Basic information

2008/2035(INI) INI - Own-initiative procedure	Procedure completed
Stepping up the fight against undeclared work **Subject** 4.15 Employment policy, action to combat unemployment 7.30.30.06 Action to combat economic fraud and corruption	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
EMPL Employment and Social Affairs	PANZERI Pier Antonio (PSE)	22/01/2008

Committee for opinion	Rapporteur for opinion	Appointed
ECON Economic and Monetary Affairs (Associated committee)	STOLOJAN Theodor Dumitru (PPE-DE)	18/02/2008
ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
IMCO Internal Market and Consumer Protection	HAMON Benoît (PSE)	25/03/2008
JURI Legal Affairs	The committee decided not to give an opinion.	
LIBE Civil Liberties, Justice and Home Affairs	FAVA Claudio (PSE)	27/02/2008
FEMM Women's Rights and Gender Equality	LULLING Astrid (PPE-DE)	24/03/2008

European Commission

Commission DG	Commissioner
Employment, Social Affairs and Inclusion	ŠPIDLA Vladimír

Key events

Date	Event	Reference	Summary

24/10/2007	Non-legislative basic document published	COM(2007)0628	Summary
21/02/2008	Committee referral announced in Parliament		
21/02/2008	Referral to associated committees announced in Parliament		
10/09/2008	Vote in committee		Summary
23/09/2008	Committee report tabled for plenary	A6-0365/2008	
08/10/2008	Debate in Parliament		
09/10/2008	Decision by Parliament	T6-0466/2008	Summary
09/10/2008	Results of vote in Parliament		
09/10/2008	End of procedure in Parliament		

Technical information

Procedure reference	2008/2035(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 55-p4 Rules of Procedure EP 55
Stage reached in procedure	Procedure completed
Committee dossier	EMPL/6/59430

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE406.009	07/05/2008	
Amendments tabled in committee		PE406.141	10/06/2008	
Committee opinion	IMCO	PE405.964	16/07/2008	
Committee opinion	ECON	PE404.803	17/07/2008	
Committee opinion	FEMM	PE405.767	18/07/2008	
Committee opinion	LIBE	PE409.592	09/09/2008	
Committee report tabled for plenary, single reading		A6-0365/2008	23/09/2008	
Text adopted by Parliament, single reading		T6-0466/2008	09/10/2008	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2007)0628	24/10/2007	Summary

Commission response to text adopted in plenary	SP(2008)6975	30/01/2009	

Stepping up the fight against undeclared work

2008/2035(INI) - 09/10/2008 - Text adopted by Parliament, single reading

The European Parliament adopted by 479 votes to 50, with 47 abstentions a resolution on stepping up the fight against undeclared work.

The own-initiative report had been tabled for consideration by Pier Antonio **PANZERI** (PES, IT) on behalf of the Committee on Employment and Social Affairs.

Parliament welcomes the approach taken by the Commission and calls for a renewed fight against undeclared work and the underground economy which damage the economy, leave workers unprotected, are detrimental to consumers, reduce tax revenue and lead to unfair competition between undertakings.

Extent of undeclared work: Parliament expresses its deep concern over the extent of undeclared work which accounts for as much as 20% or more of GDP in some Member States. It is for this reason that it calls for a combination of financial, fiscal and labour inspection procedures to be introduced to combat undeclared work.

All-out offensive against undeclared work: to combat undeclared work, MEPs envisage a comprehensive approach which covers matters relating to monitoring and control, the economic and institutional framework and involves concerted action at several levels and the participation of all stakeholders (public authorities, social partners, undertakings and workers).

The envisaged measures would include the following :

- improving incentives for regular work, which may include increasing the tax-free income band and, for employers, reducing the non-wage costs associated with legal employment;
- tax and social security system reforms to reduce the burden of taxation on the workforce (in particular, attractive tax rates for employers, including the deduction of charges concerning, inter alia, local work, and tax exemptions for all work carried out for pay lower than an amount to be determined by the Member State);
- strengthening Community action to ensure that modernisation of labour law is translated into improved job quality;
- promoting stronger and more efficient coordination and administrative cooperation between government enforcement agencies, labour inspectorates and the social partners, social security administrations and tax authorities to ensure that legislation is respected;
- providing strong incentives for those who undertake to put undeclared work on a formal economic footing (e.g. atypical contracts could help to get people out of illegal work).

