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Joint Project of the European Social Partner Organisations

JOINT STUDY ON RESTRUCTURING IN THE NEW MEMBER STATES

Report of the Estonian National Seminar

Uniquestay Hotel, Tallinn
Estonia

30th March 2006

Prepared by ARITAKE-WILD

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Introduction & methodology

The ninth in a series of ten national seminars¹ designed to review and support processes of change management and restructuring in the new EU member states was held in Estonia on 30th March 2006.

The overall objective of the project is to prepare a synthesis of the country dossiers and case studies undertaken in each of the ten new member States to identify common economic and social challenges associated with restructuring. This synthesis will be finalised at a seminar involving social partners from the 25 European Member States to be held in June 2006. The final document will be discussed in a subsequent European Social Dialogue committee.

The objective of the Estonian national seminar was to discuss the Estonian country dossier and case study in order to improve the quality of the draft documents prepared prior to the meeting, and to identify critical national issues and future challenges associated with the process of restructuring. Additionally, the seminar provided an opportunity to review relevant recent work on the subject of restructuring undertaken at the European level, to discuss the role of the social partners in restructuring and to examine how the European Union can support the national change process.

The seminar was attended by 19 representatives nominated by Estonian employers' organisations and trade unions. Also in attendance were representatives from the European social partners UNICE, UEAPME, CEEP, and ETUC; two experts; and an observer from the EU Commission. The full attendance list for the seminar is attached as appendix one. The detailed agenda for the meeting is included as appendix two.

This report provides a structured overview of the discussions held during the day on the country dossier and the case study, and contains a list of challenges and opportunities subsequently identified by the seminar participants.

Report of the meeting

¹ All the 10 countries that acceded to the EU in 2004 are covered by the project; The Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and Slovakia.

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1. Maria Helena André opened the meeting by explaining the purpose of the project as a whole and the role of the Estonian national seminar within it. Her presentation materials are attached as appendix three.
2. The appointed expert for the Estonian national dossier, Michal Kurtyka, presented an outline of the country dossier circulated prior to the meeting. His presentation materials are included as appendix four. Following the presentation, the participants were asked to provide feedback on the contents of the dossier in regard to its factual content, the questions it raised and any relevant points which may not have been included.
3. The participants raised a number of issues in open discussion. Two main topic areas; “education, vocational training and youth employment”; and “international labour mobility and undeclared work” dominated the discussion and this is reflected in the summary below:

Education, vocational training and youth employment

- Young people do not leave school well prepared for the world of work. For young people to be engaged in the workforce, significant and expensive initial vocational training must be given by the employer;
- Practical experience should be built into further education and university curricula. Companies, universities and other training and educational centres should collaborate to provide work experience traineeships;
- Governmental resources dedicated to vocational training are insufficient for the economy's needs. The government seems not to want to accept responsibility for the issue;
- Education and vocational training has been on the business and trade union agendas for some time, but it has been difficult to make real progress;
- Many Estonian enterprises seem reluctant to embark on enterprise-based vocational training initiatives;
- Estonian vocational training schemes should be certificated in a manner recognised both in Estonia and abroad in order to encourage take-up;
- The issue of vocational training provides an opportunity for trade unions and employers should work together;
- University qualifications do not match the needs of business – for example only one mechanical engineer graduated from Tallinn university in 2005;
- In the beginning of the 1990s, a major campaign promoting vocational training for work in the textile industry was launched. Now the textile industry is moving to Asia and this investment has been lost. Preparing youth for the labour market is a long term process but the demands of the global economy change extremely quickly;
- The government needs to take vocational training and education more seriously. The times when people worked in the same company for 20-30 years are over. Businesses and employees have to react quickly to the restructuring of the economy and the consequent relocation of companies. People can only survive in work if they have enough initial training and real opportunities for retraining;
- Whilst the Estonian social partners made a joint proposal to allocate a special sum from the EU structural fund to train and retrain employees, the government preferred to simply introduce a loan system. They did not consider that many

people would not be able to afford to cover the costs of the loan from their salaries. Financing of vocational training should be rebalanced between the government, business and individuals. The Estonian government should not claim that this is not their business. Higher employment improves the economy and prevents social unrest;

- Estonia at the moment seems simply unable to produce enough jobs for young people. Last year the youth unemployment rate was 26 percent. The fact that many young Estonians go abroad to work masks the true extent of the problem.

