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Joint Project of the European Social Partner Organisations

JOINT STUDY ON RESTRUCTURING IN THE NEW MEMBER STATES

Report of the Latvian National Seminar

Hotel Konventa Seta, Riga
Latvia

27th April 2006



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Introduction & methodology

The last 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 Latvia on 27th April 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 on 26th and 27th June 2006. The final document will be discussed in a subsequent European Social Dialogue Committee.

The objective of the Latvian national seminar was to discuss the Latvian 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.

Although an equal number of participants had been invited from both sides of the social partnership, the seminar was attended by four representatives from Latvian employers' organisations and 15 representatives from the trade unions. Also in attendance were representatives from the European social partners; UNICE, UEAPME, CEEP and ETUC; and experts. The full attendance list is attached as appendix one. The detailed agenda for the meeting is included as appendix two.

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

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This report provides a structured overview of the discussions held on the country dossier and the case study during the day.

Report of the meeting

1. Maria Helena André (ETUC) opened the meeting by explaining the purpose of the project as a whole and the role of the Latvian national seminar within it. Her presentation materials are attached as appendix three.
2. The appointed expert for the Latvian 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 relevant points which may not have been included.
3. The participants raised the following issues in open discussion. Three main topic areas dominated the discussion and this has been reflected in the presentation below:

Connections between low pay, the minimum wage, labour migration and the grey economy
<ul style="list-style-type: none">➤ Social partners proposals relating to introducing a sensible minimum wage and dealing with non-deductible income are not supported by the Latvian government;➤ The Government's lack of support for increasing the minimum wage or dealing with the non-deductible income problem is indicative of an un-stated shadow policy. There are some that believe the encouragement this gives to the grey economy is a source of competitive advantage for the economy;➤ The social partners participate in a working group on undeclared work with the Ministry of Welfare. The social partners have developed good proposals, but the Government is indifferent;➤ Solving the issues of non-deductible income and the minimum wage issue would change things fundamentally for the good;➤ Wage levels in Latvia are so low there is nowhere left to go;➤ Those with a good education leave the country. They go to places that offer better pay and conditions. This is understandable... they have educational loans, mortgages and families to support;➤ The labour migration issue is a real problem as it is the most energetic, motivated and active people at all education levels that leave;➤ Employers in Latvia are simply unable to pay the wages that people are offered abroad;➤ While young Latvian people leave, Russians and Ukrainians come to work in Latvia, making lower demands, and depressing the general level of pay and conditions. Tacit acceptance of the grey economy and the prevalence of Russian speaking make Latvia attractive;➤ Those who leave often don't take jobs that make best use of their qualifications. They simply leave the country to make money;➤ In the transition to a free market, which is still ongoing, a kind of "wild capitalism" has taken root. The country needs stricter Government controls to eradicate the grey economy;➤ One policy solution to the problem of the grey economy would be to introduce a social