At Community level, Parliament calls on the Commission to draw up policies to provide for both general measures and sectoral measures to prevent undeclared work, doing so with the full involvement of the social partners. In this regard, special measures should be envisaged for the **most affected sectors**, such as the hotel and catering industry, farming, domestic services and the construction industry. Parliament stresses that undeclared work has various definitions in the national legal systems and that a definition common to all Member States would ultimately eliminate uncertainties in relation to statistical surveys of this phenomenon.

Further measures are suggested such as: i) the introduction of national and Community programming instruments which allow economic and social support and development policies to be pursued, ii) the taking of supervisory and punitive action, iii) the assessment of the possibility of accompanying the fight against undeclared work with financial policies that support regional and local plans, iv) creation of specific tools based on Member States' best practices aimed at curbing non-declared work by making it less appealing (as is the case already in Luxembourg), v) the financing of research projects into health and safety at work and of promotional activities geared to prevention and the dissemination of a culture of health and safety in the workplace, with particular reference to those sectors in which there is the highest risk of accident (and in which undeclared labour is more prevalent).

Reinforcing sanctions: Parliament invites the Member States to introduce severe penalties for employers who, notwithstanding any incentives offered, continue to make use of undeclared labour. It encourages them to combine preventive action and sanctions aimed at transforming undeclared work into regular employment. However, it points out that, unless it is followed up by better coordination between Member States, a policy that is exclusively punitive could concentrate undeclared work in the less structured States and in the less regulated economies. Parliament therefore advocate the conclusion of agreements at regional, national and local levels that provide a progressive and sectoral response to illegal labour and encourage the Member States and the social and economic stakeholders to conclude a **'pact to declare the undeclared'**, geared to allowing undeclared activities to gradually come to light. Such a pact should provide for a limited transitional period, during which there are no sanctions, at the end of which, however, stronger sanction mechanisms would come into effect. Parliament recommends that agreement be reached at national, regional and local levels involving social institutions and employers' organisations seeking a commitment to monitoring and progressively eliminating undeclared employment.

Among the Community measures that could help to better police undeclared work is Council Framework Decision 2005/214/JHA on the application of the principle of mutual recognition to financial penalties which could improve the situation. Overall, Parliament calls for greater and more effective respect of the right to work and of existing employment rules.

Greater involvement of the social partners: Parliament calls on the trades unions to become more active in the fight against undeclared work insofar as workers who do undeclared work often find they are not protected by important health and safety legislation and legislation on minimum wages. It calls in particular for better enforcement of existing minimum wage legislation and urges those Member States which do not currently have a **decent**

minimum wage to consider adopting one. It also recommends the introduction of measures that would enable undeclared workers to become 'legal' and cite the **service voucher schemes** in Belgium, Germany and France, whereby households can buy household services at a lower price but still ensure that social security contributions and taxes are paid through the voucher.

Encourage the free movement of workers: Parliament calls on those Member States which have applied transitional arrangements to the free movement of workers within the Union to open up their employment markets to workers from all the new Member States, given that any restrictions – even partial ones – on access to the labour market, not only run counter to the founding principles of the Union and the European spirit but also give rise to increasing recourse to undeclared work. It believes it vital to implement the principle of equal workers' rights and to counteract unfair competition and social dumping.

Vulnerability of immigrant and illegal workers: Parliament is concerned about illegal immigrants who are particularly vulnerable in situations of undeclared work. It considers the issue of employment of immigrants in an illegal situation is a complex one that cannot be resolved simply by punishing employers but requires cross-sector, far-reaching measures. They therefore favour a **comprehensive approach** which must take into account the need to safeguard and promote the rights of migrant workers, whether legal or illegal, who are exploited by their employers. Parliament believes that the fight against undeclared work performed by illegal immigrants cannot be effective without opening up channels for legal migration in order to guarantee the third-country labour which the Union needs. It considers that the fight against the exploitation of migrant workers needs to be based not only on a policy of repatriation, but also on prevention mechanisms based on the recognition of and respect for fundamental human rights. It is in this context that the Parliament calls on the Member States to define or strengthen the appropriate legislative measures to encourage migrants who are victims of exploitation to report their situation. Although it welcomes the Commission's efforts to provide for sanctions against employers of illegally staying third-country nationals, they express concern that repressive measures are being put in place before any common framework of rules and policies on lawful access to the employment market has been laid down.