International labour mobility & undeclared work

- There is currently a shortage of welders in Estonia. The fact that the same problem also exists in the Nordic countries exacerbates situation in Estonia. Five years ago when the problem started trade unions were consulted before bringing in foreign workers to fill the gap. This kind of consultation is no longer taking place;
- People can come to Estonia and work legally on a tourist visa for 6 months. Many people from Russia do this;
- Sub-contracting of workers to other countries is a significant problem. Many of the specialists needed in Estonia leave for other, often neighbouring, countries. In January 2006 there were 168 sub-contracting companies hiring workers in Estonia to work abroad on significantly higher salaries. Many of these companies are Finnish. Sometimes the promises made are not kept and there is no protection for the workers contracted once they have left Estonia;
- It is clear that if Estonians leave to work in other countries (particularly Finland and Sweden) then Estonia must open its borders to other sources of labour. It should be made easier to hire foreign labour legally and not promote the informal economy;
- Undeclared work has decreased since labour inspectors and the tax board began to check for these activities more thoroughly. Undeclared work is concentrated essentially in the services sector.
- A person is official if he/she gets an official salary and pays taxes. However, there is nothing to say that he/she does not also get an unofficial salary as well. People can have the minimum salary officially complemented by an unofficial element on which taxes are not paid. There is no exact data on the extent to which this takes place or on the amounts paid out unofficially. The latest statistics from the Estonian Economic Research Institute is that an estimated 10 per cent of labour force gets an unofficial income;

Comments relating to other topics

- There is extensive use of fixed/short term contracts in Estonia. There is a social aspect to the feelings of insecurity that this creates;
- The dossier shows Estonia to have relatively low productivity levels. This may be because much of what is made in Estonia is subsequently priced in Finland and Estonian productivity figures reflect the local transfer price of the product rather than the full value. Perhaps if we finished products we would have higher productivity ratings;
- Some studies show that the Estonian labour market is rigid, and others demonstrate the opposite. In fact reorganisations have been effected quickly and with few tensions compared to many other countries. This supports the view that the labour market is flexible in Estonia. The country's problems are more related to skills and salary policies.

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- Only 9 percent of Estonians show any interest in entrepreneurship. Many professionals say that they earn salaries that make the risk of starting a new company unattractive. This lack of entrepreneurship may also be related to the fact that Estonia has only been independent for 15 years;
- The Estonian government takes the view that the labour market is self regulating. Improvements in the labour market are due to the strong economic growth of 5 percent or more per year rather than policy interventions;
- Tripartite labour councils have been developed but, as these are only advisory bodies, they have not had much of an impact;
- Estonia does not benefit from its economic growth to the extent that it should. Much of the profit generated leaves the country;

4. Following the discussion the EU social partners commented and posed questions on the issues raised:

- Vocational training and the “school to work” transition have emerged strongly as important topics for both of the Estonian social partners. In many countries a strong bipartite social dialogue has been built on addressing these issues;
- Estonia has an unusual situation. In most countries youth unemployment is high in a context of generally high unemployment. This seems not to be the case in this country. There appears to be a bottleneck that is preventing the entry of young people into the labour market and that, in the long term, may threaten future economic growth potential;
- To what extent are labour shortages being addressed by undeclared work? Do those on tourist visas leave after the permitted 6 months or do they simply go underground as undeclared workers?
- To what extent are the issues of youth unemployment, low productivity and the professional brain drain seen as constraints on future economic growth?

5. Michal Kurtyka presented a case study on the Eesti Põlevkivi “oil shale” company. His presentation materials are included as appendix four. Participants were again asked to provide feedback on the contents of the dossier in regard to its factual content, the questions it raised and any relevant points which may not have been included.

The participants raised the following issues in open discussion. In particular the discussion was enriched by the attendance of management and trade union representatives from the company:

- The Eesti Põlevkivi case represents very much Estonian “best practice” rather than the norm. Information on the upcoming restructuring was given a year in advance. The company

management and trade unions worked hard together to mitigate the effect of the changes and to secure state support for the initiatives to retrain workers;

- In this case the time taken to restructure, together with the geographic concentration of job losses, were factors that contributed positively to efforts to find positive solutions. Where job losses are geographically spread and timescales are short, it is more difficult to put together such a comprehensive programme of assistance;
- It is important when helping workers to find new jobs to explain to them that they are not the problem and that they are good workers. Part of the process is also helping redundant workers see other opportunities, other things they can do and to help them socially adapt;
- Of the 400 workers who took early retirement from Eesti Põlevkivi, some have actually retired but others have gone on to work in other sectors. Their mining skills proved particularly suited to jobs in construction;
- The unemployment fund has been deliberately designed to minimise payouts. Currently a worker will initially receive 50% of their salary. This becomes 40% after 100 days. Within 3-4 months the worker is therefore forced to accept almost any salary level in a new job;
- SMEs contribute to the unemployment fund but are unable to access the benefits due to the small scale of their operations. This is unfair to those managing and working in SMEs;
- There is a very low trade union activity in SMEs and they are therefore not involved in much small scale restructuring;
- Whilst restructuring practices vary, there is no difference to an individual made redundant from an SME or a big company;
- The privatisation process in Estonia was quite rapid. The act stipulating the obligation of the employer to inform or consult was only passed in 2000, and by then most of the restructuring had already taken place. Thus, for most privatisations the trade unions had no say in the process;
- The Estonian unemployment insurance fund is currently extremely well funded and the State wants to use the "surplus" for training. This is not an acceptable solution for the social partners and the issue should be discussed and resolved jointly. The government has not contributed to the fund and should therefore not be able to use it for its own purposes;
- In one company present at the seminar 52 people had been made redundant. Through joint efforts in identifying alternative jobs in the local labour market positions were found for 37 of the 52 people. "When we cooperate we find solutions quite easily".

