

ARITAKE-WILD

Joint European Level Social Partners'

Work programme 2009 – 2010

Joint Study on Restructuring in the EU

Final Phase

Romania

National Dossier

Bucharest

2nd and 3rd November 2009

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Introduction - the purpose of the national report

This report on the role of the Romanian social partners in restructuring was prepared following the discussion of an initial draft with the national social partners at a seminar held in Bucharest on the 2nd and 3rd November 2009.

The Romanian national seminar was the last in a series of similar meetings to be held in the European Union member states in the framework of the Joint European Social Partners' Work-programme. The report was prepared by the selected external expert for Romania, Mr Antonio Dornelas, working with the expert coordinator for the project, Mr Alan Wild.

The document is presented as an "expert report". It represents the views of the consultants involved in its preparation and does not purport to represent the views, either individually or collectively, of the Romanian social partners or the case study company representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

The prime purpose of the report is to contribute to the development of a synthesis paper that compares and contrasts the roles of the social partners in restructuring in the EU Member States with a view to drawing lessons for the future and to help shape the activities and priorities of the social partners at the European level in this area. It also informs readers on the role played by the Romanian social partners in the process of economic restructuring at the national, sectoral and enterprise levels. By the end of the project, similar national reports will have been prepared and been discussed by the social partners in the EU member states. It is planned to develop an overall discussion document based on the role of the social partners in restructuring in every country in the European Union for consideration by social partner representatives from throughout the EU at a seminar in Brussels in January 2010.

The main body of the report is presented in three sections;

- ✧ Section one – a macroeconomic review and trends of restructuring in Romania;
- ✧ Section two – the role of the Romanian social partners in restructuring;
- ✧ Section three – Case studies.

Each of the sections was briefly presented and discussed at the national seminar. The Romanian social partners were asked to comment on the accuracy of the report; to suggest areas that might be "over" or "under" stated or omitted; and to assist in the drawing of overall conclusions on the effectiveness of Romania's social partners at all levels in the anticipation and management of restructuring. This final national report takes into account the content of the meeting, but remains nonetheless an "independent expert report".

Finally, it should be noted that the ultimate audience for this document is "non Romanian" and the authors therefore apologise to the national seminar participants for providing elements of detail and background that may appear obvious or superfluous to the Romanian reader. The inclusion of this material is essential however if the broader objectives of the project described above are to be accomplished.

Alan Wild
Expert Coordinator of the Project

Section One: Macro-economic situation and restructuring in Romania

Introduction

The fall of the Berlin wall and the subsequent enlargement in 2004 and 2007 of EU to the countries of Central and Eastern Europe were, together with the Treaties of Maastricht and Amsterdam and Nice, factors of paramount relevance not only for Romania and other countries of the region but also for the broader processes of economic development in Europe and the world. To understand the economic and social situation in Romania today, we must also consider the impact of the current economic and financial crisis.

The final years of the Ceausescu regime took place against the background of deep economic crisis and the fall of the communist dictatorship launched a tumultuous process of fundamental change with very important consequences for Romania's political, economical and social climate. Economic reforms in Romania started later than in the other former communist countries in Europe and were launched in a very sensitive political and economic situation.

The pace of process of institutional change in Romania was driven in no small part by the aim of accession to the European Union which took place on 1st January 2007.

The paragraphs below summarise the nature and extent of economic and social change in Romania over the last decade;

- ✧ The average growth rate of the Romanian population has been negative since 1990, and, according to the World Bank forecasts, will follow the same trend until 2020, although at a slower pace;
- ✧ Net migration induced a reduction of the Romanian population of 616,000 persons from 1997 to 2006;
- ✧ Real GDP in the early years following 1989, only fourteen years after the end of the dictatorship did the value of GDP per capita expressed in Lei reach its 1989 value;
- ✧ Romania's GDP per capita expressed in Purchasing Power Standards was one third of the EU27's average five years ago;
- ✧ Romania ranks 14th out of 25 Central and Eastern European (CEE) countries and Former Soviet Union countries in terms of the size of the informal economy as a share of GDP. Estimates suggest that the share of the Romania's shadow economy was 37.4% of the official GDP in 2002-03;
- ✧ The early years of Romania's transition into a market economy resulted in an increase in poverty, which reached a maximum in absolute terms (35.9%) in the year 2000, and has declined since then. However, relative poverty increased slightly from 2000 to 2006, the last year with available data;
- ✧ Romania ranks 25th out of the 27 EU member states on the indicators of progress on the Lisbon Strategy;
- ✧ The structure of the Romanian economy shows a decline in the relevance of agriculture and industry and a corresponding increase in the service sector's share of total GDP;
- ✧ The employment shares of the main economic sectors present the same trend, with the agriculture and industry's shares in decline;
- ✧ The registered total employment rate declined from 1997 to 2002 and, since then, has grown by 1.2%;
- ✧ Romania's total unemployment rate has been rather stable during the last decade for all the main categories. Romania's youth unemployment rate is three times higher than the general one;

- ✧ The gap between the Romanian hourly labour cost and the European average is very large. Although the last six years have witnessed a reduction on its amplitude, EU15 average hourly labour remains almost 11 times higher than the Romania's average;
- ✧ Romania has the highest European (1,856.0 hours) average collectively agreed normal annual working time, which compares with 1,742.8 hours, the average for EU27 plus Norway;
- ✧ Romania's public expenditure on education is the lowest amongst the EU member states. In 2005 it represented 69% of the EU27 average and 50% of the Cyprus expenditure, EU27's highest;
- ✧ Romania is, together with Bulgaria, the EU27 worst performer on lifelong learning;
- ✧ Due to restructuring trends, skilled workers both from the primary and from other sectors as well as unskilled workers reduced their share on the structure of employment during the last fifteen years.

These issues are covered in more detail below.

1. Macro-economic review and indicators

At the outset it should be explained that the availability of detailed and accurate data on economic and social indicators has proved a particular problem in the preparation of this dossier. At the Romanian national seminar, the social partners agreed that the unavailability of data acted as a constraint on policy development and action planning at all levels.

1.1. Population

In 2007, Romania had 21.6 million inhabitants, almost 800,000 less than in 1997. The table below summarises Romania's population growth, age composition and dependency ratio – the number of dependant persons as a proportion of the working-age population. .

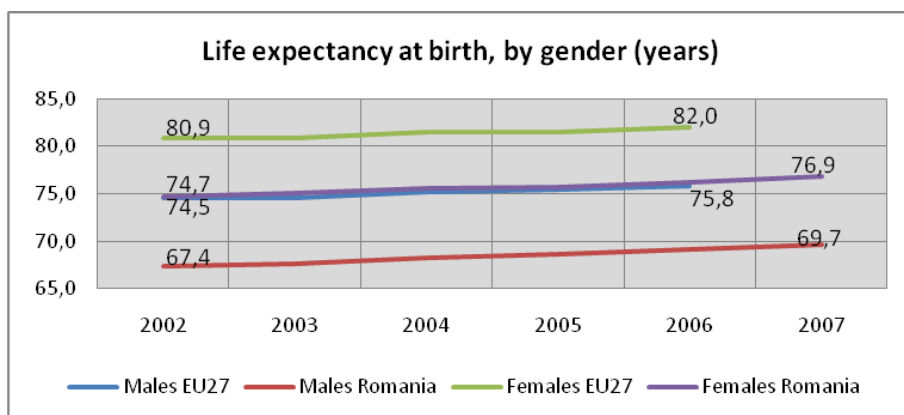
Population, age composition and dependency							
	Average annual population growth rate		Population age composition			Dependency ratio	
	(%)		(% , 2004)			(dependants as proportion of working-age population, 2004)	
	1990 - 2004	2004 - 2020	Ages 0-14	Ages 15-64	Ages 65+	Young	Old
Romania	-0,5	-0,4	15,9	69,5	14,6	0,2	0,2
France	0,4	0,3	18,2	65,2	16,6	0,3	0,3
China	0,9	0,6	22	70,5	7,5	0,3	0,1
India	1,7	1,3	32,5	62,3	5,2	0,5	0,1
Unites States	1,2	0,9	20,9	66,8	12,3	0,3	0,2
Japan	0,2	-0,1	14,1	66,7	19,2	0,2	0,3
Eurozone	0,4	0,1	15,6	66,9	17,5	0,2	0,3

Source: Source: The World Bank Group, World Development Indicators 2006

The average growth rate of the population has been negative since 1990, and, according to World Bank forecasts, it will follow a similar trend until 2020, although declining at a slower pace. The Romanian age structure and dependency ratios are comparable with those seen in other European countries.

Although the figures on migration are often inaccurate, Eurostat estimates that net migration – the difference between the number of immigrants and the number of emigrants – led to a reduction of the Romania's population of 616,000 persons from 1997 to 2006. Over this period the size of Romania's net migration was higher than that from Poland and possibly the highest in the EU 27. More recently, in 2007 and 2008, the long term trend of net outward migration has reversed.