<p>insurance card for workers. Without the card there would be no refund for hospital charges, etc unless a person were to be genuinely unemployed;</p> <ul style="list-style-type: none"> ➤ According to statistics there are 250,000 people not appearing in tax registers, around 100,000 of these are working abroad. Despite the low wage levels, there is still a need to ensure that taxes are paid properly. There is a real need to combat the grey economy; ➤ There are many obstacles to labour inspection. For example inspectors are not allowed to enter constructions sites. Without a solution to these kinds of problems the grey economy issue will remain.
<p>The “education to work transition”/vocational training and youth unemployment</p>
<ul style="list-style-type: none"> ➤ In order to encourage people to stay in Latvia, more needs to be invested in those who work in the country; ➤ A proactive policy is needed for education that ensures there is a better matching of education and skills development with the needs of the labour market; ➤ At the primary and secondary level, education is not geared towards labour market needs; ➤ There has not been enough attention paid by the education sector to matching training and education with the actual needs and demands of the labour market; ➤ It is difficult to get people to participate in most kinds of technical education; ➤ 70% of Latvia’s GDP is generated in the metal industry. The low wages mean that younger people are not prepared to train as specialists in order to replace the aging ones. Most of the students who are studying for this sector state that their intention is to go abroad. The same is true of technical maintenance specialists for the aviation industry and woodworking specialists; ➤ Effectively speaking we Latvia trains metal workers for the rest of Europe; ➤ A training success story in Latvia is the training of pilots. Latvian schools train not only Latvian nationals but also students from other countries; ➤ The educational sector has particularly low salaries. Many leave teaching and emigrate. New proposals have been drafted that will lead to a gradual increase of wages until 2010; ➤ Some educational and vocational training schools have arrangements with specific employers to help improve the technical facilities of the school and to provide graduates with improved prospects.
<p>Labour legislation</p>
<p>Responding to comments in the national dossier relating to the rigidity of Latvian employment laws highlighted in the meeting by an expert, the attendees responded as follows;</p> <ul style="list-style-type: none"> ➤ People are more interested in practical reality than in unapplied legal frameworks; ➤ Any newspaper will demonstrate the topical issues for employees and employers ... and they are not the rigidity of Latvian labour law; ➤ Employers in Latvia deal with employees as they wish; ➤ When foreign investors enter the country they initially pay decent wages. However once these investors figure out the loopholes in the law, pay and conditions deteriorate; ➤ Labour law is not in reality very favourable for the trade unions. Article 114 on agreements between employees and employers includes “the walk out agreement”. This is a heritage from the Soviet times. People are mobbed and harassed and forced to sign papers resigning their posts. It is hoped that new generations of workers will not give in and will stand up for their rights; ➤ The lawyers working for employers often interpret the conditions and requirements of law to suit their own needs;

<ul style="list-style-type: none">➤ The labour law is in the process of being amended and contains new a better proposals including ergo omnes extensions of collective agreements;
Comments on other topics
<ul style="list-style-type: none">➤ Legally established small enterprises should be encouraged. They should be provided with a 3-5 year tax holiday to assist the start up process. However, if they are functioning illegally, they should be prevented from operating in the market;➤ EU funds and other similar financial grants for companies should be more closely monitored by the government and other relevant institutions so that companies not involved in social dialogue do not become eligible for them;➤ There have been many plans to improve the situation for small enterprises but this has so far come to nothing. The government does not seem to think that it needs to address this issue;➤ The core of the problem is that multinational companies enter the country with the sole aim of producing cheaply. They have little no desire to drive up wage costs;

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

- When there is such a large informal sector it is fruitless to talk about degrees of employment law rigidity or flexibility. People with one or both feet in the informal economy have no rights at all;
- Latvia's weak points have been very clearly identified. It is equally important to identify Latvia's competitive advantages? The economy is growing so fast that there must be advantages that can be built on;
- The comments made in the previous session clearly identify a negative cycle that needs to be broken; low wages, a tax system that promotes the grey economy, the quality of the educational and vocational training systems and the link between this and poorly paid teachers;
- In Latvia the issue of undeclared work seems to be in part related to a problem of capturing data. People are working legally, but the pay declared reflects only the minimum wage ... the rest is not captured by the tax system. This affects negatively those who are trying to play by the rules. With a firm will, this should not be too difficult to a problem to address;
- The alleged gap between "stated" and "shadow" Government policies, and concerns that the labour law framework is effectively not implemented, are worrying issues;
- The negative tone of the comments to date does not coincide with current economic success story of Latvia. Perhaps there has not been

time to consider how the country is making these clearly demonstrated achievements; what initiatives are working and which are not? Seminars and events like this are opportunities to reflect and to take stock in a balanced way.

5. Michal Kurtyka presented a case study on regional restructuring and enterprise start up titled "SIA Gija in the Valka-Valga region". 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 accuracy, the questions it raised and relevant points which may not have been included.

