Joint Project of the European Social Partner Organisations

Study on restructuring in new Member States

SLOVENIA—COUNTRY DOSSIER

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The present report was elaborated by Mr. Karoly Jokay, BBP expert

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

I. INTRODUCTION: PURPOSE OF THIS DOSSIER

This dossier is aimed at an audience that is not necessarily expert in the Slovenian economy and social dialogue process. The dossier summarizes information from Slovenian and international sources regarding the macroeconomic and restructuring situation from late 2005. The dossier is also aimed at a non-Slovenian audience and is intended to reflect the views of the 3 national social partners (2 employers' organisations, 1 labour organisation) interviewed for the project. These organisations are those social partners who are members of European-level social partner organisations (ETUC, UNICE, UEAPME, CEEP).

The dossier intends to describe the social dialogue process from the perspective of restructuring, and provides examples of restructuring cases. The dossier served as a common basis of discussion for a seminar that was held on February 16, 2006, in Ljubljana, with the national social partners and their European counterparts. The results of the debate and the observations of the participants will be incorporated into the final version of the dossier and case study.

This dossier is based upon interviews as well as on the analysis of the existing data and documents. The list of persons interviewed, as well as sources is presented in the Annexes. Data are current as of January 1, 2006.

2. ECONOMIC TRENDS AND CHALLENGES IN 2005

2.1 Macro-economic trends and challenges

Slovenia, always the wealthiest Republic in the former Yugoslavia, attained full independence and sovereignty in 1991. Slovenia's relatively modern and export-oriented manufacturing sector had to suffer the almost complete collapse of the ex-Yugoslav market in 1991, that occurred simultaneously with the dissolution of the Soviet Union, and the rapid reorientation of the Central European states to trade with the EU and other market economies. The modernization of Slovenia's economy took place on a gradual basis throughout the 1990s, with a gradual application of market reforms, thus Slovenia was able to switch to new markets, regain a foothold in the ex-Yugoslavia, as well as implement a social market economy avoiding the large scale unemployment, inflation, and other social tensions that prevailed in Central Europe (for a detailed documentation of Slovenia's divergent path to full EU membership, see Mojmir Mrak, Matija Rojec, Carlos Silva-Jauregi, editors, "Slovenia: From Yugoslavia to the European Union", The World Bank, 2004).

Slovenia's outstanding economic performance and social market economy enabled it to meet all of the Maastricht Criteria already in 2005, and the country will adopt the Euro as its official currency in 2007, the first among the 10 new member states.

Demographics:

The country's population was 2,001,114 on June 30, 2005. Slovenia, like most European states, has been experiencing a natural decrease in population (-0.3 per 1000 in 2004/2005), with a birth rate of 9.0 per 1000 and a death rate of 9.3 per 1000. Yet Slovenia's total population increased by 0.2% between June of 2004 and 2005, given net positive migration. Over 48,000 foreigners reside legally in Slovenia, and an increase of nearly 2,600 in the number of foreigners legally in Slovenia accounts for an actual population increase. The majority of foreigners arrive from ex-Yugoslavia (Croatia, Bosnia-Herzegovina, Serbia) where unemployment is much higher and the level of incomes much lower. The fertility rate of 1.25 is far below what is needed for natural replacement, yet the country's relatively low death rate is a positive development (Hungary, by contrast, has a natural rate of population decrease of 3.7% and immigration is not sufficient).

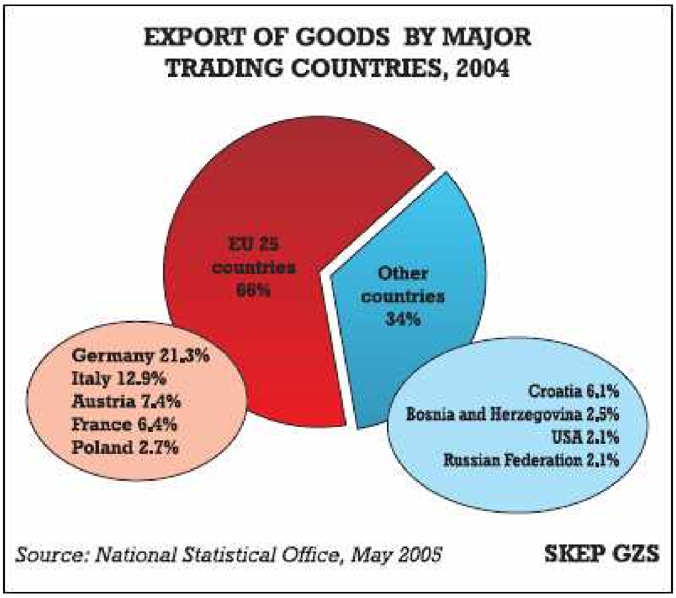
Issues for Discussion:

- Employers' and employees' organisations have both pointed out that Slovenia will have to become a more active importer of labour to keep its workforce fresh, and to support the welfare system given the slight natural decline in population.

- Such an explicit labour importation policy will cause social and cultural tension and needs to be discussed in the social dialogue process.
- The Lisbon reform programme of the Government calls for "selective immigration" of highly skilled managers and workers mainly from the EU to deal with labour shortages (see page 40 of that report).
- The impending Schengen border with Croatia will reduce the ability to import seasonal and daily workers, but may encourage "temporary" immigration of wealthy pensioners from other EU states, such as Austria and Italy.

Foreign Trade:

Slovenia's economy is open, with 66% of its trade with the EU-25, and 19% with the other states of ex-Yugoslavia.



The table below reflects that Slovenia was able to keep its traditional export markets such as Germany, Italy and Austria, and has made gains in recovering its old-new markets in the ex-Yugoslav states of Croatia, Serbia-Montenegro and Bosnia-Herzegovina.

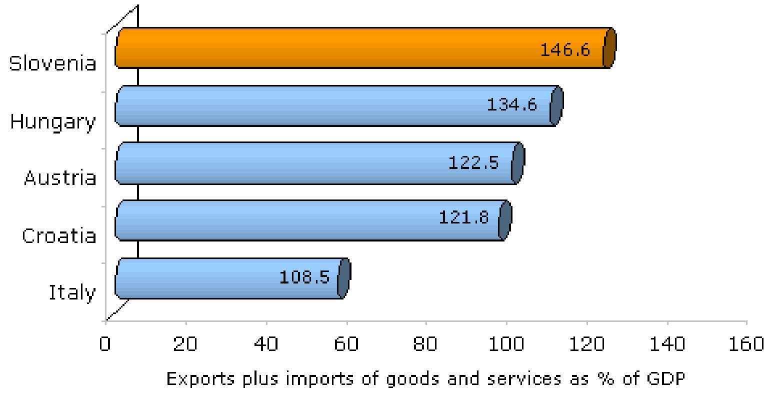
Export by country in million EUR, 2003

Market	EUR Million
EU-25	**7,496**
Germany	2,610
Italy	1,478
Austria	827
France	638
Poland	311
United Kingdom	252
Hungary	223
Czech Republic	205
SEE	**2,110**
Croatia	1,007
Bosnia & Herzegovina	471
Serbia & Montenegro	346
CIS	**550**
Other	**1,129**
Total	**11,285**

Source: Statistical Office of the Republic of Slovenia, 2004

Regarding the "openness" of the economy, trade turnover of goods and services accounts for 146% of GDP.

Openness of the economy, 2000



Source: UNECE

Industry and services contributed to 29% and 62%, respectively, of the economic value added, signalling that Slovenia has a modern, service-based economy with significant manufacturing as well.

Structure of gross value added

Origin of value added in %[a]		2002	2003	2004	2005 estimate	2006 forecast
A+B	Agriculture, forestry, fishing	3,2	2,6	2,7	2,5	2,4
C+D+E+F	Industry and Construction	36,0	35,6	35,4	35,0	35,0
C+D+E	Industry	30,3	29,9	29,8	29,3	29,4
F	Construction	5,6	5,8	5,6	5,7	5,7
G...P	Services	60,8	61,8	61,9	62,5	62,6
	FISIM	0,8	0,9	1,0	n.a.	n.a.

Note: a Capital letters refer to NACE Rev. 1, Classification of Economic Activities
b FISIM: Financial Intermediation Services Indirectly Measured

Source:
- *Statistical Office of the Republic of Slovenia, 2005*

In the first three quarters of 2005, Slovenia's total exports grew by 10.5%, while imports expanded by 9%. Exports to the EU-25 grew even faster, at 11.8%, while imports from non-members grew at 29%.

As the following table indicates, manufactured goods such as automobiles, automobile parts and household appliances dominate Slovenia's exports. Aside from steel and petroleum, the country's imports reflect the inputs required for these manufactured exports. See Table 1 at Annex for the distribution of imports and exports by product type.