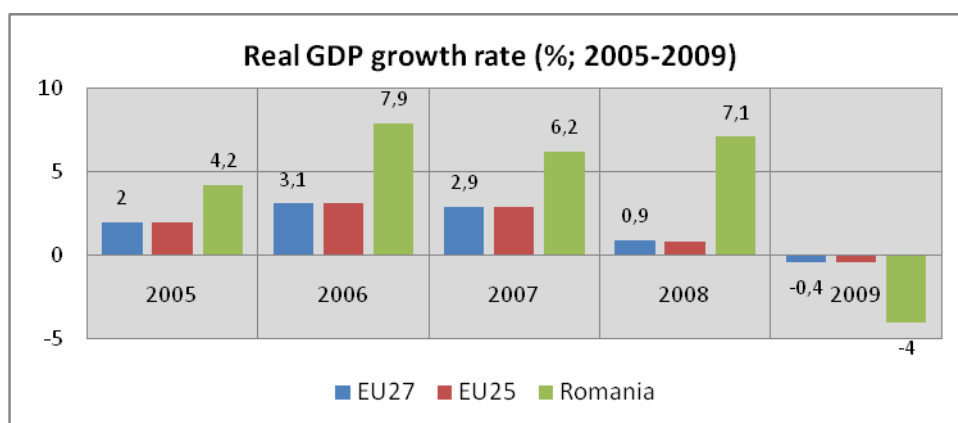
Life expectancy in Romania is lower than the EU27 average, but the gap is narrowing gradually for both males and females.



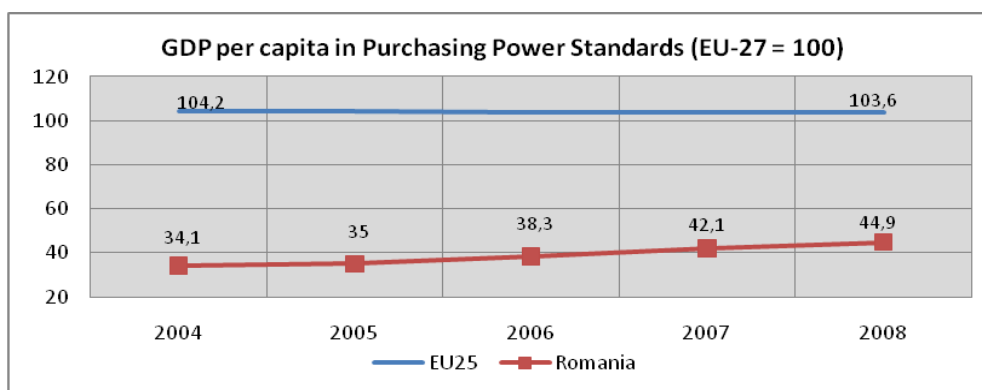
1.2. Gross Domestic Product development and social cohesion

The extent of the economic turmoil suffered by Romania can be seen from GDP “growth” data. It should be highlighted that, due to the substantial size of the shadow economy and the high incidence of undeclared work (see below), the figures on economic and social trends in the paragraphs below must be viewed with varying degrees of caution.

During the four years that followed the fall of the dictatorship, real Gross Domestic Product (GDP) was negative, especially in 1991 (-12.9%) and only fourteen years after the end of the dictatorship the value of GDP per capita – expressed in lei, the national currency – returned to its 1989 value. Although Romania's GDP growth rate was higher than the EU average from 2005 to 2008, Eurostat forecasts the opposite trend for the current year, which suggests that the current crisis is hitting Romania more severely than the EU as a whole.



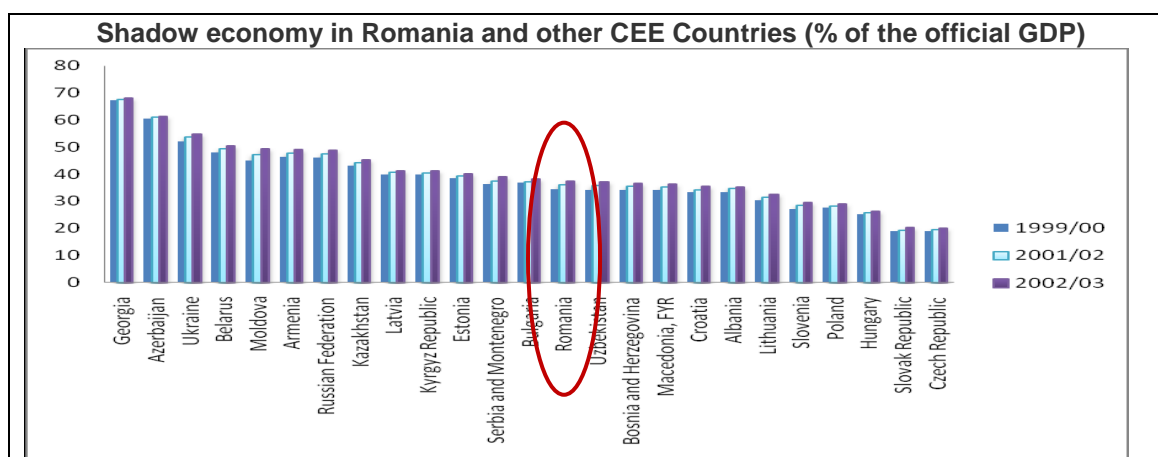
Romania's Gross Domestic Product (GDP) per capita – expressed in Purchasing Power Standards – was one third of the EU27's average five years ago. The gap has however reduced at the pace of 2% per year over the last five years to 45% of the EU average in 2008.



Source: Eurostat 2009 (2007 and 2008 – forecast)

According to one of the most often quoted estimations (Schneider, 2006) Romania ranks 14th out of 25 Central and Eastern European (CEE) and Former Soviet Union countries in terms of the size of the informal economy as a share of GDP. Schneider estimates that the share of Romania's shadow economy made up 37.4% of the official GDP in 2002-03.

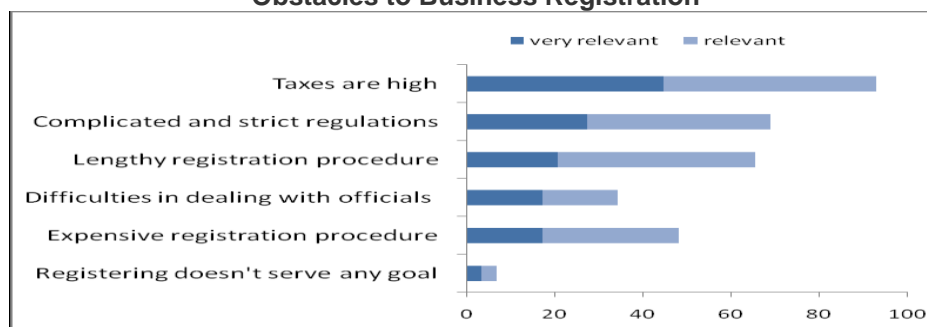
It can be seen from the graph below that the informal economy grew from 1999 to 2003. The wide ranging consequences of the extent of undeclared work in the Romanian economy will be discussed later in the section dealing with employment and unemployment estimates presented on this report.



Source: cited after Parlevliet and Xenogani, 2008: 29

The results of a recent survey of entrepreneurs suggest that the main obstacles to business registration include the level of taxes and other bureaucratic costs and burdens.

Obstacles to Business Registration



Source: Parlevliet and Xenogani, 2008: 48

A feature of Romania's transition into market economy is the extent of poverty, which reached a maximum in absolute terms (35.9%) in the year 2000, and has declined since then. It must be

noted, however, that relative poverty¹ increased slightly from 2000 to 2006, the last year with available data. A tracking of the Gini Index (a standard measure of income equality), which declined from 1995 to 2000, followed by the opposite trend since then, confirms that the reduction of absolute poverty has coincided with an increase in inequality. This reflects a pattern witnessed by almost all European countries over the last decade.

Poverty Indicators (% of population; 1995-2006)								
	1995	1996	1998	2000	2003	2004	2005	2006
Absolute poverty	25,44	20,07	30,8	35,86	25,1	18,8	15,1	13,8
Relative poverty				17,1	17,3	17,9	18,2	18,6
Gini Index	0,32	0,31	0,29	0,29	0,3	0,31	0,31	0,33

Source: abridged from Parlevliet and Xenogani, 2008: 11

1.3. The ranking of Romania in global and European Indicators

According to the World Economic Forum, in 2008 Romania ranked 68th out of 134 countries, an improvement of six places on 2007, but still below the level achieved in 2005 (67th).

Global Competitiveness Index 2007 and 2008 comparisons

Country	GCI 2008-2009 rank	GCI 2008-2009 score	GCI 2007-2008 rank	Changes 2007-2008	Changes in rank
United States	1	5,74	1	□	0
Switzerland	2	5,61	2	□	0
Denmark	3	5,58	3	□	0
Sweden	4	5,53	4	□	0
Singapore	5	5,53	7	□	2
India	50	4,33	48	□	-2
Greece	67	4,11	65	□	-2
Romania	68	4,1	74	□	6
Azerbaijan	69	4,1	66	□	-3
Chad	134	2,85	131	□	-3

Source: World Economic Forum - The Global Competitiveness Report 2008-2009

On the indicators of progress on the Lisbon Strategy, Romania ranks a lowly 25th out of the 27 EU member states ahead of only Poland and Bulgaria. The sole reason for Romania to rank above Poland is its very high relative score in “enterprise environment”.

In the table below it can be seen that Romania ranks better on the sub-indexes on enterprise environment, social inclusion and information society than on the final index. The opposite is true for the sub-indexes on network industries, innovation and R&D, liberalisation and financial services.

¹ Defined as the share of population with less than 60 per cent of median income.