Facilitation of administrative procedures: Parliament considers that simplifying or reducing administrative burdens and procedures, especially for small and medium-sized enterprises, would diminish the use of undeclared labour. The use of e-government and on-line registration should be encouraged, as well as the exchange of good practices with the aim of reducing the costs and complexity of registration and administrative procedures for businesses and, in particular, for SMEs. Parliament also calls for public information campaigns to raise awareness of the damage caused by undeclared work among employers, workers and those who exploit them. Parliament considers that such permanent campaigns should accompany the various measures adopted with a view to instilling a **culture of legality** and promoting quality work and a legal business culture.

Stepping up the fight against undeclared work

2008/2035(INI) - 24/10/2007 - Non-legislative basic document

PURPOSE: to set out steps to be taken to combat the problem of undeclared work.

BACKGROUND: undeclared work, which is a complex phenomenon with multiple drivers, has already been analysed on several occasions at EU level, in particular in the Commission's 1998 Communication (see COS/1998/2082), which presented a review of its causes and impacts, and highlighted a few policy experiences. The Communication prepared the ground for an EU-wide policy debate on undeclared work, which culminated in the adoption of the common policy approach set out in the Employment Guidelines 2003-2005. These Guidelines advocated a balanced mix of prevention (notably through well adapted tax-benefit and administrative regulations) and awareness raising, sanctions and law enforcement. Such a policy mix was further articulated in the Council resolution of 29 October 2003 on transforming undeclared work into regular employment, which also called for action by the social partners. Furthermore, the Communication was one of the elements inspiring the experiment launched in 2000 allowing for the reduction of VAT on specified labour intensive services.

The recent Green Paper on Labour Law (see INI/2007/2023) identified undeclared work as the main contributing factor to social dumping and thus as one of the key issues for the modernisation of labour law in the EU. Moreover, undeclared work tends to be associated with poor working conditions for individuals and subsequent risks to workers' health, low prospects for career progress and insufficient social protection coverage. In this context, EU social partners have envisaged a joint analysis of undeclared work in the framework of their 2006–2008 work programme.

Further, the possibility of finding undeclared work is a key pull factor encouraging illegal immigration. In 2007, the Commission proposed a directive providing for sanctions against employers of illegally staying third-country nationals (see COD/2007/0094).

CONTENT: according to the report, undeclared work is still a problem in Europe and is undermining the EU's ability to meet its targets for more and better jobs and stronger growth. It calls for a balanced approach of prevention, law enforcement and sanctions. High levels of taxation and social security contributions and a heavy administrative burden are traditionally seen as the drivers of undeclared work, but there are also increasing trends towards sub-contracting and false self employment. In certain Member States, the application of transitional arrangements towards workers of the new Member States has exacerbated the recourse to undeclared work.

This report concludes that piecemeal policy actions have been taken across Member States, but there is an apparent lack of evaluation of results and pooling of expertise. The report highlights that it is time for Member States to step up their efforts in the fight against undeclared work.

As a follow-up of the present communication, the Commission proposes the following:

- more needs to be done in order to **further reduce labour taxation**, by improving the quality of public finances, notably the efficiency of public expenditure and taxation systems, by reducing non-wage labour costs, and by **shifting the tax burden to alternative sources of revenue**. There is also scope for reducing the administrative complexities in tax and benefit systems, which may constitute incentives for undeclared work, notably for the self-employed and small companies;

- Member States should **review the transitional arrangements** as soon as possible and in any case before the next phase due early in 2009. In context of labour market tightening in many Member States, these arrangements limiting the mobility of workers from the new Member States are a key example of red tape;
- Member States are invited to give due attention to undeclared work when deciding on the pathways they intend to follow in implementing the common principles of flexicurity;
- the Commission calls on the social partners to agree on concrete initiatives in the field of undeclared work in the context of their joint work programmes, at the European cross-industry, sectoral and national levels;
- **effective surveillance and enforcement** are important components of a comprehensive policy approach. In this context the Commission recalls its legislative proposal on sanctions for employers of illegally staying third-country nationals;
- the Commission will investigate the feasibility of establishing a **European platform for cooperation between labour inspectorates**, and other relevant monitoring and enforcement bodies;
- to enable the monitoring of progress in transforming undeclared work into regular work, Member States should explore with the Commission the most suitable methodology for quantifying the existence of undeclared work. A study will be undertaken to this end under the PROGRESS programme in 2008;
- the Commission will treat undeclared work as a priority in its Mutual Learning programme. Stakeholders will have the opportunity, under the PROGRESS programme, to submit proposals for information campaigns, survey and evaluation activities, and initiatives to exchange information on good practices.