MAJOR PRODUCT GROUPS	
EXPORTS	**IMPORTS**
Motor cars	Steel and steel products
Pharmaceuticals	Motor cars
Seats	Petroleum oils
Steel and steel products	Parts and accessories of motor vehicles
Parts and accessories of motor vehicles	Pharmaceuticals
Refrigerators, freezers, etc.	Motor vehicles for the transport of goods
New pneumatic tyres	Automatic data processin machines
Electrothermical appliances, other domestic gear	Petroleum gases

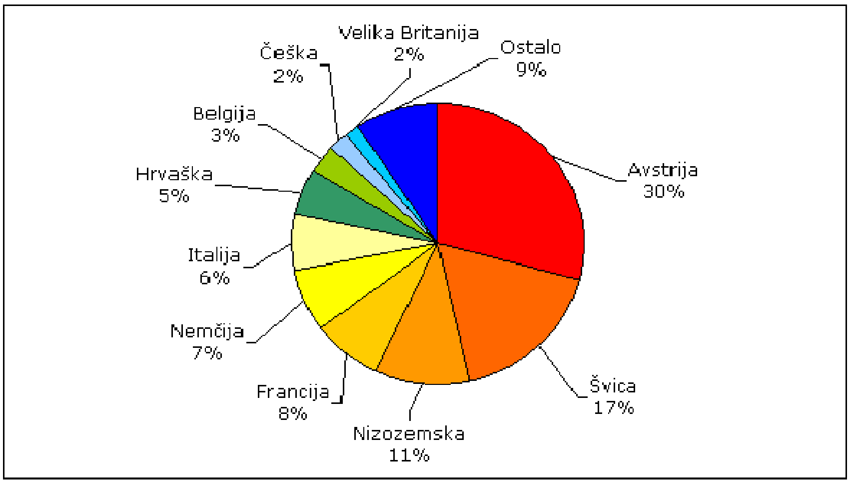
Slovenia: Current Economic Trends, 2005-2006 (Chamber of Commerce and Trade)

The chart above does, however, indicate that Slovenia could be vulnerable to a potential restructuring/relocation of automobile manufacturers (such as Renault) and components manufacturers (such as Sava Tyres) in the future. Such a regional restructuring of parallel manufacturing processes in the other new member states such as Hungary, Czech Republic and Slovakia, that have extensive components and parts sectors in addition to automobile manufacturing, is also expected. Considering that Renault has manufacturing operations in Romania, a candidate country with more than 11 times Slovenia's population, the automobile sector in Slovenia will face challenges in the next 5 years

<u>FDI trends</u>

Foreign direct investment in Slovenia seems to be well balanced with Austrian, Swiss and Dutch firms dominating 58% of FDI stock at the end of 2004. Interestingly absent from foreign investors are US-based firms that tend to be among the first three in other new EU-10 countries such as Poland, Czech Republic and Hungary.

Main investing countries into Slovenia (FDI stock as of year-end 2004 EUR 5,596 million):

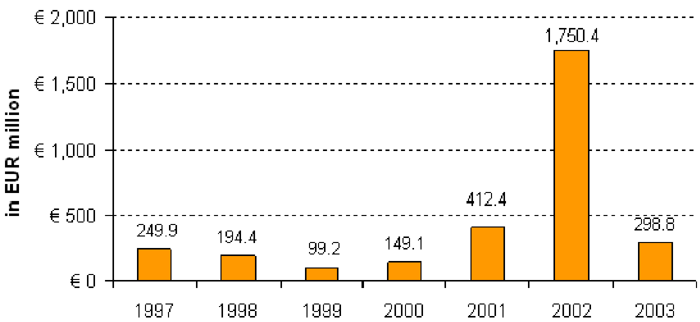


Source: Bank of Slovenia, 2005

The flow of FDI into Slovenia is rather inconsistent, and has fluctuated between a peak of 1700 million euros in 2002, with a low of 99 million euros in 1999. In 2004, about 662 million euros were invested in Slovenia by foreign investors, while as of October 2005 (data from IMAD, December 2005), only 255 million euros were invested from abroad. The stock of FDI in Slovenia exceeded 5 000 million euros by the end of 2003 (see chart 6 at Annex).

- The expected privatisation of majority state-owned enterprises such as Slovenia Telecom and others will certainly add surges to the flow of FDI.
- These fluctuations indicate a "small" supply of firms offered for privatisation that will be subject to change as competition directives open up not only the telecommunications sector, but also the rail and postal sectors as well.

FDI inflow in Slovenia, in EUR million, 1997-2004



Source: Bank of Slovenia, September 2004

The high value-added nature of FDI in Slovenia is apparent from the chart below.

Major foreign investors in Slovenia

Manufacturers	Novartis, Danfoss, Bosch, Siemens, Gruppo Bonazzi, Meyr Melnhof, Brigl and Bergmeister, EGO, Kirkwood Industries, Reemtsma, Seita, Pfleiderer, Henkel, Goodyear, Safilo Group, Renault, Johnson's Control, Securidev, Lafarge Perlmooser, Interbrew, Hella, Sun Roller
Retailers	Leclerc, Spar, Rutar, ÖMV, MOL
Financial services	Societe Generale, Bank Austria CA, SanPaolo IMI, Hypo-Alpe-Adria-Bank, KBC, Reiffeisen Bank
Other services	Ernst&Young, Deloitte&Touche, KPMG, PriceWaterhouseCoopers, AC Nielsen, Gfk, Western Wireless International, Debitel, Mobilkom, McDonalds, ISS Servisystem, IBM, Microsoft, Oracle, Sodexho Alliance

Bank of Slovenia, 2005

However, the dominance of automobile manufacturing, automobile parts and components (Danfoss, Bosch, Siemens, Goodyear, Renault etc) could be perceived as a risk if

Slovenian labour and other costs, as well as productivity, are compared directly to potential large-scale manufacturing EU members such as Romania, or even Poland.

<u>Slovenia as a capital exporter</u>:

Slovenia has become a major investor in the ex-Yugoslav republics. In 2004, for example, Slovenian firms invested 442 million euros abroad, while foreign investment inflow into Slovenia was not significantly higher at 662 million euros. In 2005, Slovenian firms invested 434 million euros abroad, while in-bound investment was only 255 million euros (October 2005 estimate by IMAD). In this sense as well, Slovenia is an exception among the Central European EU-8 countries, as all of them import an order of magnitude higher of FDI (in billions of euros) and export a much smaller amount of capital (in the hundred millions of euro) in comparison with FDI inflow.

<u>Issues for discussion</u>:

- The establishment of Slovenian-owned manufacturing and service companies, mostly in the ex-Yugoslav republics, could increase the danger of manufacturing restructuring in Slovenia itself, unless even higher value-added jobs are created or retained in Slovenia in parallel with the expansion of FDI by Slovenian firms.
- There may be serious structural and competitive reasons for why more capital was exported from Slovenia in the form of FDI than was invested in 2005. As pointed out by employers' organisations, capital will not stay in Slovenia by *fiat*, and will leave if the environment for profit-making is not sufficient.

Volume of Slovenian Outward Investment by Country, as of 31st December 2004

	Total value of investments (in millions of Euros)
Croatia	672.2
Serbia and Montenegro	277.3
Netherlands	251.5
Bosnia-Herzegovina	216.8
Poland	131.9
Germany	104.3
Macedonia	85.2
Austria	81.5
Russian Federation	76.1

Source: *Bank of Slovenia*, 2005

The stock of Slovenian FDI in former Yugoslavia, 1250 million euros in 2004, made up 25% of accumulated FDI in Slovenia based upon 2003 numbers. The total stock of Slovenian FDI abroad, 1762 million euros in 2004, made up 35% of FDI in Slovenia in 2003.

Major Slovenian Investors Abroad

Manufacturing	ETI, Gorenje, Helios, Iskraemeco, Iskratel, Kolektor, Krka, Lek, Prevent, Sava, Istrabenz Group
Services	Mercator, Merkur, Petrol, Terme Čatež, HIT Casinos, Intereuropa, Triglav Insurance Company

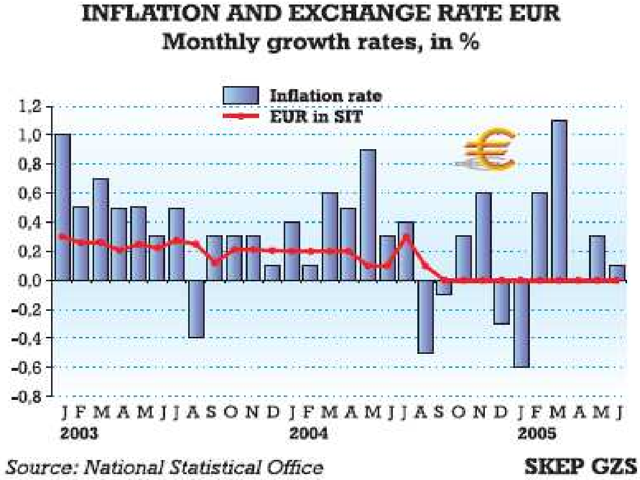
Source: *CCIS*, 2005

Discussion Issues:

- The product and service export orientation of traditional Slovenian-owned firms listed above has been supplemented by capital export, and this can have implications for social dialogue if the trend continues in 2006 (of course, the one-off sale of the State's share in Telekom and other large firms could distort these figures in the opposite direction).
- The Lisbon Reform Programme (October, 2005) has pointed out (page 7) that Slovenia is "not capable" of attracting Greenfield investment, and may be a "premature" net exporter of capital (social issue: if jobs are not created by foreign or domestic investors, in a second wave, jobs are "moved" abroad).
- Trade unions pointed out that other ex-Yugoslavian countries mainly have shortage economies, thus Slovenian firms are attracted there by the opportunity to earn larger profits than in the domestic market.

Maastricht Criteria and Macroeconomic Indicators

Slovenia easily meets all of the Maastricht Criteria, is a member of ERM-2, and is expecting to adopt the euro in 2007. According to the December 2005 report of IMAD (Institute of Macroeconomic Analysis and Development, www.gov.si/umar) Slovenia's inflation rate for 2005 was 2.3%. The central government's deficit amounted to 2.1% of GDP, and total state debt was below 30% of GDP. (See Chart 2) As a member of ERM-II since 2004, the tolar is practically fixed to the euro at 239.6 tolar/euro.



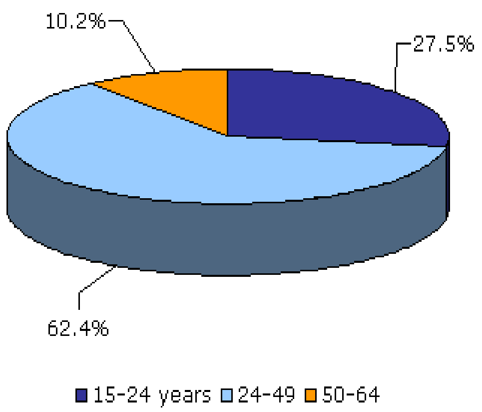
These figures place Slovenia among the top performers among the 10 new member states. The economy also grew at 3.7% in 2005, above the EU-15 and the EU-25 growth rates. Slovenia's growth rate has also exceeded the EU-15's consistently (see Chart 3 at Annex).