Ranking and Scores of EU Countries

	Final Index		Sub-indexes							
			Information Society	Innovation and R&D	Liberalization	Network Industries	Financial Services	Enterprise Environment	Social Inclusion	Sustainable Development
	Rank	Score	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Sweden	1	5,71	1	2	3	4	1	7	3	2
Denmark	2	5,64	3	3	4	2	2	6	1	4
Finland	3	5,64	7	1	6	6	4	1	2	1
Romania	25	3,84	24	26	26	27	26	18	23	25
Poland	26	3,76	26	22	25	26	25	25	26	24
Bulgaria	27	3,68	25	27	27	25	27	22	27	27
EU15		5,07								
EU 27		4,73								
United States		5,44								

Source: World Economic Forum – The Lisbon Review 2008

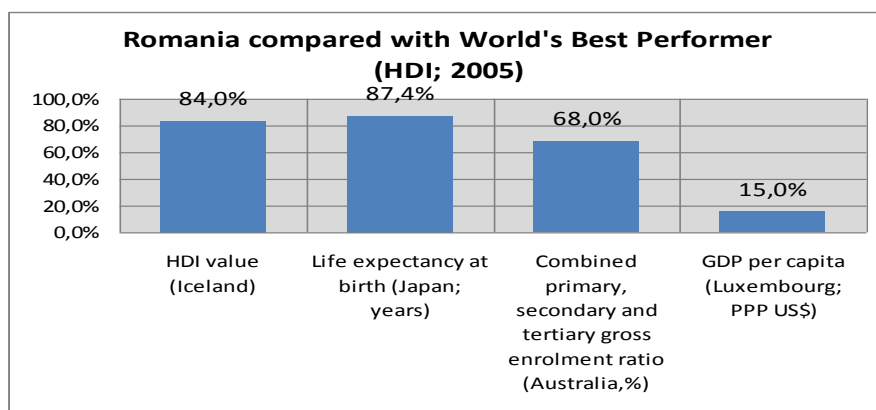
Every year since 1990 the UNDP Human Development Report has calculated a human development index (HDI) that looks beyond economic figures to a broader definition of well-being and quality of life. The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy); being educated (measured by adult literacy and enrolment at primary, secondary and tertiary education); and having a decent standard of living (measured by purchasing power parity, PPP, income). The most recent data available shows that Romania ranks 60th out of 177 countries worldwide.

Romania's human development index (2005)

HDI value	Life expectancy at birth	Combined primary, secondary and tertiary gross enrolment ratio	GDP per capita
	(years)	(%)	(PPP US\$)
1. Iceland (0.968)	1. Japan (82.3)	1. Australia (113.0)	1. Luxembourg (60,228)
58. Oman (0.814)	74. Saudi Arabia (72.2)	68. South Africa (77.0)	61. Costa Rica (10,180)
59. Trinidad and Tobago (0.814)	75. Latvia (72.0)	69. Egypt (76.9)	62. Uruguay (9,962)
60. Romania (0.813)	76. Romania (71.9)	70. Romania (76.8)	63. Romania (9,060)
61. Saudi Arabia (0.812)	77. Nicaragua (71.9)	71. Tunisia (76.3)	64. Bulgaria (9,032)
62. Panama (0.812)	78. Jordan (71.9)	72. Georgia (76.3)	65. Thailand (8,677)
177. Sierra Leone (0.336)	177. Zambia (40.5)	172. Niger (22.7)	174. Malawi (667)

Source: UNDP 2008

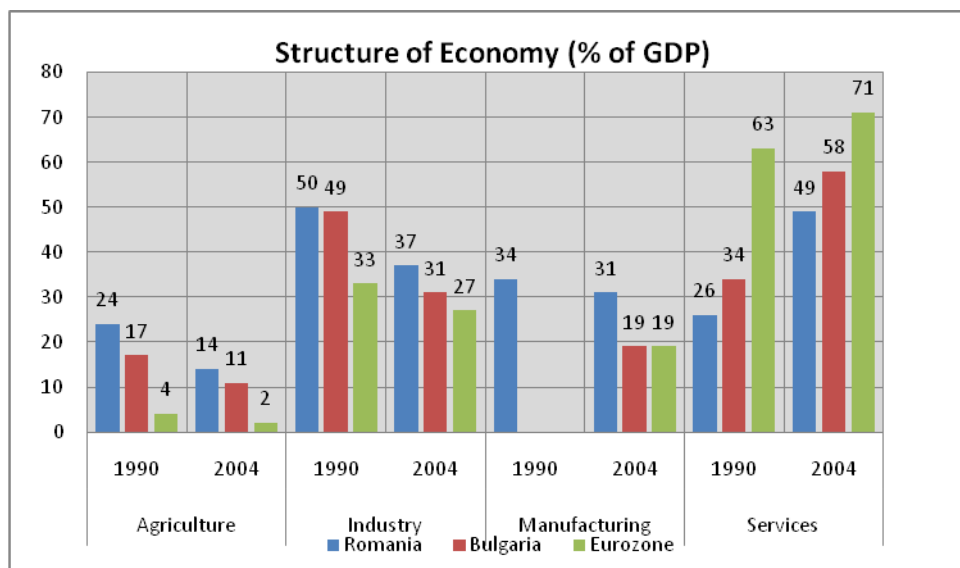
Comparing Romania's data and position with world's best performer on each indicator suggests that there is a clear contrast between the Romanian position on GDP per capita and its more favourable overall position on the other indicators.



Source: own calculations based on UNDP 2008

1.4. The structure of the economy

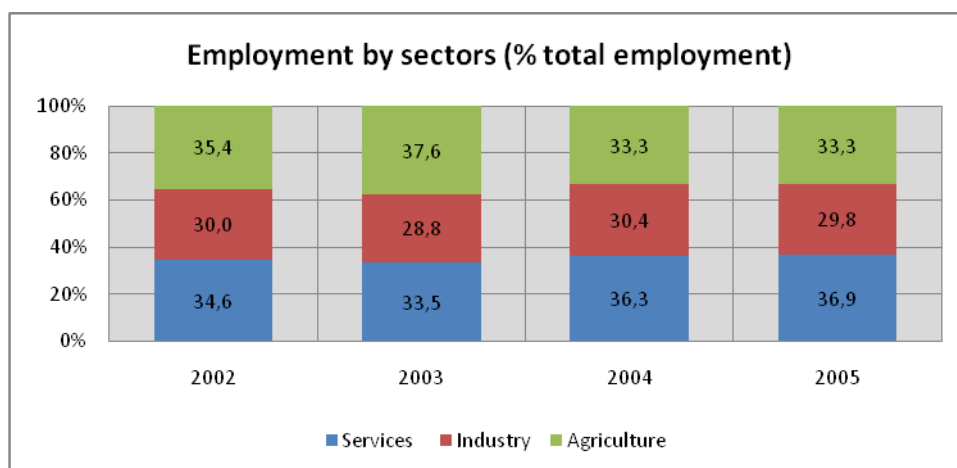
As could be expected, the Romanian structure of economy – expressed as the contribution of each sector for GDP – shows a decline in the relevance of agriculture and industry and a corresponding increase of service's share in total GDP.



Source: The World Bank Group, World Development Indicators 2006

The balance between services, agriculture and industry in the Romanian economy differs with the European average and is more biased toward agriculture and less service-centric than other European economies. The agricultural sector in Romania is dominated by small, low technology subsistence farming. There remains a major difference in the structure of the economy of Romania and its neighbour Bulgaria. In 2004 the agriculture and industry share of the country's GDP was higher in Romania than in Bulgaria, the opposite being true for the share of services.

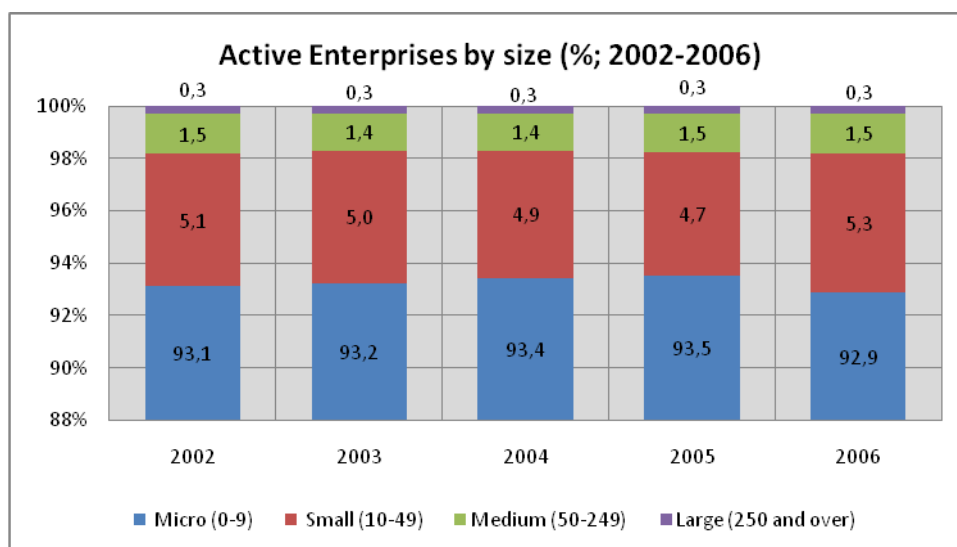
According to European statistical data (see below), the employment shares of the main economic sectors reflect the GDP data above, with the agriculture and industry shares declining at a slow rate and with a corresponding small increase in services. The shares of industry and agriculture in particular remain very high compared to the European norm. If Romanian data is used, the share of industry and construction in total employment increased marginally from 29.5% in the year 2000 to 30.7% in 2006.



