to note that sometimes the integration of the promotion of the PEPPER schemes is linked with promotion of employee involvement to unleash the productive power of the workforce and to improve competitiveness and quality of production. In line with the Council Recommendation this suggests that Member States should develop national or sectoral programmes that develop systems for promoting PEPPER in the national context in relationship with the general trend towards employee involvement.

Make an appeal to the social partners

Occasionally PEPPER schemes can be promoted by the introduction of provisions in collective agreements. Sometimes, in recent discussions during the development of collective agreements, some of the social partners have sought to place PEPPER on the agenda. An official appeal to the social partners to promote these schemes during their negotiations, making reference to the expected positive effects of the schemes on productivity, wage flexibility, employment and employee involvement could probably reinforce the process towards a higher acceptance of PEPPER.

Avoid irresponsible risks for employees

Occasionally companies in Member States issue shares to their employees when the company has economic and financial problems. Without sufficient information this carries great risks for employees and leads to scepticism on the part of the parties concerned.

Tackle the problems for intra-EU schemes involving subsidiaries in different national circumstances

Another very important aspect of the promotion of PEPPER is the intra-EU dimension of the application of schemes to subsidiaries of a company in different Member States. These international companies face obstacles when they make benefits available to their employees in their subsidiaries in other EU countries. This also suggests the promotion of exchange of information about different legislative rules and procedures for promoting and monitoring PEPPER schemes to support the widening of many options on PEPPER options in the Member States, without attempting to harmonise approaches across Europe, since legal frameworks and practices vary greatly across the Member States.

Promote the development of clear and understandable models and plans for introduction

Given the importance of these schemes for productivity, wage flexibility, employment and employee involvement, it is quite disappointing that the use of these schemes in most Member States is so low. This is partly because the social parties often have a poor understanding of these matters. It is also related to the fiscal and legal complexity of the schemes. It appears that schemes are mostly designed by fiscal and legal experts. Clear models and plans for the introduction of schemes that are manageable and understandable both by management and labour could be helpful to avoid the myth of the complex and expert character of PEPPER schemes.

Stimulate information exchange between Member States

The situation in Europe regarding the application of PEPPER schemes has slightly improved. However, a growing disparity appears to be developing between the acknowledged PEPPER countries and the countries that have only modest policy and minor arrangements. There seems to be no exchange of information between Member States regularly either on legislation or good practices. Demonstration projects on good practices with a view to promoting the exchange of information in workshops, conferences, and through other means should be developed. These can be directed towards the social partners as they have a decisive influence on the acceptance of similar schemes.

Annex 1

In the report the following abbreviations of PEPPER schemes are distinguished:

PS:	profit-sharing
SPS:	share-based profit-sharing
BPS:	bond-based profit-sharing
CPS:	cash-based profit-sharing
DPS:	deferred profit-sharing
ESO:	employee share-ownership
SO:	stock options
DSO:	discretionary share options
ESOP:	employee share-ownership plans
EBO:	employee buy-outs

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