Slovenia's 2005 current account deficit is estimated at 1.0%. GDP per capita at the end of 2005 was nearly 14,000 euros (www.stat.si). Using purchasing power standards, Slovenia's GDP per capita in 2004 was 78% of the EU-25 average (Eurostat, June, 2005).

Unemployment

Slovenia's 6.2% (survey-based) unemployment rate is favourable in direct comparison with the EU-15 states. However, the registered rate of unemployment rose to 10.1% in October, 2005 (see Statistical Office, first release, November 2005). Of the 94,000 registered unemployed in Slovenia, about half are women. More significantly, 44% have been unemployed over a year, and 40% are above the age of 40.

Structure of unemployed persons by age groups, 1st quarter 2005



Source: Slovenian Employment Service

The registered unemployment rate for men is 8,6%, while for women, over 12% (IMAD: Slovenian Economic Mirror, December 2005, page 9).

The distribution of unemployed along geographical and demographic lines is also uneven.

Year	Average number of registered unemployed persons	Average shares of characteristic groups of registered unemployed (%)					
		Aged under 26	First job seekers	Women	Unemployed for over 1 year	Without vocational qualifications	Aged over 40
1995	121.483	32,2	19,7	46,7	61,9	46,6	34
1996	119.799	31,4	19,4	48,1	56,1	47	36,6
1997	125.189	29,1	18,3	48,8	57,4	47,1	40,8
1998	126.080	26,3	18,1	49,9	61,7	46,9	46
1999	118.951	25,8	18,7	50,6	63,7	47,5	48,5
2000	106.601	23,4	17,9	50,7	62,9	47,2	51,7
2001	101.857	24,1	18,8	50,8	58,9	47	50,5
2002	102.635	24	19,6	51,2	54,4	47	49,4
2003	97.674	26,1	23,2	52,8	48,6	44,2	44,1
2004	92.826	26,2	25,2	53,1	46,2	41,6	42,8
2005 I-XI	91.827	24,1	24,3	53,8	47,4	40,8	43,6

www.stat.si

While the number of registered unemployed declined significantly from 1994 to 2004, the age structure shows some indicators of labour force problems. First time job-seekers account for a quarter of the registered unemployed, more than in 1995. Likewise, the proportion of unemployed above 40 year of age has also risen from 34 to 43%. On a positive note, the proportions of long term unemployed and those under 26 have declined since 1995.

Unemployment rates by age groups (in %) (Survey method)

- Unemployment for youth, i.e. the job entry category with the lowest skills level, is over 16% according to the survey method. This could indicate a skills-mismatch at the entry level, or "rigidity" at the senior level that does not allow for job creation at the entry level (pointed out by employer organisations too).

These statistics do not reveal the great regional variations in the numbers and proportions of unemployed in Slovenia (see Chart 4 at Annex). For example, in the Pomurska border region adjacent to Hungary, registered unemployment is 16.5% in comparison to the 10% national average. The region, of course, has been hard hit with job losses in the textile sector, and faces significant transportation barriers in relation to the rest of the country. Another border region next to Croatia, Podravska, has a rate of 13%. In contrast, the Goriska county has a registered unemployment rate of only 6.5%, and the Central County containing Ljubljana has 7.6% against the national average of 10%, and this is only slightly above the national survey-based average of about 6%.

Regional Unemployment, August 2005

Statistical regions	Registered unemployment rate[1]
Slovenia	10
Pomurska	16.5
Podravska	13.3
Koroška	10.1
Savinjska	12.7
Zasavska	14.0
Spodnjeposavska	11.3
Jugovzhodna Slovenija	8.7
Osrednjeslovenska	7.6
Gorenjska	7.3
Notranjsko-kraška	7.9
Goriška	6.5
Obalno-kraška	7.0

Note 1: The Employment Service of Slovenia is measuring the regional employment rate, which currently amounts to 11.2%. In 2005, the international comparable regional unemployment rate according to ILO amounts to 6.1%.

Source: Statistical Office of the Republic of Slovenia - Rapid Reports, No. 313, 2005

<u>Issues for Discussion:</u>

Representatives of both the employers and employees have pointed out in interviews that:

- Workforces are highly immobile, i.e. employees rarely migrate even short distances to areas with low unemployment.
- The wrong skill sets are available in great numbers in the areas with high unemployment.

- Employers are obliged to pay for commuting expenses, but that does not have an effect on reducing these regional variations in unemployment.
- Employee organisations feel that the overall educational level is the greatest determinant of an individual's employability, not necessarily just geographic location.

Workforce Participation (economic activity rate)

Slovenia's workforce participation (activity rate) of 65% puts it among the top three in the EU-10 (see Chart 5 at Annex). The Reform Programme of the Slovenian government (October 2005) intends to converge on 67% within two years with an ultimate goal of reaching 70%. Based upon this activity rate, it is difficult to conclude that there exists a "black" or "grey" employment market in Slovenia, as almost the entire population of working age (15-74) is accounted for by the national statistical accounts.

- Both employer and employee social partners have indicated that illegal employment of foreigners does exist, along with undocumented, untaxed domestic employment, or legal, but underreported income.
- Employers' organisations have pointed out the restrictions on "downsizing" employees above a certain age in essence creates the impression of a high activity rate, whereas those employees are in reality not productive anymore, and this prevents the hiring of young people.
- Increasing the retirement age. Making retirement mandatory and enforceable beyond a certain age is a concern of all employer organisations interviewed since immoveable senior workers with high pay based upon years of experience have no incentive to produce, and may prevent the hiring of young people with the skills needed to compete, as pointed out by Telekom Slovenije.

<u>Competitiveness Issues</u>

A major consideration for Slovenian competitiveness versus the larger new EU-8 members is the minimum salary and wage levels established by the general collective agreement for the economy, and where it exists, the sectoral, or enterprise agreement. The information below, from Investslovenia, the investment promotion agency, shows minimum wage levels that apply to sectors or in general, regardless of enterprise size. In other words, small family businesses with few employees, as well as large multinationals, are obliged to use a pay scale as illustrated in the table below.

- General collective agreements and sectoral agreements apply universally, from the smallest to the largest firms. Employers' organisations pointed out that small businesses represent several sectors simultaneously, and that these minimum wages cause great disadvantage to small firms when all of the additional benefits are added in.

Minimum labour costs, inclusive of taxes and mandatory benefits, are detailed below for a few sectors. From this table, it is apparent which sectors, such as textiles or pulp paper, cannot compete with Romanian, Ukrainian, or Asian firms.

Minimum monthly labour costs (in EUR d) for an employee in selected industries according to the General Collective Agreement:

	SECTORS	Low and medium skilled [a] (EUR)	Skilled and highly skilled [b] (EUR)	Engineers and professionals [c] (EUR)
1	General collective agreement for the manufacturing industry	300-370	410-555	630-900
2	Electronic, electrical engineering; metal processing	315-420	485-670	750-1,420
3	Construction	320-395	440-695	710-1,130
4	Textile, clothing, leather processing	300-370	410-555	630-900
5	Wood and wood processing	300-370	410-555	630-900
6	Pulp and paper industry	350-450	505-765	905-1,320
7	Chemical and rubber industry	330-505	460-770	710-1,235
8	Trade	320-390	435-590	665-955
9	Banking	340-425	475-675	845-1,220
10	Insurance	330-430	460-660	805-1,155

Notes: a I–III tariff class (unfinished basic education; basic education + short vocational course; short-term vocational programme) b IV–VI tariff class (two-and-a-half-year vocational programme; three-year vocational programme + examination for master craftsman; post-secondary vocational college) c VII–IX tariff class (university education; postgraduate education; PhD) d EUR 1 = SIT 240 (average for 2004). **Labour costs include**: starting level gross wage, holiday bonus, reimbursement of meal expenses, reimbursement of travel expenses to and from work, employer's social security contributions, payroll tax. **Not included**: extra payments for active employment, extra payments for burdens at work, part of payment for good work results (measured on an individual or group basis), part of payment for successful company operations.

The actual wages paid in Slovenia as of October 2005 are cited below. It is worth noting that the average private sector wage, 1087 euros per month, is less than the public sector average of 1400 euros per month. Furthermore, educators are paid as much as miners, or utility workers. Thus Slovenia can be said to have a well-paid public sector by Central European standards. Within Slovenia, the public sector enjoys a pay premium of 40% over the private sector (eventually, this is likely to become a competitive disadvantage). The more mobile sectors also show wages that are a multiple of average wages in Hungary, Slovakia or Poland. Some argue that Slovenia should be compared to Scandinavian countries; however, the structural adjustment caused by the end of socialist Yugoslavia cannot be considered as equivalent to the welfare reforms of Scandinavian countries. In this sense, the EU-8 face similar adjustment problems to one another, and they too, all aspire for Scandinavian wages and standards of living, even if they are all very far from Scandinavian infrastructure and productivity.

Actual wages paid, as reported by IMAD (December 2005)

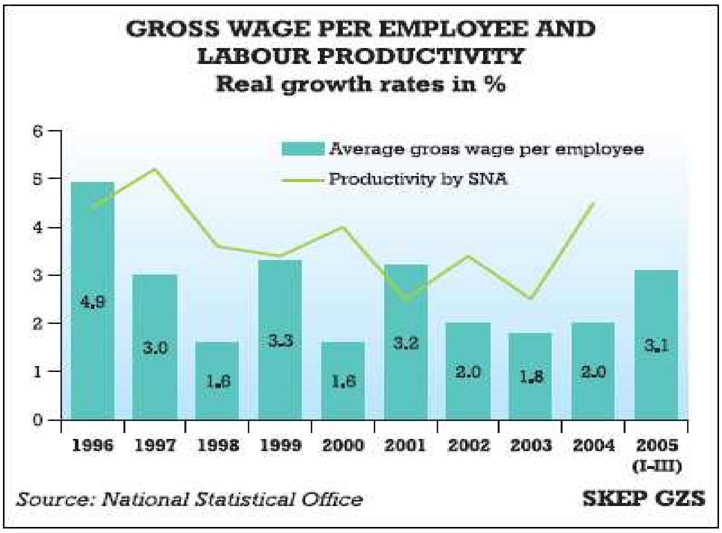
Gross wage per employee, growth index		**Wages in SIT October 2005**	**Wages in Euro October 2005**
Gross wage per employee, total		279506	1169.48
	Private sector (activities A to K)	259925	1087.55
A	Agriculture	225229	942.38
B	Fisheries	227108	950.24
C	Mining and quarrying	343040	1435.31
D	Manufacturing	241126	1008.90
E	Electricity, gas and water supply	355189	1486.15
F	Construction	227058	950.03
G	Wholesale, retail; certain repairs	245925	1028.97
H	Hotels and restaurants	206529	864.14
I	Transport, storage & communications	303318	1269.11
J	Financial intermediation	393382	1645.95
K	Real estate, renting, business services	293101	1226.36
	Public services (activities L to O)	335906	1405.46
L	Public administration	338944	1418.18
M	Education	348599	1458.57
N	Health and social work	320518	1341.08
O	Other social and personal services	326343	1365.45

Source: IMAD, Slovenian Economic Mirror, December, 2005.