Source: Employment in Europe, 2008

1.5. Position of small and medium sized companies

Micro, small and medium sized enterprises dominate Romania's business landscape. According to the Romanian National Institute of Statistics, in 2006 large enterprises (250 employees and over) represented only 0.3% of the total of active enterprises.



Source: Romania's National Institute of Statistics, Statistical Yearbook

During the last five years, the total number of enterprises grew by 101,578 with 91% of the increase explained by growth in micro-enterprises and 7.3% by the increase of small enterprises. Data from Romania's National Institute of Statistics shows that in 2006 there were 333,423 more SMEs than in 1992. These SMEs have predominantly been created in wholesale and retail trade (38%), real estate transactions (23.4%), manufacturing (11.7%), construction (9.6%) and transport, storage and communications (7.9%).

The total number of large enterprises grew by seven companies from 2002 to 2006 and represented 0.3% of the total in 2006. According to a study published by CNIPMMR² in 2008, 45% of large enterprises are located in the Bucharest region and 4.9% in the South West region. This report estimates that SMEs employ 32.6% of Romania's total workforce.

² National Council for Private Small and Medium Enterprises of Romania: White Charter of Romanian SMEs 2008, Bucharest, Olimp Publishing.

1.6. *Employment and unemployment*

Recent studies suggest that the incidence of undeclared work in Romania is the highest in the EU and one of the highest in all Central and Eastern European (CEE) countries, followed by Bulgaria (Parlevliet and Xenogani, 2008: 29). The table below summarizes the conclusions of some of those studies.

Estimates of undeclared work according to recent studies				
Type	Source	1999-2000	2003	2004-2005
Undeclared work (in millions)	Ghinararu (2007)	1.4		1.9
Unregistered workers (including informal sector employment in agriculture and non-agriculture) as share of total employment (%)	Stănculescu (2006)	52.3		
Unregistered workers (in millions)	NIS (1999)	1.5 – 2		
Unregistered workers (in millions)	National Research Institute for Labour and Social Protection (2004)			1.2

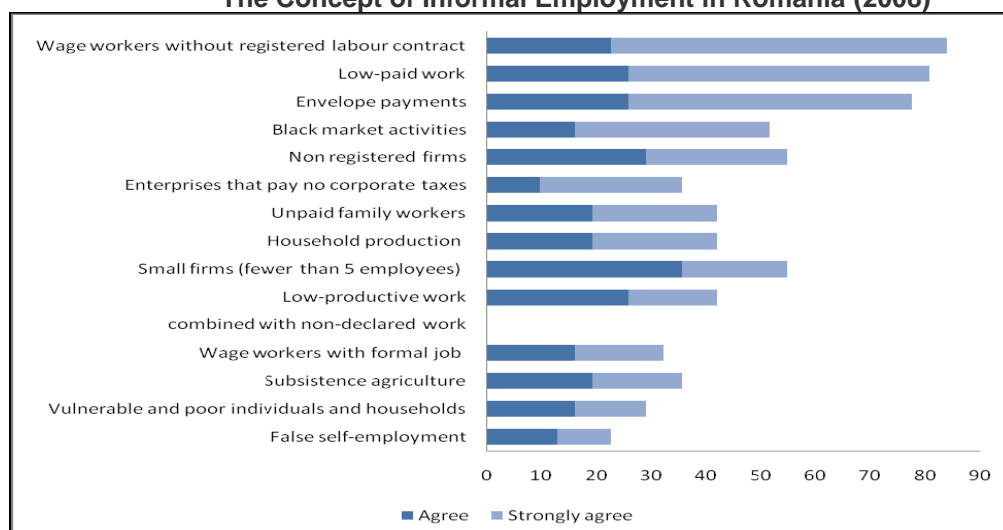
Source: Parlevliet and Xenogani, 2008: 31

These figures are consistent with most estimates of the size of the shadow economy in Romania. They suggest that:

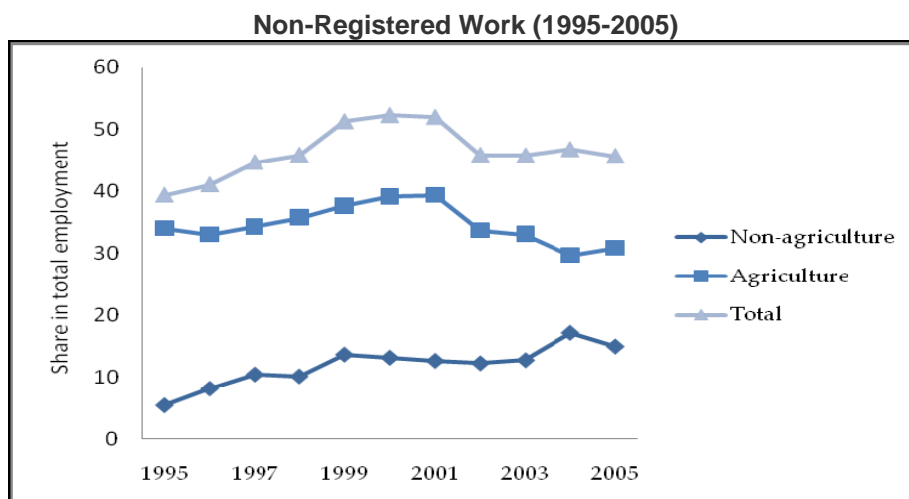
- ✧ Undeclared work has grown during the current decade;
- ✧ Undeclared work is a traditional means used very frequently by both workers and enterprises to adapt to adverse economic and social circumstances;
- ✧ The size and the multiple forms of undeclared work allow a significant part of the Romanian population to build economic and social safety nets they cannot access by working exclusively in the formal and registered economy.

Nevertheless, data and experts' opinions seem to agree on two facts. First, the incidence of undeclared work is higher in agriculture than in other sectors. Second, the actors' motivations differ between agriculture and the other sectors

The Concept of Informal Employment in Romania (2008)



Source: Parlevliet and Xenogani, 2008: 26, based on data survey of policy experts

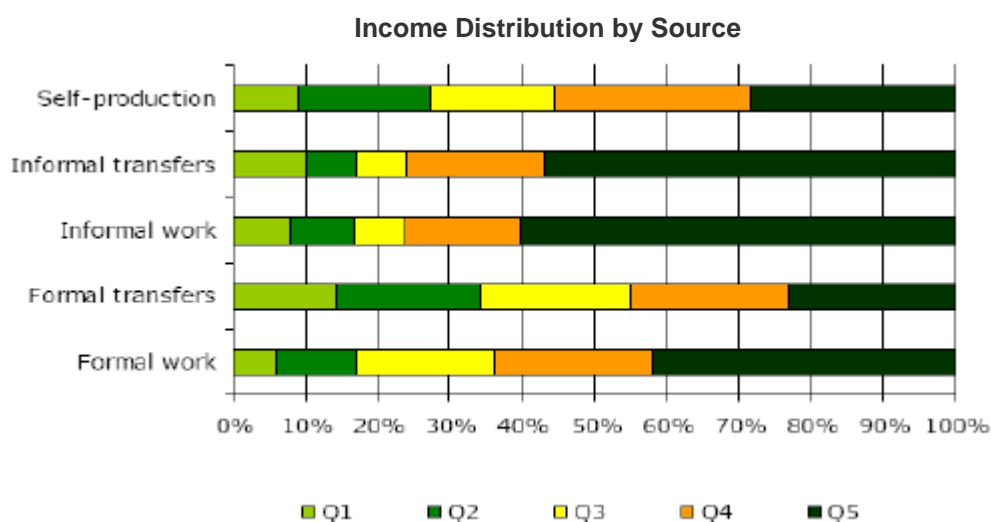


Source: Parlevliet and Xenogani, 2008: 32, cited from Stănculescu, 2006, based on NIS data

In agriculture, personal and family subsistence seems to be the main reason for the persistence of informal work in spite of the political change and continuous economic growth in Romania in recent years. This hypothesis is consistent with available data on growth and poverty in the rural areas.

Outside agriculture, hiring without labour contracts by registered firms, “envelope payments” and non-registered firms, are the main forms of informal work. This has the effect of increasing the enterprises’ and the workers’ revenues via tax evasion. It also depresses official wages statistics and explains the high numbers of people reported to be paid at the level of the minimum wage. According to a Eurobarometer survey, in 2007, 23% of Romanian respondents believed “envelope payments” to be acceptable practice. This figure, the highest amongst EU member states, compares to a European average of 5%, and 1% in Malta, the lowest in the EU.

According to Stănculescu’s estimates³, the incidence of the extent of the informal economy and undeclared work is socially variable. For the lowest quintile earnings group (Q5), informal transfers and informal work are the two main income sources for households, income from formal work being only the third source of revenue.