The participants raised the following issues in open discussion. The list indicates the points raised in the order that they came up:

- Sound conditions for restructuring cannot be introduced in a top down manner. How can bottom-up demands for good treatment be encouraged? The trade unions cannot simply go on strike all the time ... but in the absence of these kinds of actions the union voice is not heard;
- Prior to privatisation, trade unions had to be consulted over restructuring processes. Perhaps the trade unions at the time went overboard with demands. For example, for three years after privatisation a company would have to retain the same number of employees, remain in the same location and keep the same profile. When the company was transferred to a new owner this was too big a burden. In many situations however more pragmatic solutions were found and the situation was handled well. Restructuring was possible while protecting the rights of the employees;
- When the manufacturing sector and other processing industries went bankrupt large numbers became unemployed. This impacted on regional living standards. The situation was particularly difficult for those at pre-retirement age and those who had not paid social contributions. In this context stress, alcoholism and other similar problems became common and we are now seeing the results of this.

6. On behalf of the EU level social partners, Thérèse de Liedekerke (UNICE), Liliane Volozinskis (UEAPME) and Valeria Ronzitti (CEEP) 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" (April 2002). Their presentation materials are included as appendix five.

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7. The national social partners were then asked to identify the main opportunities and challenges that had emerged from the presentations and debates during the day. The following issues were emphasised;
 - Much depends on goodwill and the ability to compromise rather than written rules and procedures;
 - The social partners should recognise that problems open up opportunities for improvement;
 - According to labour law the trade unions must be consulted in cases of restructuring in a company. Consultation is a six month process which allows employees to be prepared and municipal labour agencies to be involved. However, one company laid off 100 employees without notifying the trade unions using the so called "walk out agreement". No one is interested when the employer does not follow law;
 - Trade unions are often not informed by either government or employers when restructuring is to take place. Consequently they are unprepared and only able to fight the consequences of job loss rather than discuss alternatives;
 - There is a need to address the situation that the legal framework is one thing and practical reality is another;
 - If low pay and tax issues are not addressed the result will be increased migration. Economic growth will not continue unless these matters are addressed;
 - A real problem for small enterprises is investing in training for entry level staff. There is always the risk that those invested in leave for better pay abroad. The investment makes no sense;
 - It is common for labour laws to be disregarded. It is not unusual for companies to outsource departments as a means to lower wages. People are forced to leave and work for the outsourced company, or if they refuse they are laid off with limited compensation.
8. The EU level social partners then commented on the issues raised throughout the day;
 - The laws on employee consultation due to restructuring and the treatment of individuals where work is outsourced are enshrined in European Directives that have to be implemented by Member States.

National implementation laws have to include effective and dissuasive sanctions. The kinds of sanctions put in place vary country by country. If laws are not implemented or enforced in a particular country, the issue can be taken up at the EU level;

- Comments on the need for goodwill between the social partners and the need to involve employees earlier in restructuring processes were well made and should be born in mind for the future. One of the main messages and lessons from the restructuring project in the 10 new Member States has been that anticipation, good management and appropriate timing are key issues. If these are not present then restructuring will, in the long term, lead to costs for individuals, companies and the country;
- The social partners are often best placed to know the needs of the labour market. Trade unions and employers have to find ways to cooperate with local and other authorities to identify ways in which labour market needs can be filled by those leaving education for the first time, and through ongoing vocational training;
- Migration and the brain drain are linked to issues that the social partners can address jointly. It is almost certainly inappropriate to rely totally on Government actions;
- Estonia is almost ready to adopt the Euro. This may make foreign investors more interested in Estonia than Latvia, with consequent negative effects on enterprises. Demonstrated economic stability will be very important in the near future;
- It is evident that the Latvian social partners are well aware of the problems of as migration, low wages, skills gaps and shortage of entrepreneurial behaviours. Many of these matters can be addressed, at least in part, by the social partners. A good starting point for joint action might be the training and skills gap, as this is a relatively non-contentious issue and is a matter of some urgency;

The chair concluded on a positive and constructive note, stating that in UNDP measures of standard of living, levels of education and the longevity of healthy life Latvia has moved from 53rd place in the world in 1995 to 39th in 2002. This reflects significant progress in a limited space of time. The question is how the social partners can help assure that the country can sustain these recent and ongoing positive developments?

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

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: Latvia”
Appendix four	Presentation materials – “Restructuring in New Member States: Latvian case study”
Appendix five	Presentation materials – “Relevant EU Social Dialogue Work” “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” (April 2002).

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