Slovenian hourly labour costs are close to Greece's level, but still less than half of Austria's, and nearly triple that of Poland's (Romania does not make it on the chart).

Productivity Trends:

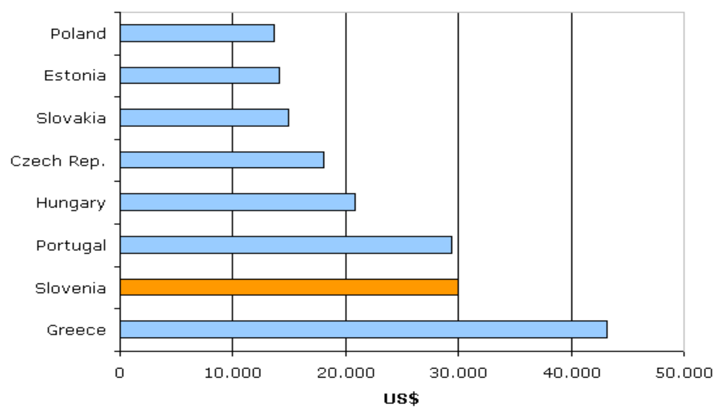
The second major consideration in competitiveness is labour productivity and related unit labour costs. The best comparable international data on hourly, yearly, unit labour costs based upon GDP produced per hours worked, comes from the OECD. (See, for example, the OECD's "Compendium of Productivity Indicators, 2005" at www.oecd.org/productivity). Unfortunately, Slovenia is not a member of OECD, therefore no such comparative data are available in that document that would show Slovenia in context with Central Europe, the EU-15, North America and some Asian countries (Japan, Korea) as well.



The chart above, produced by the Slovenian Statistics office, seems to indicate that productivity is rising faster than real wages, at least on a domestic basis with no comparison with direct competitors. This means that the real wage increases are fully supported by productivity gains within the Slovenian context.

The next chart below, showing GDP produced per person employed, shows that Slovenia is more productive than all of the EU-8 countries, and is only 33% behind Greece. This chart, showing productivity per employee of 50% more than in Hungary, should be compared to the previous charts showing labour costs that are at least double, if not more, than in other EU-8 countries sampled. In other words, the extra productivity does not seem to compensate for a double to quadruple labour cost disadvantage vis-à-vis Poland, Hungary or Slovakia.

Overall productivity 2004 (GDP per person employed, in US$)



Source: IMD – World Competitiveness Yearbook, 2005

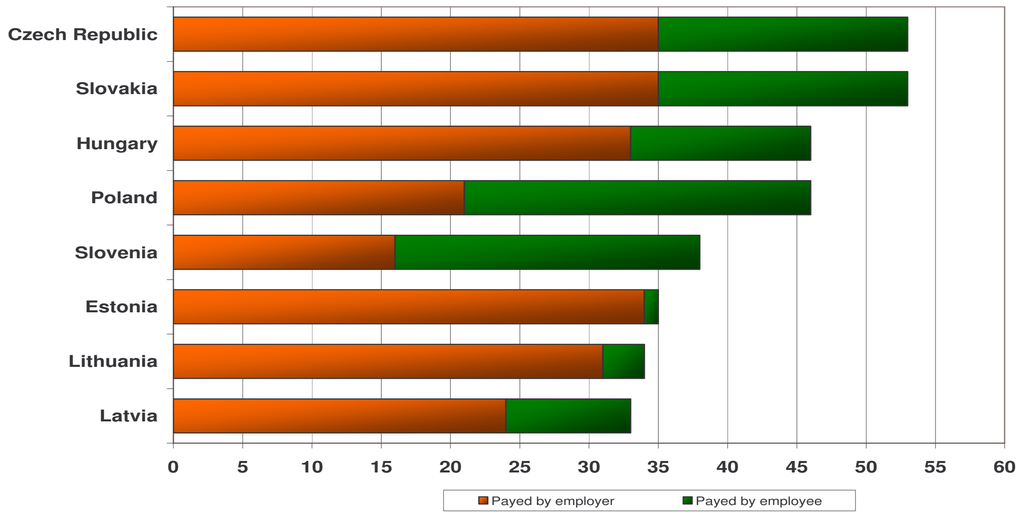
The World Economic Forum's annual competitiveness rankings (www.weforum.org) of 117 countries places Slovenia in 32nd place in the growth competitiveness (GCI) and business competitiveness (BCI) categories. Of the EU-8, Estonia is the highest ranked at 20th and 26th place, in the respective categories. The Czech Republic, Hungary and Slovakia come in at 38th, 39th and 41st, Poland is 51st, and Romania 67th. Thus Slovenia, with the exception of Estonia, is "best in its class" of new EU members, however Korea (17th) is ahead, and the first six, Finland, USA, Sweden, Denmark, Taiwan, and Singapore, seem to be unbeatable. The EU- 25 is in 28th position, while EU-15 is in 22nd place.

The World Bank, in its "Doing Business 2006" study, evaluated the elements of starting, running and shutting down a business in 155 countries. It compared Slovenia to the EU-8 and to EU-15 (World Bank EU8: Quarterly Economic Report, October, 2005, page 10, see www.doingbusiness.org). From the perspective of restructuring and competitiveness, Slovenia has the most difficult rating in hiring new employees, the most rigid working hours, almost the most difficulty in firing employees, the most rigid employment regime, and the highest firing costs, i.e. 43 weeks of salary against 25 in Poland, or 17 in Latvia. In almost all of these categories, Slovenia does worse than the EU-8 and the EU-14.

Most surprising of all, was the conclusion that 27% of GNI is in the informal economy, exceeded only by Latvia, with the EU-8 average of just under 27% and an EU-14 average of 15%.

Tax Rates:

Slovenia's tax rates, before any adoption of a flat tax or other reforms, puts it in the "lower taxed" half of the EU-8. This table does not show the effect of Slovakia, Estonia and Latvia's flat tax regime (personal income tax), but Slovenia's relative position probably did not change.



Total payroll taxes as a percentage of gross wages in 2004 (Source: Figyelő, July 21-27, 2005 based upon World Bank)

TAXES IN SLOVENIA in 2005	
Value added tax	Higher rate 20 % Lower rate 8.5%
Corporate income tax	25 % for exceptions also 0%
Personal income tax	from 16% to 50% 5 levels
Payroll tax	from 0% to 14.8%, 4 levels
Special tax on certain incomes	25%

Slovenia - Current Economic Trends 2005-2006, Public Agency for Entrepreneurship and Foreign Investment Slovenia, 2005 www.pcmg.si

The payroll tax is scheduled to be phased out, and there are proposals to replace the personal income tax with a flat tax. That proposal, to be discussed in the section on social dialogue, has caused controversy and even street protests in an otherwise consensus-seeking social arrangement.

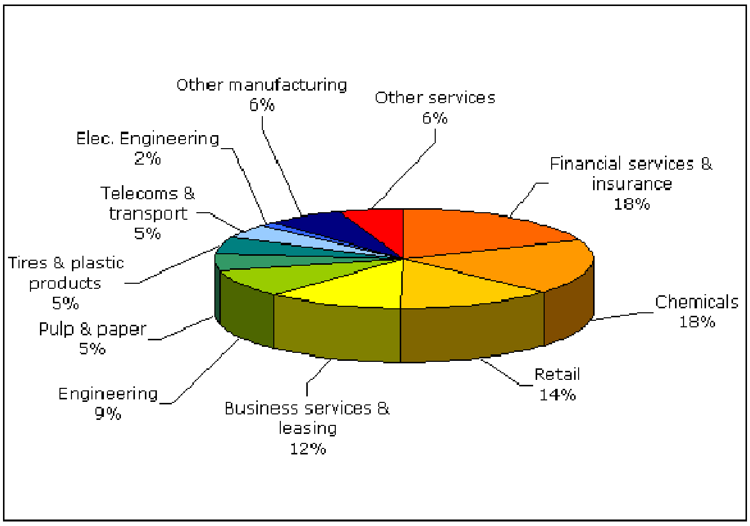
2.2 Declining, restructuring and expanding sectors

Job creation in the developing/potentially developing sectors

Statistics on value-added growth in GDP from IMAD indicate that the financial sector will grow at several times the rate of the economy, i.e. at 10% in 2005. In addition, construction, trade, transportation and logistics, as well as manufacturing are expected to grow faster than the other components of GDP in 2005 and 2006.

The distribution of FDI stock in Slovenia is rather evenly spread among major service areas such as financial services, business services, retail, as well as manufacturing. It seems the bulk of FDI has gone into business services broadly defined, with smaller shares in traditional industries such as tires and plastic, pulp, engineering, transport and telecoms etc. This distribution of FDI shown below signals continuing growth in the financial services, business services and retail sectors, all of which are supported by significant manufacturing presence.