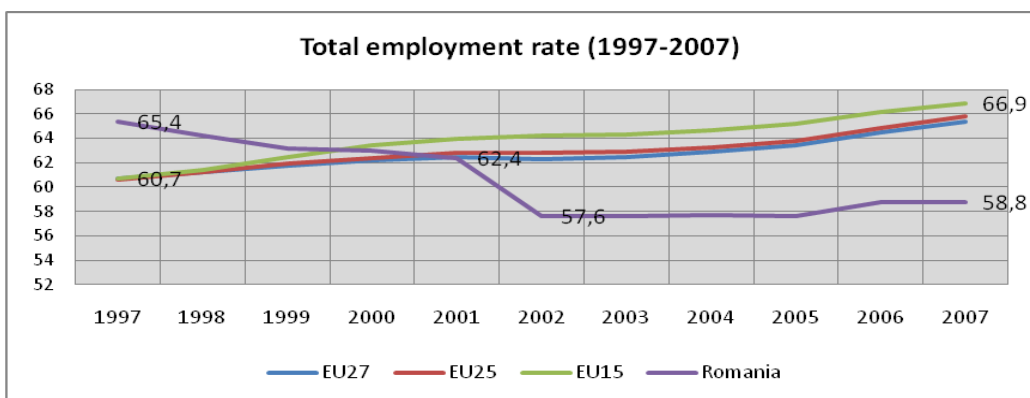
Source: Parlevliet and Xenogani, 2008: 43, cited from Stănculescu (2007)

³ See Stănculescu (2007), based on the data from the Research program “Social Effects of Informal Economies in Eastern Europe, 1998-2000”, Volkswagen Stiftung.

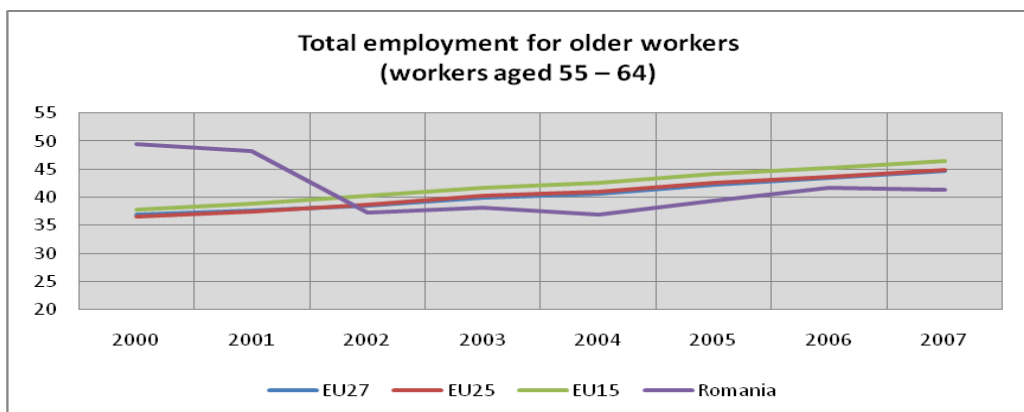
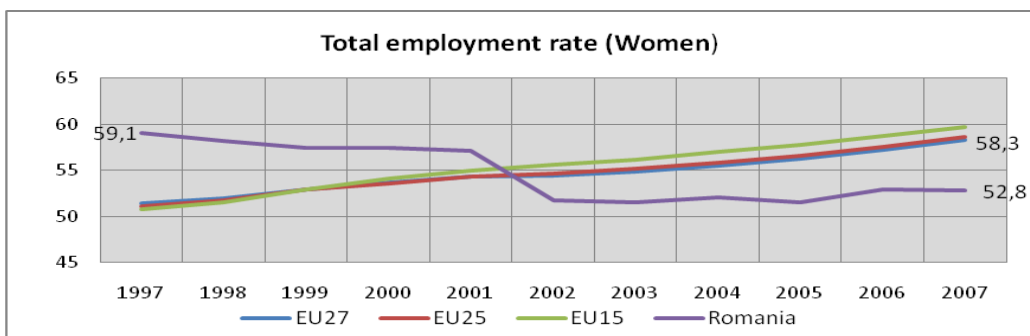
For people in the second (Q2) and third (Q3) quintiles, earnings from formal transfers, formal work and self-production represent the largest share of their total incomes. Interestingly, individuals in the highest quintile (Q1) earnings from informal employment along with informal transfers still represent a substantial share of total income.

The size of Romania's shadow economy and the extent of undeclared work deeply affect not only employment data, tax revenues and social protection systems, but also the extent and influence of social dialogue.

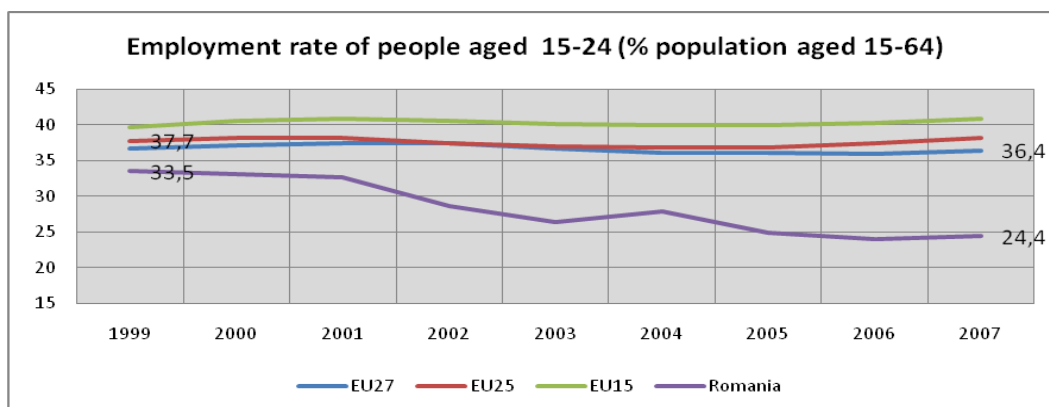
The registered total employment rate in Romania declined from 1997 to 2002 and, since then, has grown 1.2% to about 60%. Data from Eurostat shows that the Romanian employment rate has followed the opposite pattern to the European average. Romania has lost 6.6% from the total employment rate during the last decade compared with a growth of around 5% in the EU27 as a whole. The formal employment rate was 7% lower than the EU27 average in 2007.



The evolution of the employment rates of women and older workers is analogous, although, in the second case, in a less marked form.

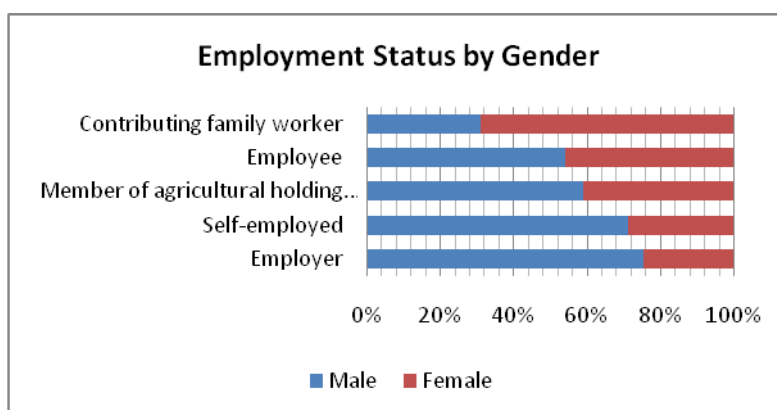


Whilst Romania did relatively well with the employment of older workers, the youth employment rate declined 9.1% to just 24.4% and enlarged its gap with respect to the EU average considerably.



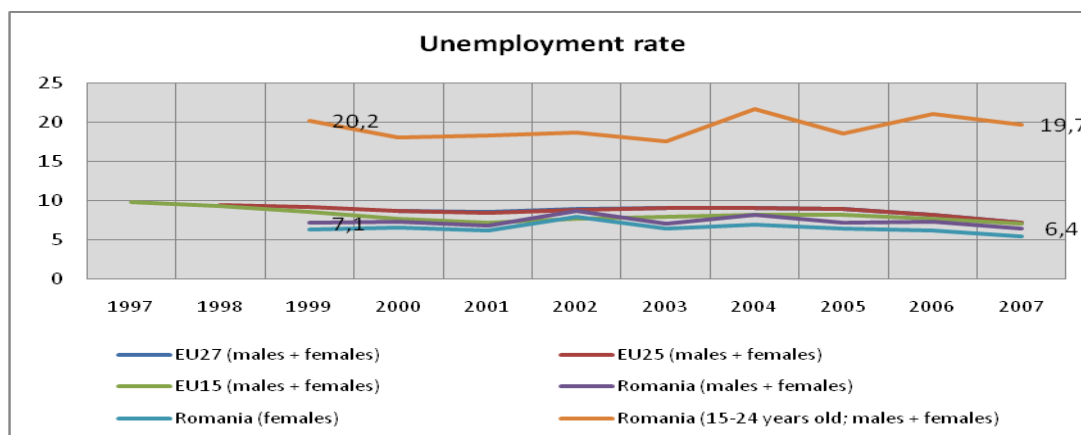
Source: Employment in Europe 2008

An analysis of available data on employment status by gender shows a varying distribution of work types. Contributing family workers are predominately women and the self-employed and employers are predominantly men.