6. The EU social partners asked further questions of clarification and commented briefly on the issue of the unemployment fund. It was suggested that a cautious approach should be adopted to "so called surpluses" in funds of this kind, particularly when these emerge when the economy is doing well. The fund should logically be accumulating surpluses during years of growth in order to prepare for less favourable years when contributions decrease and demands increase.
7. On behalf of the EU level social partners, Thérèse de Liedekerke (UNICE) and Julianne Bir (ETUC) made brief presentations on relevant EU social dialogue work. They referred to the texts on "Orientations for reference in managing change and its social consequences" (October 2003), "Lessons learned on European Works Councils" (April 2005) and the "Framework of actions on the lifelong development of competencies and qualifications" (March 2002). Their presentation materials are included as appendix five.

8. In the final working session, the national social partners were asked to identify the main opportunities and challenges that had emerged from the presentations and debates during the day. The following issues were emphasised:
 - The Estonian social dialogue should broaden its base to include representation from the growing SME sector;
 - One of the main challenges and opportunities is to establish positive dialogue and cooperation between the Estonian social partners;
 - Addressing education and vocational training in order to develop a skilled and flexible workforce that can cope with the rapid changes taking place in the global economy will be fundamental to sustainable growth in the Estonian economy;
 - A challenge for the trade unions is to become more involved in relations with multinational enterprise. A major opportunity is offered through participation in European Works Councils.

9. The EU level social partners commented on the issues raised throughout the day making the following points:
 - The concerns of the employers and the trade unions during the seminar focussed on skills development. In order to develop Estonian skills, in a manner that reflects the needs of both workers and employers, joint planning on behalf of the Estonian social partners and public authorities will be required;
 - Education and training cannot focus exclusively on those who have left formal education establishments. There should be a clear link between the education system and ongoing learning through vocational training. Assuring quality vocational training is in the interests of both the social partners. Mechanisms could be established to provide formal qualifications for the skills gained at workplace. This would ease labour mobility through broader recognition of the skills attained;
 - There is a role to play for the social partners in the strategic development of the Estonian economy. In some sectors labour shortages are already causing problems. The Estonian social partners could use the current period of economic growth to develop stronger cooperation and anticipate and prepare for future problems. Positive cooperation is easier to develop in good times;
 - An important question in each of seminars of this type has been how to create a virtuous circle of economic growth and employment

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growth. Estonia differs from many member states as this virtuous circle exists currently for all workers except young people trying to enter the labour market for the first time. How to establish a virtuous circle for the younger generation is probably Estonia's biggest and most important challenge;

- Estonia seems to have fewer problems with regional differences in employment and economic growth than is the case in many other countries. Having a generally good economic infrastructure allows the social partners to focus on other problems;
- Currently the EU dimension is rather absent from the strategic thinking of the social partners. Having identified skills development not only as a challenge, but also as an opportunity, is a positive outcome of today. This can have win-win outcomes for companies and individual workers. On this issue it would be wise to link to the EU level, for example through the framework of actions on lifelong learning. This can be a tool for you to apply at national level in a form that is appropriate for Estonia;
- A step towards improving cooperation between the Estonian social partners could be made through more informal contact at all levels. SMEs could usefully be included in this process as they are interested in developing dialogue and their numbers and importance are both significant and increasing;

10. In summarising, the point was made that the problems of certain industries relocating to the East and the difficulties of integrating young people into the workforce are not uncommon issues. Estonia enjoys a position of significant advantage compared to other countries as it currently has both the money and the jobs that many other member states lack. The question is whether the leaders of the social partner organisations have the will to tackle these issues from a position of strength or whether they will wait until forced to address them from a position of weakness.

11. At the end of the meeting, thanks were offered to all those involved in the preparation and conduct of the seminar.

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List of appendices

Appendix one	List of participants
Appendix two	Seminar agenda
Appendix three	Presentation materials – “Introduction to the Project”
Appendix four	Presentation materials – “Restructuring in New Member States: Estonia”
Appendix four	Presentation materials – “Restructuring in New Member States: Estonian case study”
Appendix five	Presentation materials – “Relevant EU Social Dialogue Work” <ul style="list-style-type: none">◇ “Orientations for reference in managing change and its social consequences” (October 2003);◇ “Lessons learned on European Works Councils” (April 2005); and◇ “Framework of actions on the lifelong development of competencies and qualifications” (March 2002).

The present report represents an expert view and does not necessarily reflect the view of the European Social Partners