Inward FDI into Slovenia by sector (FDI stock as of year-end 2004 EUR 5,596 million)



Source: Bank of Slovenia, 2005; TIPO 2005

According to data from the European Monitoring Centre (See Annex 2), the sectors of Slovenia's economy that are expanding include trade, glass, hotel and catering and logistics. The largest investments that created jobs in 2005 took place in the motor industry that added 1840 of the 5600 jobs created in 2005. According to IMAD, the fishing and agricultural sector, as well as mining would be barely growing in 2005-06.

Declining sectors

The year 2005 marked a "record year" for restructuring in Slovenia according to the European Monitoring Centre. In their statistics (See Annex 2) 7300 jobs were eliminated in 2005 in the chemical, commerce, construction, electrical, food, glass, metal public, and pulp sectors. Even the banking sector faced some job reductions. Of the 7300 jobs reduced, 3009, or 41% were in the textiles and leather sector, and in this case, off shoring and delocalisation dominated as the cause. These cases, listed in Annex 2, are the large-scale events that were reported to the ERM Centre, and may hide a "deeper" restructuring taking place in the SME and micro enterprise sectors.

These 7300 jobs that were reduced amount to 0,9% of the total employed workforce, and to only 0,8% of the entire working age population taking into account the registered unemployed as well. This, of course, does not discount the large local impact that a plant closing of 100-1000 employees may have in a particular area.

Sectors undergoing the heaviest restructuring are the following sectors:

Sector	Reasons for restructuring
Textiles	Production moving to lower wage countries
Leather	Production moving to lower wage countries
Clothing	Production moving East to lower wage countries
Retail trade	New law requires retailers to close on Sunday
Food processing	Scale economies, multinational processors consolidate on European basis
Construction	Bankruptcies
Public sector	Railroad and post office subject to structural reform due to EU competition directives
Telecom	Sale of state share may induce restructuring for competitive reasons

What is critical for the near future is which sectors have not yet undergone massive restructuring: the public corporations such as the post office and railroads, the education system and the health care system, as well as those enterprises that still enjoy significant or majority state ownership and will be sold under the government's strategy for achieving the Lisbon Goals. (See a later section).

The overall balance according to the ERM Centre in 2005 was 7300 jobs eliminated, and 5600 created. In the same period, according to IMAD figures, the number of registered unemployed rose by 2,000, while the number of employed persons rose by 5,000 and the total workforce increased by over 6,000. These types of statistics reflect delays in reporting, as well as having a margin of error. Overall, the number of employed and employable persons rose proportionally, and the net number of job cuts, about 2000, is equivalent to the increase in the number of registered unemployed. Given a labour pool of over 900,000, the "missing" people fit within statistical or rounding error.

Transformation issues

The privatisation of Slovenia's economy is not yet complete. The State, according to the Reform Programme for Achieving the Lisbon Strategy Goals (October 2005), is a significant direct and indirect owner of prominent Slovenian companies through several parastatal funds such as KAD and SOD. This means that Slovenian success stories that are organised as private firms still have significant state ownership, and this may lead to concerns with EU competition policy, equal opportunities and transparency.

Slovenia's largest firms by income and by persons employed, as the table indicates, have significant state ownership, either directly at the Republic level as in the case of Telekom, or through the state pension fund and compensation funds.

The largest companies by income

Rank	Company	Revenues in 1000 tolars	Employees
1	Petrol Slovenska Energetska Druzba, D.D., Ljubljana	320772600	620
2	Poslovni Sistem Mercator	225444473	7280
3	Revoz Podjetje Za Proizvodnjo in Komercializacijo Avtomobilov D.D.	209928044	2275
4	Merkur - Trgovina in Storitive, D.D.	152100851	2380
5	Gorenje Gospodinjski Aparati, D.D.	144149916	5671
6	Lek Farmacevtska Druzba D.D.	127653357	2510
7	Prevent Avtomobilske Sedezne Prevleke, Delovna Oblacila in Rokavice D.D.	118410784	344
8	Holding SlovenskeElektrarne D.O.O.	116294167	80
9	OMV Istrabenz, Trgovina z Nafto in Naftnimi Derivati, D.O.O.	98938164	103
10	Krka, Tovarna Zdravil, D.D:, Novo Mesto	97977511	3541
11	Spar Slovenija Trgovsko Podjetje D.O.O. Ljubljana	94728927	2314
12	Engrotus Podjetje za Trgovino, D.O.O.	89533068	2316
13	Telecom Slovenije D.D.	85293522	2118
14	Mobil Telekomumikacijske, D.D., Ljubljana	83401361	813
15	Splonsno Gradbeno Podjetje Slovenija Ceste Tehnika Obnova, D.D.	75224772	2420
16	Renault Nissan Slovenija, Trzenje in Prodaja Avtomobilov, D.O.O.	65509584	152
17	Sava Tires, Druzba zs Proizvodnjo Pnevmatnik, D.O.O.	65061034	1568
18	Talum Tovarna Aluminija D.D. Kidricevo	64279159	985
19	Impol Industrija Metalnih Polizdelkov D.D.	62500112	974
20	Elektro Ljubljana Javno Podjetje Za Distribucijo Elektricne Energije D.D.	61671349	1087

Source: The 500 Largest companies in Slovenia. Slovenian Busieness Week Report (Special Issue), 2005

Several of the firms listed in the next table, such as the Post Office, fashion producers, foundries etc. will face or have faced restructuring already in 2005, or are under threat from EU competition rules.

The largest companies by employees

Rank	Company	Employees
1	Poslovni Sistem Mercator D.D.	7280
2	Posta Slovenije D.O.O.	5946
3	Gorenje Gospodinjski Aparati, D.D.	5671
4	Mura European Fashion Design D.D.	3864
5	Krka, Tovarna Zdravil, D.D., Novo Mesto	3541
6	Lek Farmacevtska Druzba D.D.	2510
7	SGP Slovenija Ceste Tehnika	2420
8	Unior Kovaska Industrija D.D.	2400
9	Merkur - Trgovina in Storitive, D.D.	2380
10	Engrotus Podjetje za Trgovino, D.O.O.	2316
11	Spar Slovenija D.O.O. Ljubljana	2314
12	Revoz D.D.	2275
13	Telecom Slovenije D.D.	2118
14	Premogovnik Velenje, D.D.	2108
15	Iskraemeco, Merenje in Upravljanje Energije, D.D.	1932
16	Perutnina Ptuj D.D.	1668
17	Boxmark Leather Proizvodnja in Trgovina D.O.O.	1666
18	Era D.D., Velenje	1588
19	Sava Tires D.O.O.	1568
20	Primorje D.D.	1532

Source: The 500 Largest companies in Slovenia. Slovenian Busieness Week Report (Special Issue), 2005

Surprisingly, many of Slovenia's privatised and successful exporting firms have significant direct and indirect State ownership. The Lisbon strategy of the current government calls for a significant reduction of these state shares by selling to private portfolio investors or strategic investors. This, of course, has restructuring implications.

State Share in Group Ownership (ranking by income, 2004)

Rank	Group	State Funds (%)	State ownership (%)
1	Mercator	13,57	
2	Petrol	62	
3	Gorenje	33,7	
4	Merkur	25,66	
5	Telekom Slovenije	9,84	62,53
6	Lek	25,8	
7	HSE		
8	Elektro Slovenija		100
9	Krka	14,4	
10	Prevent		
11	Autocommerce		
12	SIJ - Slovenska Industrija Jekla		
13	SCT	1,7	

Rank	Group	State Funds (%)	State ownership (%)
14	Holding Slovenske Zeleznice		
15	Primorje		
16	Kemofarmacija		
17	Era		
18	Cimos	21,39	
19	Sava	29,77	
20	Intereuropa	10	

Source: The 500 Largest companies in Slovenia. Slovenian Busieness Week Report (Special Issue), 2005

Based upon the effect of EU competition directives, and anticipated sales of state shares in some larger enterprises, “restructuring” is expected in the following areas in the 2006-2009 timeframe:

- Transformation of parastatal holding funds (KAD and SOD), and sale of shares;
- Sales of remaining banks, insurance companies etc. in which the State still has a significant direct or indirect share;
- Post office upon full liberalisation in 2009;
- State Railways upon liberalisation of cargo, passenger, and track service;
- Telecom monopoly state share to be sold (State still retains a share of nearly 63% in Telekom Slovenije in 2006);
- Electric production and distribution to be liberalised, perhaps privatised;
- State share in petroleum importer/refinery/distributor to be reduced;
- The share of “grey” or informal employees is between 6 and 10% of those employed (according to trade unions);
- Regional labour shortages are caused by unwillingness to move (trade unions);
- The restructuring procedure in Slovenia is mostly acceptable (trade unions);
- From the employers’ perspective, large scale production will fade, but slow privatisation was an advantage. The main challenge is to have good retraining to allow more high value-added Slovenian content.

Economic and Regulatory Observations made by Social Partners

The social partners interviewed for this project identified some macro challenges that they deemed to be important. Those challenges that especially concern the social partners, and that were not mentioned elsewhere, are as follows:

- Individual entrepreneurs and owners of small family firms do not have the same social protections and rights as employees do (employers' organisation).
- Real restructuring started with EU accession, and Slovenian expansion into ex-Yugoslavia threatens domestic jobs (trade unions).
- Retraining is only available to those who are already unemployed, but should be available to those who are still employed or expect to be laid off (trade unions).
- Too many obstacles to new firm creation and hiring exist, public opinion is anti-growth, taxes on property do not exist hence wages are overtaxed, and collective agreements etc. cause a lot of administrative paperwork (employers' organisation).
- The grey economy contains associations and clubs that perform business activities but are not taxed, or services provided at home etc. that do not need to belong to any collective organisation nor heed any agreement (craft employers' organisation).
- Labour law is EU-compatible but too cumbersome and restrictive regarding redundancy. Enterprises with state shares do not operate as market-based firms, but instead are making decisions on a social basis (employers' organisation).
- Firms with significant state ownership have up to 50-60,000 subsidized jobs, in that the State often overlooks tax debts to prevent unemployment (employers' organisation).
- Slow privatization and consensus-based transformation are a competitive edge for Slovenia despite some of these problems (employers' organisation).
- The soft approach to restructuring may have bought a false social peace (employers' organisation).
- Telekom: part time work is rare, since many costs are fixed such as lunch money, travel subsidies, vacation and benefits. There is a need for separate rules to allow for more part time work (women, early retirees).
- Gorenje: Labour law is rigid with too much consultation, and there are many protected categories that prevent the refreshment of the work force with productive, creative young people (also Telekom). Pay increases with seniority, i.e. years on the job, irrespective of performance. This is a disincentive to keep working hard, especially in the protected categories.
- Small entrepreneur: it is difficult to cancel labour contracts with persons who have simply left the city or country and have forgotten to sign paperwork. By law, wages and taxes have to be paid to these "ghosts."