Source: Romania, NIS, Labour Force Survey cited after OECD Working Paper No. 271, J. Pavevliet

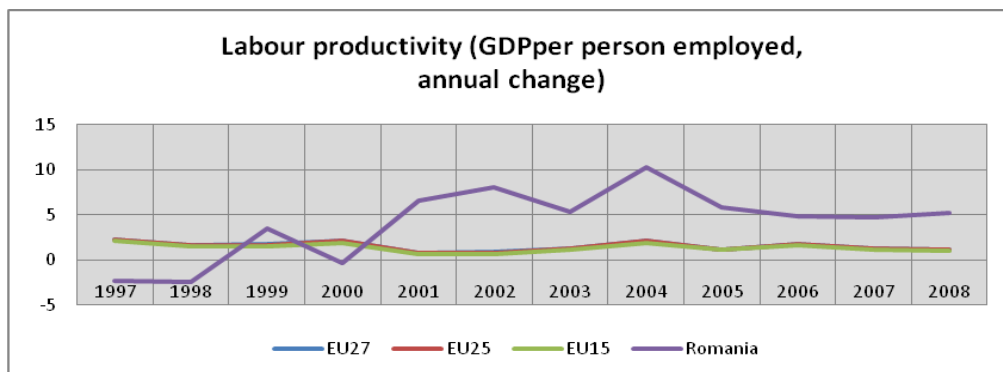
Romania's total unemployment rate has been stable at around 6-7% during the last decade for all the main categories. It should be noted, however, that Romania's youth unemployment rate, at almost 20% in 2007, was three times higher than the rate of the total population.



Source: Eurostat, 2009

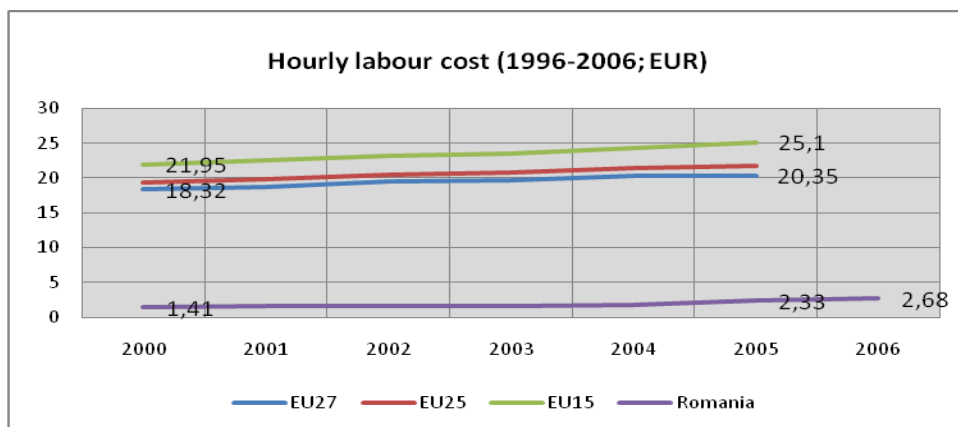
1.7. Labour productivity, labour costs and compensation

Labour productivity (expressed as GDP at 2000 market prices per person employed) recorded a strong increase in Romania during recent years, with its annual change rate being consistently higher than the EU average since 2001.



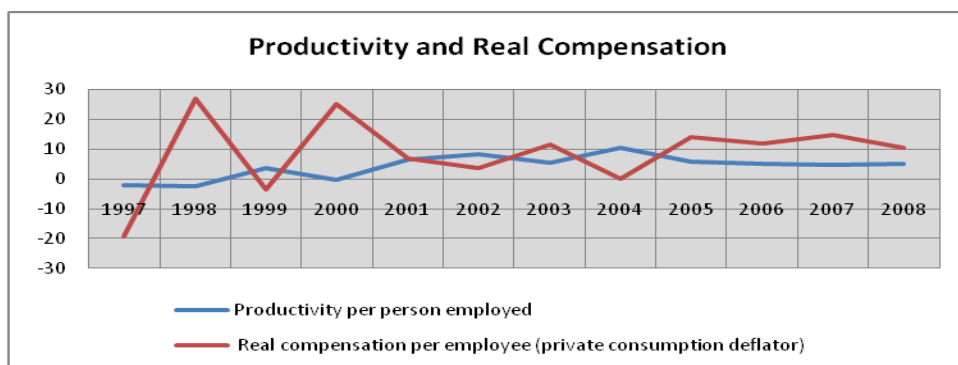
Source: Employment in Europe 2008

The gap between the Romanian hourly labour cost and the European average is enormous. Although the last six years have witnessed a significant reduction in the gap proportionally, labour costs in Romania are very low in absolute terms. In 2006 EU15 average hourly labour cost was almost eleven times higher than the Romania's average and the EU 27 figure almost nine times higher. The earlier comment on the extent of "envelope payments" must be taken into account in drawing conclusions from this data.



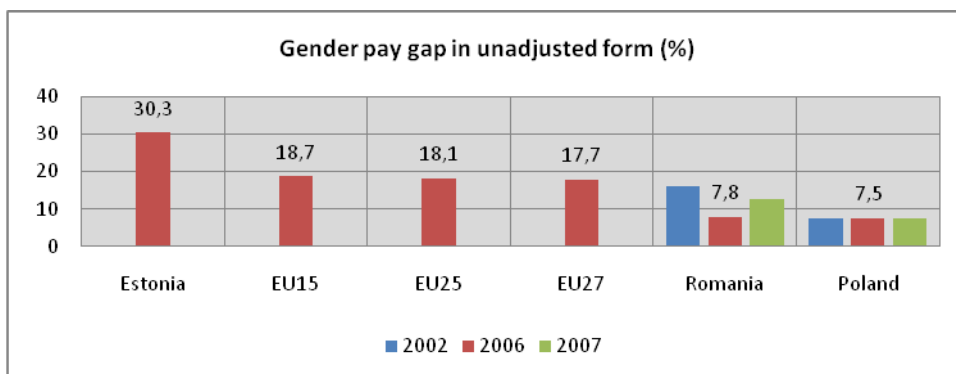
Source: Employment in Europe 2008

Available data suggest that the relationship between labour cost and productivity in Romania tends to follow the usual pattern for Member States of the EU. The graph below illustrates that trend.



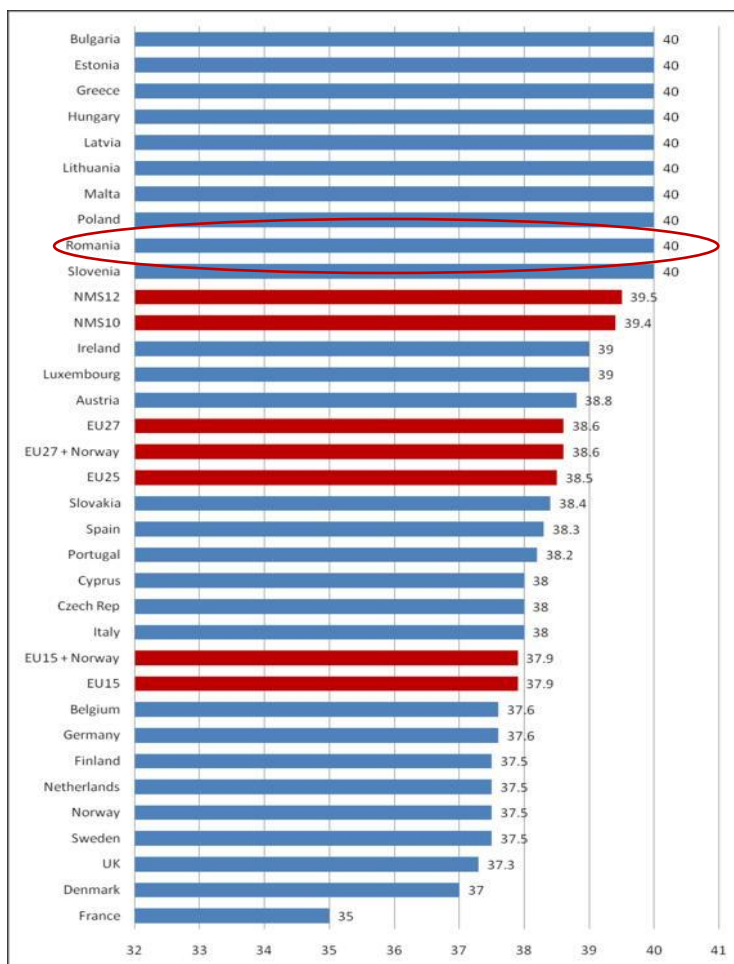
Source: Employment in Europe 2008

In Romania, the gender pay gap (the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees) is comparatively low. However, available data from Eurostat suggest that the situation worsened over the year from 2006 to 2007 (see below).



Source: Eurostat, 2009

Collectively agreed working hours place Romania at the head of the group of European countries with the longest negotiated working week.

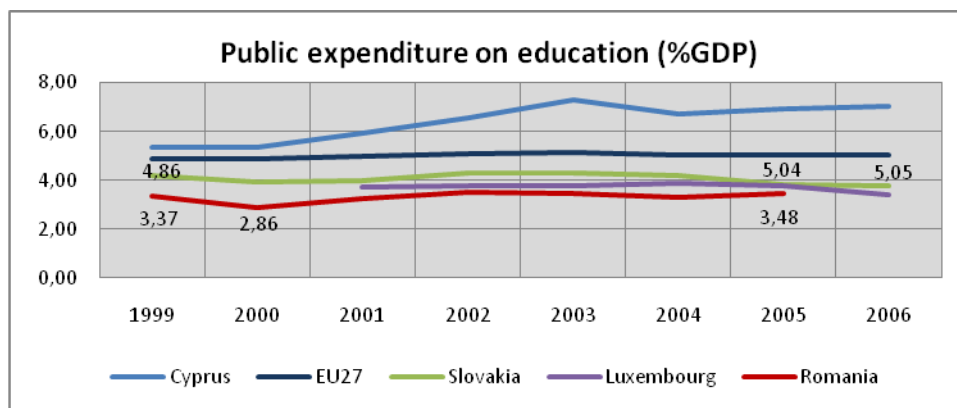


Source: Eiro, 2009

On an annual basis, the average collectively agreed normal annual working time in Romania is the highest in Europe (1,856.0 hours) and this compares with 1,742.8 hours, the average for EU27 plus Norway⁴.

