

Ladies and gentlemen,

Thank you for having invited a representative from DG EMPL to briefly recall recent and ongoing Commission initiatives directly or indirectly related to the combat against undeclared work as well as future steps in this area.

Undeclared work, i.e. any paid activity which is lawful as regards its nature but is not declared to public authorities, as the Commission defines it, remains a **widespread practice** across Europe, although to a different extent between Member States. It is associated to a number of negative economic and social consequences ranging from reduced fiscal receipts for governments, putting at risk financial sustainability of social security systems, to unfavourable working conditions and career prospects as well as unfair competition among firms.

As you are aware, the Commission has adopted a **Communication on "stepping up the fight against undeclared work"** in October 2007, in order to re-launch the policy debate on the problem at European level. The Communication recognizes national specificities as regards the extent, structure and socio-economic characteristics of undeclared work across the EU, which in turn implies that relevant policy strategies ultimately need to be defined at the level of each Member States. But there is also an EU wide dimension to the extent that the phenomenon is driven by trans-border movements for which there is EU legislation (e.g. posted workers), and by illegal immigration in response to which an EU policy is being shaped. Moreover, the EU is the proper level to learn from each other's experiences and the issue is cross-cutting the Lisbon Strategy. Therefore, the Communication aimed to put forward and update a general policy approach encompassing prevention, inspections and sanctions, measures accompanying the move from unregistered to registered economy, administrative cooperation as well as awareness-raising activities.

The Communication has been well received by the European press as well as by Member States, witnessing the broad interest of stakeholders and the public opinion at large on this subject. It has also triggered a **European Parliament resolution** adopted on 8 October 2008 upon initiative of the Honourable member Pier Antonio Panzeri. The resolution broadly shares the Commission's analysis of causes, extent and trends of undeclared work, together with the comprehensive approach proposed to tackle the problem. The text underlines the role of member states and social partners in creating the right balance of incentives and disincentives and points to the role of European labour law to strengthen the stance of European institutions in the fight against undeclared work. The resolution argues in favour of gathering a broad public consensus on a comprehensive action plan in this area – in the form of a sort of "Pact", which the Commission thinks can in substance be achieved in the context of the Lisbon strategy in order to allow proper articulation of policies at national level. The resolution also calls to promote administrative cooperation between Member States via the set up of a permanent community structure. The Commission is taking steps in that direction through its recommendation on enhanced administrative cooperation aimed at improving the implementation and enforcement of the Directive on Posting of Workers through a high-level committee, as well as a study to be launched by DG EMPL concerning the feasibility of setting-up an EU body or cooperation structure to tackle cross-border frauds in the field of tax, social security and labour rules.

As I have already emphasised, the phenomenon of undeclared work is characterised by pronounced national variations. However, there is large **potential for mutual learning** as

regards different policy measures undertaken at Member State level. The Commission has already opened the PROGRESS programme in 2008 for support of initiatives aimed at exchange of good practices. A promising project has also been launched, with DG EMPL support, by the European Foundation for the Improvement of Living and Working Conditions in Dublin aimed at systematically describing and classifying measures tried across the 27 Member States in this area, with a view of creating a user-friendly policy databank. Following the pilot phase of the project, policy fiches for 5 Member States are already available in the Foundation's web-site.

Among the policy areas which have the strongest impacts on the incentives and disincentives to engage in undeclared work, taxation plays a primary role. As regards, specifically, the role of VAT, Directive 1999/85/EC has temporarily granted Member States the option to adopt **reduced VAT rates on specified labour intensive services**. This possibility has been taken up in some cases over past years, leading to partial evidence of positive effects on the creation of regular jobs in the sectors concerned, e.g. construction, where the incidence of undeclared work tends to be pronounced. The Commission has recently proposed to make such option for VAT reduction permanent as an element of its EERP (to boost consumption). The horeca sector is certainly interested in this¹. The European Council held in December has requested the ECOFIN Council to settle this issue by March 2009. The ECOFIN Council of 10 February has agreed to cooperate further in view of proposing a set of sectors that would benefit from VAT reduction. On the other hand, the proposal has been rejected by the Committee on Economic and Monetary Affairs of the European Parliament which has met on 2 February. It can be expected, though, that the political groups will now try to find a compromise in view of the vote in plenary scheduled for the 19 February and that Parliament will then propose to amend rather than reject the Commission proposal.

The possibility of finding a job in the unofficial economy is also one of the main pull factors of illegal immigration of third country nationals in the EU. Horeca is one of the sectors where illegal employment may be more concentrated, together with construction, agriculture and personal services. In May 2007 the Commission has adopted a proposal for a Directive providing for **sanctions against employers of illegally staying third-country nationals**. A compromise version of the Directive has been approved by the European Parliament on 4 February. Final adoption is expected in spring after Council approval. The text aims to ensure that all member states adopt similar penalties for employers of third country nationals and enforce them effectively, in order to introduce a strong deterrent for illegal immigration and avoid distortions and unfair competition within the single market. The foreseen sanctions concern employers and not migrants (for the latter, the right to receive any foregone remuneration is recognized). The Directive covers both companies and individuals. According to the text employers must undertake checks before recruiting a third country national and notify a competent authority. Failure to do so will imply liability to fines and other administrative measures, whereas criminal penalties are foreseen for the most serious cases such as employing illegal immigrants with particularly exploitative conditions.

Finally, let me stress that an effective fight against undeclared work requires renewed efforts to improve **measurement** of the phenomenon and the availability of information regarding socio-economic characteristics and motives of people concerned. At this point, harmonized comparable figures do not exist for EU Member States. DG EMPL has recently launched an analytical study aimed at taking stock of existing indirect or macroeconomic methods to

¹ In FR, positive impact established of lower VAT on employment in horeca. Also simpler registration procedures for people working few or irregular hours (like in horeca) are potentially effective in reducing UDW.

measure the size of undeclared work, in view of identifying the most suitable methodology to be systematically applied at EU level and of gathering existing figures across countries and over time resulting from those different techniques.

This comes as a complementary effort with respect to the **direct survey on undeclared work** in an enlarged Union carried out by DG EMPL via the Eurobarometer in the spring of 2007, which has proved to be an effective tool to single out structure and features of undeclared work (highlighting, for instance, its significant incidence in the Horeca sector), but has shown weaknesses as far as aggregate measurement is concerned.