3. RESTRUCTURING AND SOCIAL DIALOGUE

3.1 Restructuring – how to define it?

Introduction to Slovenian tradition in Social Dialogue

Slovenia's economic and social success since 1991 has been attributed to its complex system of formalised, mandatory, and binding social dialogue, reinforced by a system of collective agreements at the macro level, sectoral level, and enterprise level. Representatives of all social partners interviewed in this study all support this tradition of social dialogue and collective bargaining. Of course, all sides have observations as to how to improve the process, and have acknowledged some of the less than optimal side effects as well.

The ZDS (Association of Employers) summarized the social dialogue process in the following way:

"Social dialogue was introduced in 1989 with the fundamental Employment Act, which introduced collective bargaining as the method of determining mutual rights and obligations between employers and employees…In the following years subsequent agreements regulated industrial relations in more detail…

In 1994, tripartism was introduced in Slovenia with the founding of the Social Economic Council. The government, trade unions and the employers' associations concluded the first social agreement on wage policy in that year…."

The opinions and decisions of the ESS are not binding in the parliament. Instead, national and branch (sectoral) agreements apply to all employees, whether they are union members or not, and to all employers, regardless of size. There are three levels of agreement: general binding agreement negotiated by the social partners, i.e. the employer and employee associations; sectoral agreements negotiated by employers' associations and the representative trade union, and finally, voluntary collective agreements at the company level, conducted by the employer and the appropriate employee organisation. The collective agreements are binding for all employers as they are still required to be members of the Chamber of Commerce or of the Chamber of Craft (this is now subject to change).

The 'general social agreement' has expired at the end of 2005, and is currently under negotiation at the national level. The new social agreement provides an opportunity to discuss labour market reforms and flexibility, as well as the general Lisbon strategy of the government, including controversial plans for tax reform (flat income tax included).

The Government, as several social partners reported, is at odds with the representatives of various trade unions over its Lisbon strategy objectives and plans for a flat tax. However, the

Government's reform strategy reflects the broad support for the Slovenian social model in the following way: "The existence of the social state is in fact essential for social stability and economic growth and it is therefore necessary to reach a consensus with the social partners aimed at high labour market flexibility, the enhanced role of the corporate sector, and more dynamic forms of employment" (page 41 of the English version).

3.2 Legal framework of restructuring

Restructuring has taken place "softly" in Slovenia since 1991 for the following reasons: the collapse of the internal Yugoslav market in 1991 and the independence of Slovenia in 1992; the collapse of the former socialist system in Central Europe and the Soviet Union; organic restructuring as Slovenia introduced domestic market rules in the 1990s; preparation for EU accession and the "conquest" of traditional and new Slovenian markets; "globalisation" and competition from Asia and Eastern Europe (Romania, Ukraine etc.).

According to a study by Miroslav Stanojevic (see "Social dialogue and EMU in Slovenia," page 254, in Stanojevic, 2003), the Slovene model of employee reduction differs from practices used in the EU-15 and in other transition countries. For example, early retirement was used nearly twice as often in other transition countries. Compulsory redundancies occurred the least frequently. Redeployment, outplacement and outsourcing were used 30-50% more often than in the EU-15, and slightly less often than in the other transition countries. Only the "nonrenewal" of fixed contracts was used as often in the EU-15 or elsewhere. Stanojevic explains this by citing the five features of social dialogue and industrial relations that makes Slovenia unique:

1) Intense strike activity in the early 1990s;

2) Powerful trade unions with high representation (supported by mandatory collective agreements);

3) Governments have preferred exchanges and dialogue to confrontation;

4) Centralised social dialogue and collective bargaining (mandatory Chamber membership at least through 2005 for the employers' side);

5) Traditional adversarial relations were handled at the micro level. (Stanojevic, p. 256).

In this tradition of collective agreements and representation, the social compact negotiations, as well as the Government's Lisbon reform strategy, mandatory Chamber of Commerce and Chamber of Craft membership, restructuring caused by EU directives and global competition, all contribute to a very "comprehensive" and consensus-seeking environment (see also: European Foundation for the Improvement of Living and Working Conditions, "Social dialogue and conflict resolution in Slovenia", 2004, available at www.eurofound.eu.int).

Before discussing the Law on Employment, it is important to mention the legal environment in which shock therapy was avoided throughout the 1990s. In contrast with the rest of Central Europe, Slovenia enforced a moratorium on corporate bankruptcies in 1992, in order to allow for subsidized restructuring, transformation and privatization that respected the traditional powers of the Workers' Councils, which in many cases, were the legal owners of enterprises (collective self-management, social ownership, i.e. not state ownership).

Bankrupt firms that were not under social ownership were assigned to the Development Fund for transformation, restructuring, and in some cases, partial privatization. These firms continued to receive subsidies until EU membership and competition directives forced the Government to reduce or eliminate them. The second category of firms, i.e. those in social ownership, were under the legal framework of the Law of Transformation. They were reorganised, partially privatised, but remained under strong employee-owner influence. Finally, strategic assets, such as the Telecom Company, post office, electrical grid, energy sector, steel etc. remained under direct state ownership, although in most cases transformed into share companies of some sort. (See Simoneti, Rojec, Gregoric: "Privatization, Restructuring, and Corporate Governance of the Enterprise Sector," in Slovenia, World Bank, 2004).

The Law on Employment Relations (1991-2003, 2003 - present)

The old laws did not allow layoffs and redundancies in the former Yugoslavia. In other words, economic reasons were not sufficient. The Labour Code in force from 1991 to 1993 required 6 months advance notice in the case of a layoff, and made removing workers very expensive. That is, for every year of service, half a month's salary was to be paid to the employee in form of severance pay, and significant procedural costs are also in force. The use of fixed term contracts and temporary agencies is also regulated more strictly than in the other transition countries.

2003 Law on Employment Relations:

This Labour law has several important provisions regarding "mass layoffs" and the reduction of employees for business and other reasons. The following reasons are allowed for terminating an employment contract (Article 75): expiration of validity, death of either natural party to the contract, consensual cancellation, ordinary or extraordinary termination, court judgement.

The easiest form of cancellation is consensual (Article 79) and this paragraph is probably used quite often with the appropriate incentives. General termination must be justified, and notice given in writing (Articles 81-83). The relevant trade union must be notified if the worker requests it (Article 84). If the union opposes the termination, the termination may not enter into force until the end of the arbitration period.

A worker's contract may be terminated when offered a new contract (Article 90). The worker has 30 days in which to express his opinion.

Giving notice: The employee must give 30 days notice. If termination is for business reasons, there is a complex system of notification based upon number of years on the job. Ranging from 30 days if the employee was with the firm for less than 5 years, or up to 150 days if the employee had at least 25 years of service (including the legal predecessor) (Article 92).

Mass layoffs for business reasons (Article 96):

A special program for redundant workers must be put into place if within 30 days at least 10 workers become redundant in a firm with 20 to 100 employees. Between 100 and 300 workers, the layoff must affect 10% of the employees, or at least 30 workers if the firm has more than 300 workers (firms with fewer than 20 employees seem to be exempt from the dismissal program for the redundant workers clause).

The redundant workers program must be put into place within 3 months if more than 20 workers are involved. The trade union must be informed and consulted with the intention of working out an agreement. The Employment Service must also be consulted and informed (Articles 97-98), and cannot act regarding the dismissals until 30 days have gone by after notifying the Employment Service.

The dismissal program, described in Article 99, has the following obligatory components:

1. Measures for limiting the numbers of workers to be dismissed, including options for continued employment under new conditions;
2. The list of redundant workers;
3. List of package to soften the blow: outplacement, jobs in other firms, assistance with starting new firms etc.;
4. Financial assessment of dismissal program.

There are legal criteria for determining who is made redundant (Article 100). These include the workers' qualifications and education, work experience, job performance, years of service, health, social condition, sole breadwinner or parent of 3 or more children. Pregnant and nursing women are protected, as are those in "bad social condition."

- Employers have pointed out that these conditions take everything into account except the financial and market strength of the employer, i.e. this includes social policy elements that are paid for by firms who cannot reduce staff.

The employer must heed the opinion of the Employment Service and the trade union, and at the request of the Service, the dismissals can be delayed by 60 days. If any new hiring takes place within one year, the dismissed workers have priority if they were let go only for business reasons and can fulfil the conditions of the new jobs. If the firm is sold in a bankruptcy, the new owner must turn to the old employees first in any expansion. (102-105).

Severance pay:

The average monthly wage for the three months before termination is the basis for calculating severance pay (Article 109). The worker is entitled to $1/5^{th}$ monthly pay for each year worked under between 1 and five years. Over 5 years and under 15 years, it is $1/4^{th}$ month pay for each year worked. For over 15 years of service, the basis is 1/3 month salary for each year worked.

Protections against termination (Articles 113-118):

The employer may not dismiss works council members, trade union representatives, board members or other such officials without the consent of the union.

Older workers above a certain age may not be dismissed unless they qualify for full pensions or unless they agree to a package that supports them until they reach full pension age. The female worker who is pregnant or breastfeeding may also not be dismissed. Similar protections apply for disabled and ill persons.