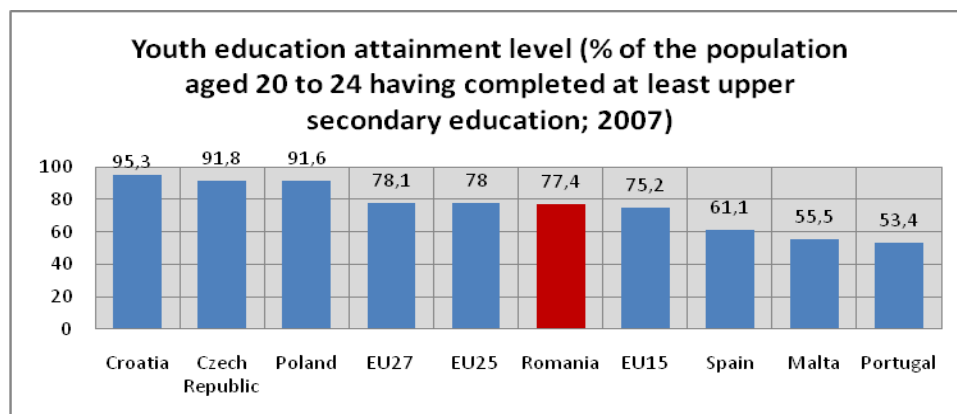
1.8. Educational attainment and qualification

Romania's public expenditure on education (expressed as a percentage of GDP) is the lowest amongst the EU member states. In 2005 it represented 69% of the EU27 average and 50% of the Cyprus expenditure, the EU27's highest.



Source: Eurostat, 2009

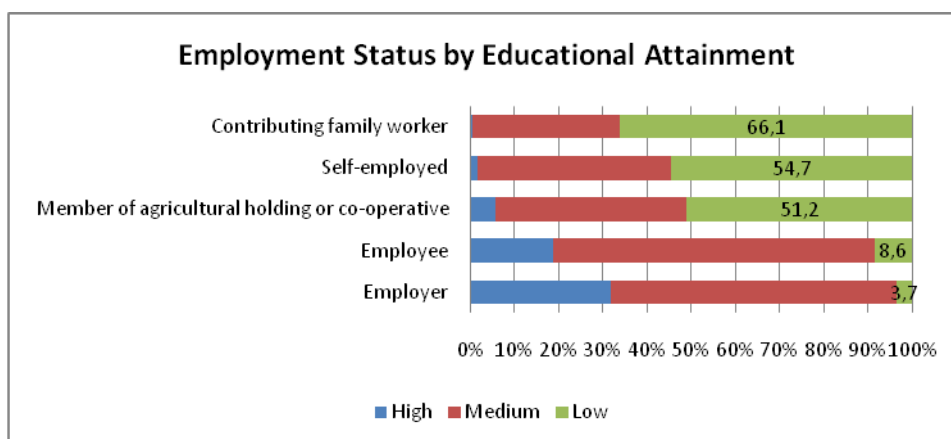
In spite of this level of investment, the indicators place Romania on the European average for youth education attainment. Together with Bulgaria, Romania was however the EU27's worst performer in Lifelong Learning.



Source: Eurostat, 2009

Levels of educational attainment vary widely across employment types with a clear predominance of low levels of educational attainment in occupations not defined as employers or those formally employed.

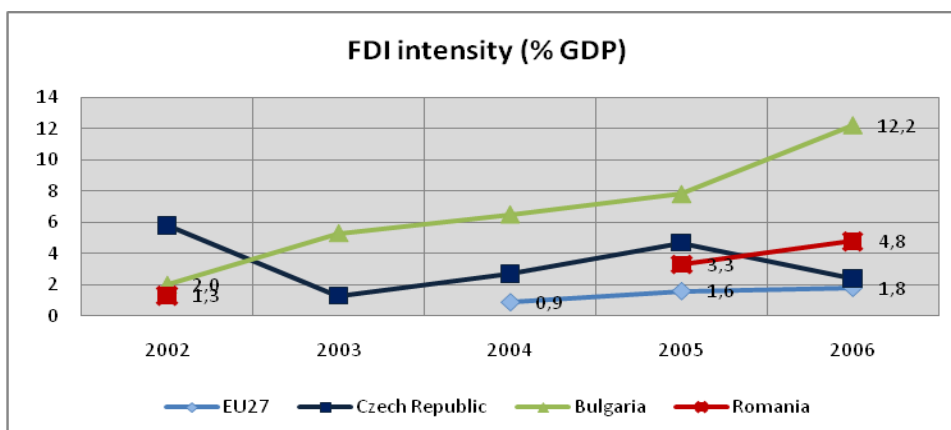
⁴ See <http://www.eurofound.europa.eu/eiro/studies/tn0903039s/tn0903039s.htm>



Source: Romania, NIS, Labour Force Survey cited after OECD Working Paper No. 271, J. Pavevliet

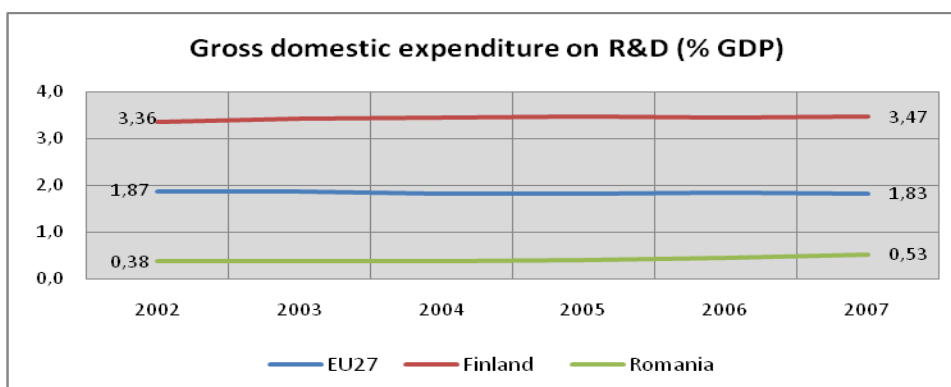
1.9. The development of foreign trade and direct investment

Foreign Direct Investment (FDI) intensity (as a percentage of GDP) is growing in Romania from a very low base and as a proportion of a low GDP. FDI intensity in Romania has grown at slower pace than it has in neighbouring Bulgaria. The origin of direct foreign investment in the years 1996-2005 was the Netherlands 24.3%; Germany 19.4%, Austria 14.1%; Italy 7.5%, United States (8th largest investor) 4.0%. Top investors from countries, by companies were Erste Bank (Austria), OMV (Austria), Gaz de France (France), Orange (France), Vodafone (U.K.), Ford (U.S.A.), MOL (Hungary), ENEL (Italy), E.ON (Germany), Nokia (Finland).



Source: Eurostat, 2009

Available data on expenditure on Research and Development show that the EU27 average is 3.5 times higher than the Romanian figure, again measured against a very low GDP base. Compared to Finland, Europe's best performer, the Romanian figure is 6.5 times smaller.



Source: Eurostat, 2009

Taken together, the above indicators help explain why Romania, although improving, has the lowest rate in the EU of high-technology patents per million inhabitants.

European high-technology patents - (per million inhabitants)						
	2000	2001	2002	2003	2004	2005
Romania	0,09	0,18	0,12	0,12	0,12	0,29
EU27	23,63	23,83	22,16	19,32	21,34	20,96
Finland	129,75	127,66	122,51	108,58	128,05	120,30

Source: Eurostat, 2009

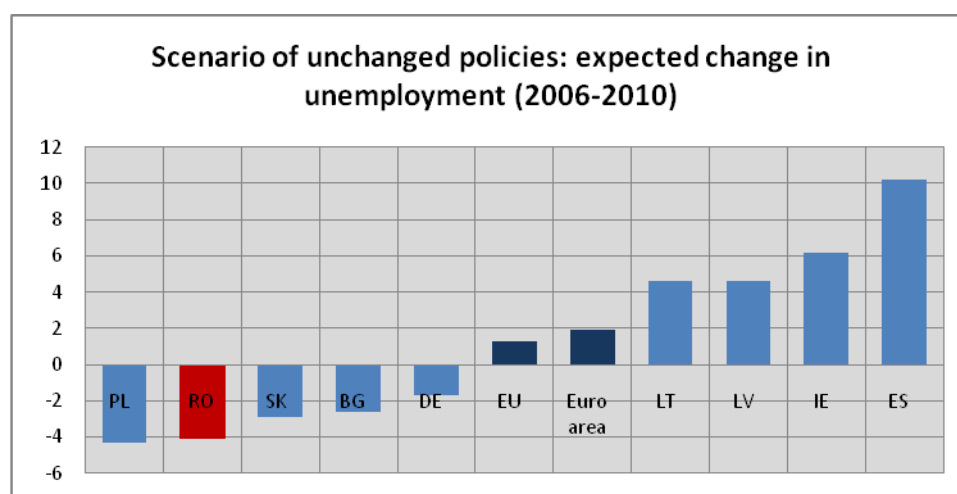
1.10. The current global economic crisis

The current crisis has affected the Romanian economy similarly to the rest of the EU. Whilst key economic indicators are expected to worsen, Romania is nonetheless predicted to remain in positive growth throughout 2009 and 2010.