3.3 Restructuring cases in Slovenia

Best practices of restructuring are discussed in the case study. In general, Slovenian firms seem to exceed the legal requirements for mass dismissals, and aim to reach consensual dismissals with packages of varying type, all agreed with the unions and other stakeholders.

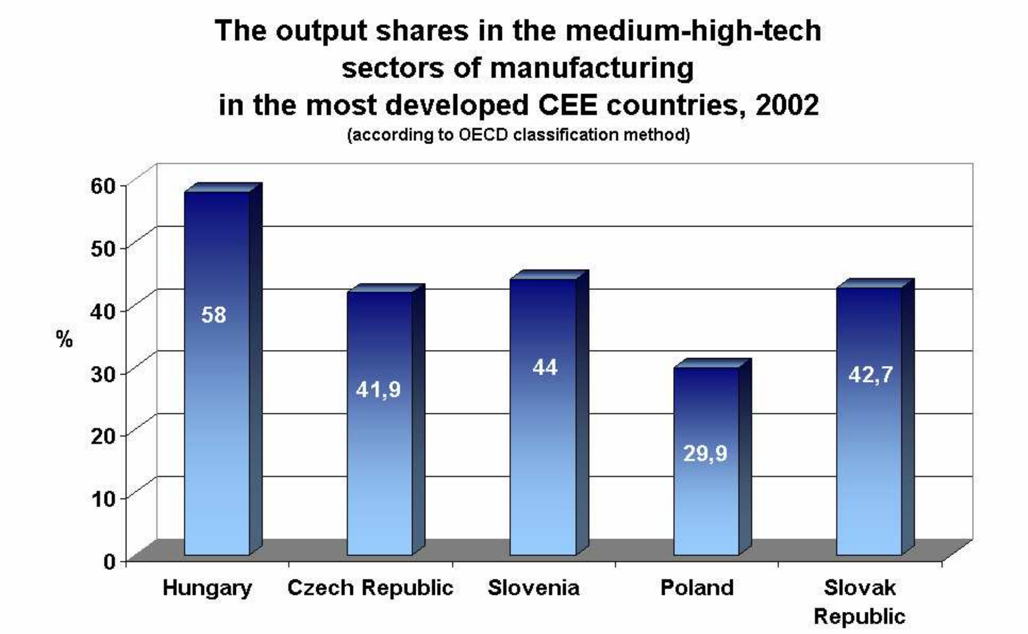
For examples of restructuring cases in Slovenia from the European Monitoring Centre, see Annex 2.

3.4 Challenges of Slovenian social dialogue

- Social Compact 2006-2009 negotiations happen simultaneously with Lisbon reform package discussions;
- Change in mandatory Chamber of Commerce and Chamber of Craft membership; ILO requirements for voluntary employee organisations, end of virtual 100% unionisation?;
- EU competition directives;
- Situation of micro and SMEs in sectoral (branch) and national collective agreements (to which sector does a flexible, micro-enterprise belong that changes its profile rapidly to meet customer needs? – this was pointed out by several representatives of the crafts sector);
- “Grey economy”;
- Tension between Chamber of Commerce and voluntary employer organisations;
- Tension between Confederation of Free Trade Unions and new, smaller unions at the sectoral or enterprise level;
- The new government wants to move collective bargaining down to the enterprise level, and we oppose this (trade unions);
- “EU-isation” and globalisation are often confused and must be dealt with separately (trade unions);
- The closing of the Croatian border due to Schengen regime will damage the economy (trade unions);
- Future growth areas are in health care, elderly care, quality tourism, electronics and software (trade unions);
- New labour, tax and social security laws are needed soon (employers’ organisation);
- Social dialogue needs to recognise that 95% of employers in Slovenia are micro and SMEs (Craft employers’ organisation);
- SMEs have divergent interests, yet face the same reporting, paperwork, collective agreements (national and branch) that large firms face (Craft employers’ organisation);
- There should be a separate “branch” called SMEs in the collective bargaining process (Craft employers’ organisation);
- 2003 Labour Law is full of “socialist features” (Craft employers’ organisation);
- Most of new employment comes in the form of fixed, short-term contracts, according to the textiles union representative.

Annex 1: Charts and Graphs

Chart 1:



Source: Eurostat

Table 1:

Table: Main trading products, 2002 (% of total)

Exports of		Imports of	
Total (€ mil. 10,961.9)	100	Total (€ mil.11,570.7)	100
Motor cars	8.3	Steel and steel products	4.8
Pharmaceuticals	5.4	Petroleum oils	4.7
Seats	4.6	Motor cars	4.5
Steel and steel products	2.9	Parts and accessories of motor vehicles	3.8
Parts and accessories of motor vehicles	2.4	Pharmaceuticals	2.0
Furniture and parts thereof	2.2	Automatic data processing machines	1.7
Refrigerators, freezers etc.	2.0	Spark-ignition intertal piston engines	1.5
Electric water heaters and other heaters	1.9	Petroleum gases	1.3
New pneumatic tires	1.9	Motor vehicles for transport of goods	1.3
Paper and paperboard	1.6	Unwrought aluminium	1.2
Electro-mechanical domestic appliances	1.5	Insulated wires and cables	1.1
Air or vacuum pumps, compressors	1.4	Textile fabrics	0.9

Source: Chamber of Commerce and Industry, 2003

Chart 2: Fiscal Deficit, 2004, as % of GDP (Eurostat figures)

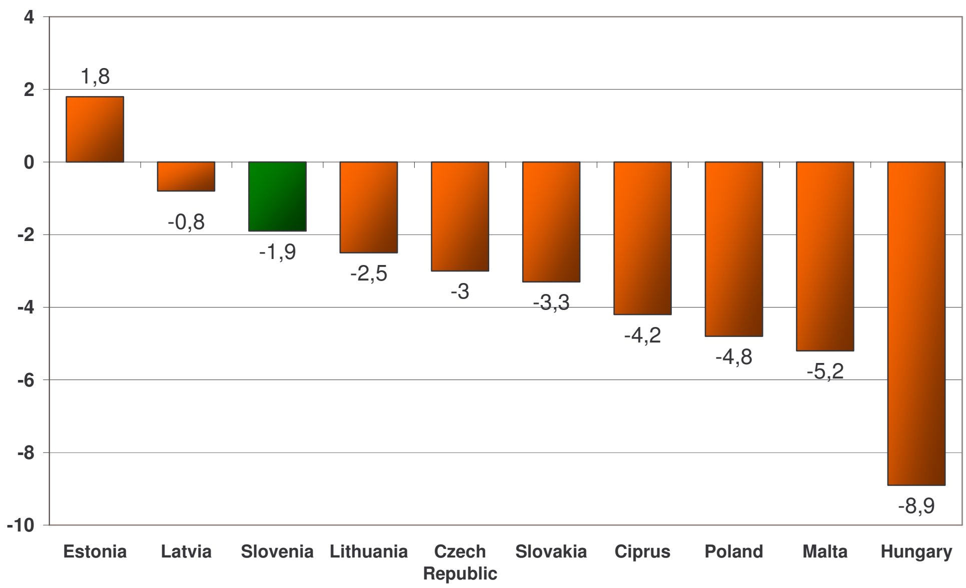
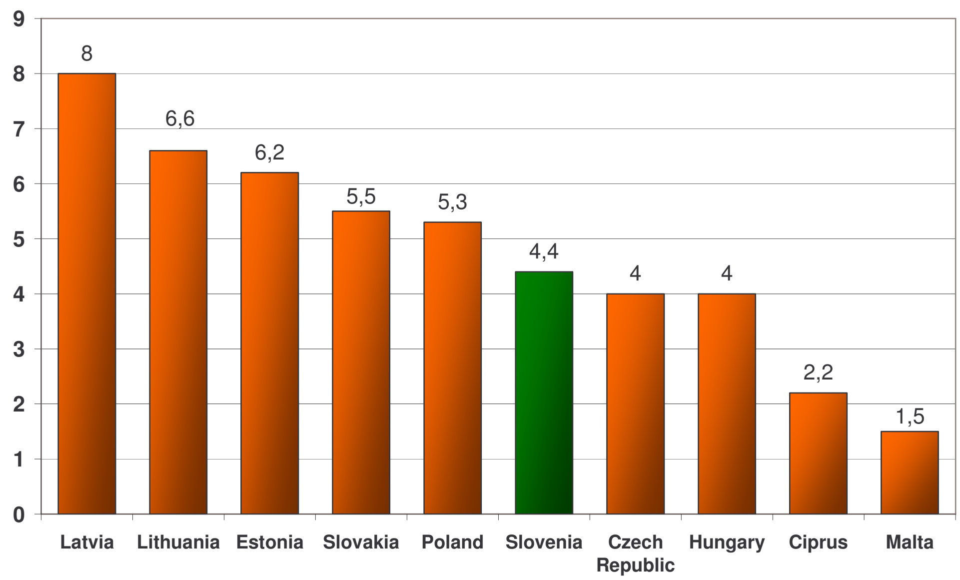


Chart 3: Real GDP Growth (%) 2004



Source: IMF figures, authors' graphics.

Chart 4:

Registered unemployment per regional office of ESS, 2003-2004

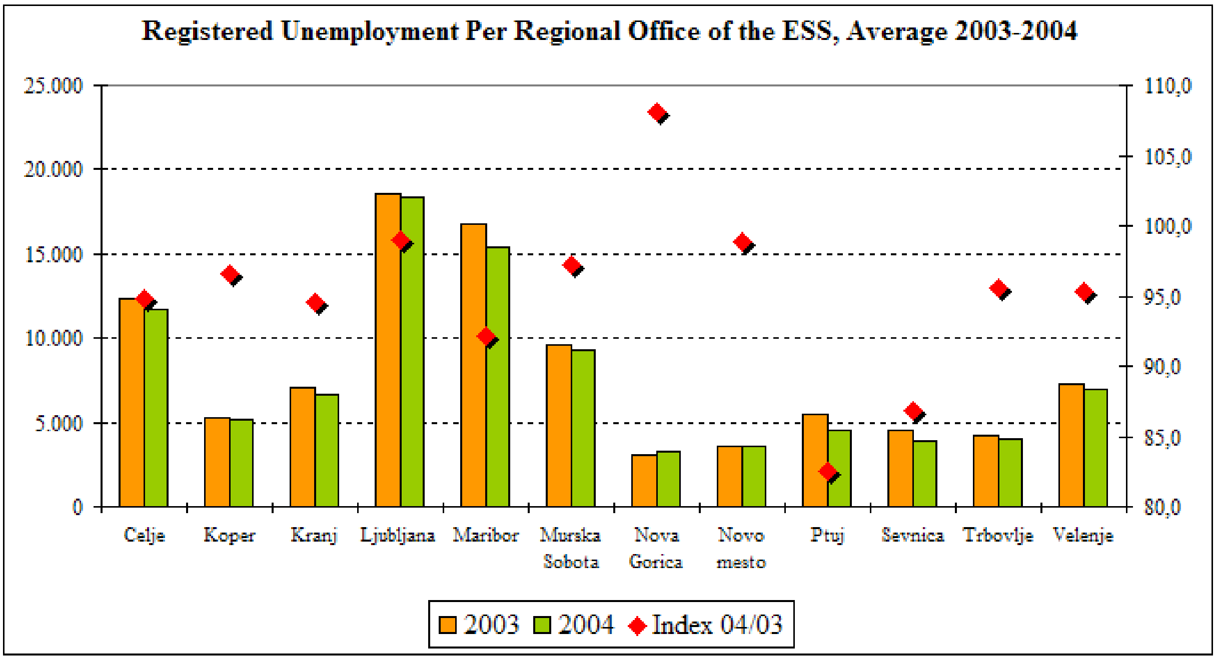
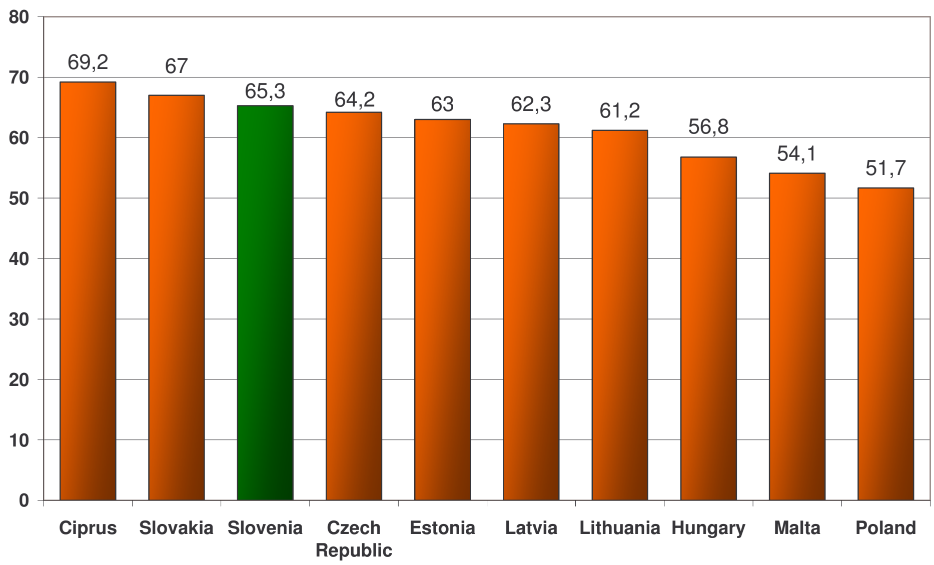
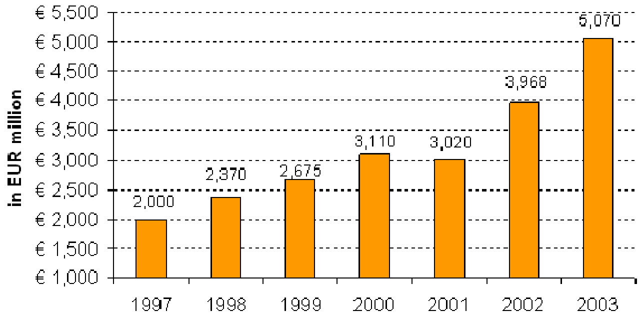


Chart 5: Economic Activity Rate 2004 (%)



Source: Eurostat and CSO figures, authors' graphics.

Chart 6: FDI stock in Slovenia, in EUR million, 1997-2003



Source: Bank of Slovenia, September 2004

Annex 2: Restructuring Cases, Examples of In-bound Investment

Planned job reductions

Company	Group	Type of restructuring	Sector	Planned job reductions	Announcement date	Employment effect start	Employment effect timeline
Lek	Sandoz	Internal restructuring	Chemical	250	2005.12.21		2006.12.31
Mercator		Other	Commerce	500	2005.05.23	2006.01.01	
ERA		Other	Commerce	100 - 150	2005.05.24		
Lesna TSP Radlje		Bankruptcy/Closure	Construction and woodworking	120	2005.07.19		
Tomos		Internal restructuring	Construction and woodworking	155	2005.07.25		
Ingrad		Bankruptcy/Closure	Construction and woodworking	180	2005.06.07	2005.06.08	
Iskraemeco		Internal restructuring	Electrical	100	2005.08.19		2005.12.31
Siteco	Siteco	Offshoring/ Delocalisation	Electrical	396	2005.09.21		2006.02.28
Vesna		Internal restructuring	Electrical	103 - 229	2005.11.26		
Nova Ljubljanska Banka		Internal restructuring	Financial services	119	2005.08.30		2005.12.31
Nova KBM		Merger/Acquisition	Financial services	173	2005.09.19		
Fructal		Internal restructuring	Food, beverage and tobacco	60	2005.10.07		2008.01.01
Droga Kolinska	Istrabenz	Merger/Acquisition	Food, beverage and tobacco	175 - 285	2005.08.02	2005.09.21	

Steklarna Rogaška		Internal restructuring	Glass and cement	200	2005.09.12		
Gorenje	Gorenje Group	Internal restructuring	Metal and machinery	400	2005.12.23		
Public administration of the Republic of Slovenia		Internal restructuring	Public Sector	600	2005.09.30		2007.12.31
Paloma		Internal restructuring	Pulp and paper	500	2005.12.21		2009.01.01
Tekstina		Internal restructuring	Textiles and leather	60	2005.09.15		2005.09.30
Jutranjka		Bankruptcy/Closure	Textiles and leather	100	2005.07.05	2005.07.08	
Rasica		Internal restructuring	Textiles and leather	118	2005.08.30		2005.12.31
Lisca		Offshoring/ Delocalisation	Textiles and leather	120	2005.07.08		
Merinka		Bankruptcy/Closure	Textiles and leather	126	2005.07.14		
Trikon		Bankruptcy/Closure	Textiles and leather	150	2005.11.22		
Beti Konfekcija Crnomelj	Beti Metlika	Offshoring/ Delocalisation	Textiles and leather	180	2005.07.28		
Mura		Internal restructuring	Textiles and leather	230	2005.08.30		2005.12.31
Prevent Global		Offshoring/ Delocalisation	Textiles and leather	1000	2005.12.07		2008.12.31
Industrija usnja Vrhniha		Internal restructuring	Textiles and leather	180 - 654	2005.07.12		
Prevent	Skupina Prevent	Internal restructuring	Textiles and leather	285 - 428	2005.08.30		2005.12.31

Source: http://www.emcc.eurofound.eu.int/erm/

Planned job creations

Company	Group	Type of restructuring	Sector	Planned job creation	Announcement date	Employment effect start	Employment effect timeline
Hofer	Aldi Süd	Business expansion	Commerce	200	2005.05.11	2007.01.01	
Engrotus	Tus	Business expansion	Commerce	300	2005.09.19		
Hofer	Aldi Süd	Business expansion	Commerce	2500	2005.12.08	2006.01.01	
Steklarna Hrastnik - Skupina		Business expansion	Glass and cement	200	2005.06.13	2005.09.23	2008.06.15
Istrabenz Hoteli Portoroz	Istrabenz	Business expansion	Hotel, restaurant and catering	130	2005.08.26		2007.12.31
Sun Roller Adriatic	Sun Roller	Business expansion	Motor	100	2005.10.11		2008.10.11
SAPS	Schefenacker	Business expansion	Motor	120	2005.05.05	2005.06.30	
Adria Mobil		Business expansion	Motor	120	2005.10.07		
DaimlerChrisler/ Unior		Business expansion	Motor	150	2005.04.15	2005.06.21	
Carthago		Business expansion	Motor	150	2005.12.29		
Revoz	Renault	Business expansion	Motor	1200	2005.08.04		
Public administration of the Republic of Slovenia		Other	Public Sector	310	2005.08.05		2008.07.01
Grieshaber Transport+Logistik		Business expansion	Transport and storage	130	2005.05.12	2005.12.31	2006.12.31

Source: http://www.emcc.eurofound.eu.int/erm/

Annex 3: Case Study

We are working on the Gorenje holding as a case study of "good" restructuring practice. Gorenje was recommended by employer and employee organisations, as well as by other experts.

Annex 4

Interviewed persons

Social Partners

Name	Organisation and affiliation
Ms. Nina Globocnik Mr. Samo Hribar-Milic Ms. Maja Skorupan	UNICE ZDS: The Association of Employers of Slovenia
Mr. Marjan Ravnik Mr. Viljem Psenicny Mr. Dusan Bavec (and several others)	UEAPME OZS: Chamber of Craft of Slovenia
Ms. Metka Roksandic	ETUC Sindicat-ZSSS: Association of Free Trade Unions Slovenia

Other interviewees

Name	Organisation and affiliation
Mr. Igor Antauer	Association of Employers for Craft Activities of Slovenia
Mr. Stefan Skledar	Institute of Macroeconomic Analysis and Development
Mr. Boro Jerabek Ms. Irena Vodopivec	Gorenje
Ms. Darja Vrhunc	Telecom Slovenije
Mr. Bojan Lap	Grabenistvo Lap

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