Interim Forecast for Romania	2007	2008	2009	2010
GDP growth (% , yoy)	6.2	7.8	1.8	2.5
Inflation (% , yoy)	4.9	7.9	5.7	4.0
Unemployment (%)	6.4	6.2	7.0	6.9
Public budget balance (% of GDP)	-2.5	-5.2	-7.5	-7.9
Current account balance (% of GDP)	-13.6	-12.9	-11.9	-11.1

Source: European Commission, Interim Forecast, January 2009

Romania is one of the few countries where, compared to 2006, unemployment is expected to decline.



Source: own calculation based on European Commission, Interim Forecast, January 2009

2. The nature and extent of restructuring

Romania has undergone a major process of privatisation since 1990. Privatisation occurred both by the acquisition of publicly owned utilities by multinational companies (MNCs) and by the so-called "MEBO method" ("Management Employee Buy-Out"), which was defined in law as the standard privatization procedure for smaller Romanian enterprises. According to data from the Romanian National Institute of Statistics, in 2007 MNCs with more than 1000 employees had an 11.2% share of private sector employment⁵.

⁵ See <http://www.eurofound.europa.eu/eiro/studies/tn0904049s/ro0904049q.htm>

2.1. Structural change in Romania

Since the fall of the Ceausescu's dictatorship, Romania has continued to undergo a process of restructuring involving a gradual decline in agriculture and industry alongside measured growth in services.

Structural Change of the Economy (% of GDP; Difference 2004-1990)				
	Agriculture	Industry	Manufacturing	Services
Finland	-10	-13	-3	23
Romania	-6	-18		24
France	-4	-3	0	7
Bulgaria	-1	-5		6

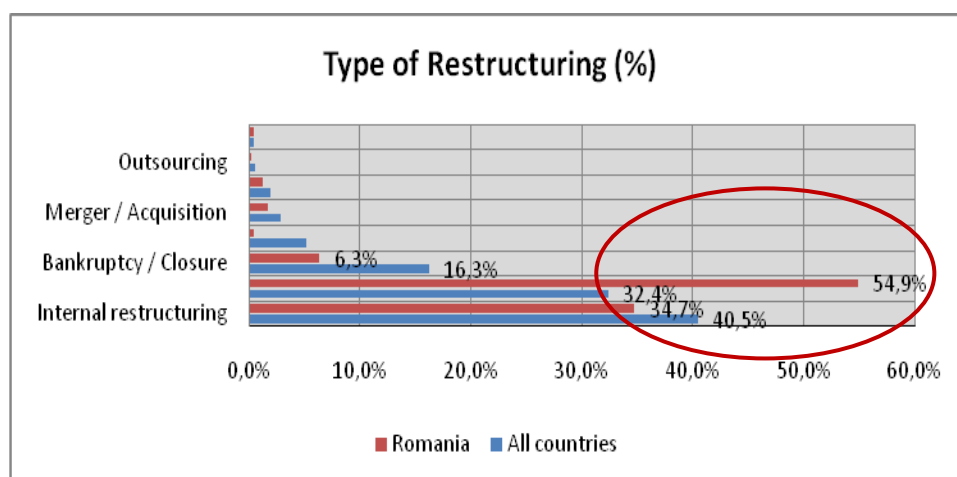
Source: own calculations based on The World Bank Group,
World Development Indicators 2006

Nonetheless, when compared to other European economies, Romania is still a country with a larger primary and secondary sector and a relatively small services sector. Additionally, and contrary to typical EU patterns, the reduction of industry's share of the Romanian GDP has been bigger than that experienced in agriculture.

Structure of Economy (% of GDP; 2004)				
	Agriculture	Industry	Manufacturing	Services
France	3	22	14	76
Finland	3	31	23	66
Bulgaria	11	31	19	58
Romania	14	37	31	49

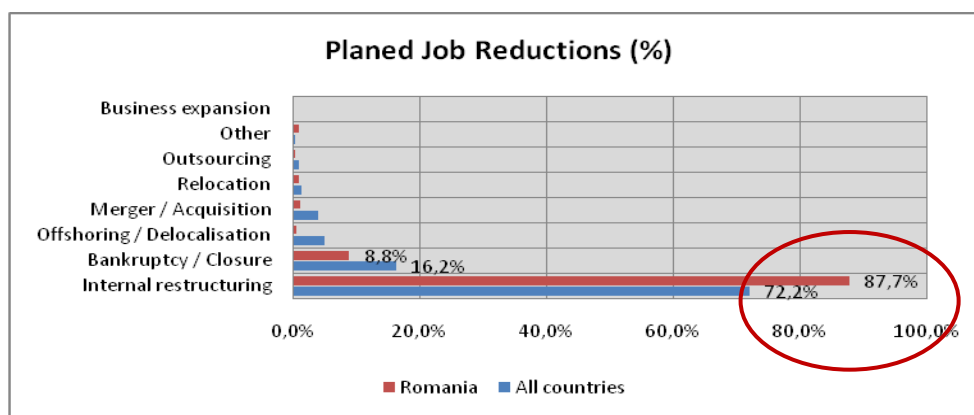
Source: The World Bank Group, *World Development Indicators* 2006

Data from the European Monitoring Centre on Change (EMCC) of the Eurofound suggest that "business expansion" and "internal restructuring" have been the prevalent types of change to have taken place. On the whole, business expansion has been the most significant pattern of change, twice as significant as internal restructuring and ten times more significant than closures. These data seem coherent with the prevalence of the "MEBO method".

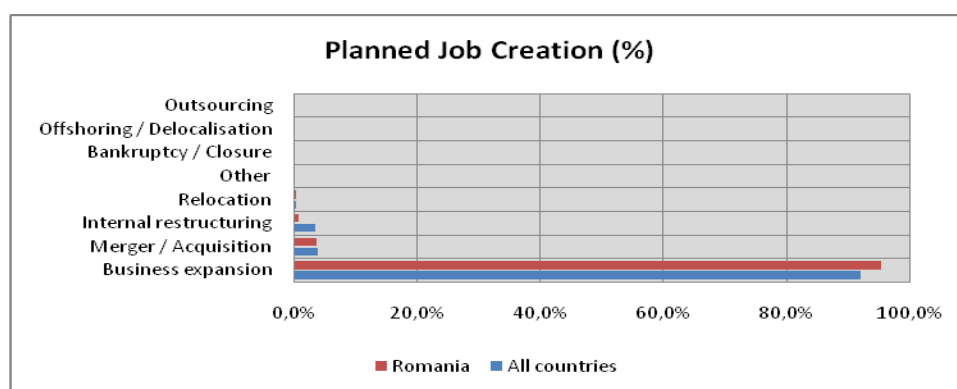


Source: EMCC

Planned job reductions are predominantly linked to internal restructuring and the rate of bankruptcy and closures, at almost 9% of the planned job reductions in Romania, are roughly half the percentage rate of all European countries.

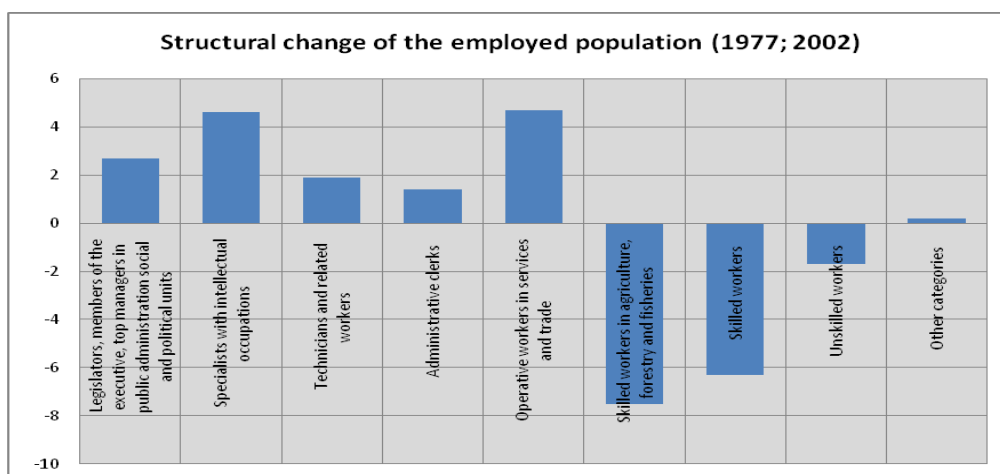


Unsurprising, planned job creation is mainly linked to business expansion.



2.2. Structural change in employment

Due to the estimated size of the shadow economy and the extent of undeclared work, any evaluation of available data on the formal sector of the economy must be interpreted with caution. This being noted, a recent Romanian study (see below) suggests that skilled workers in the primary and other sectors as well, together with unskilled workers have reduced their relative share of employment over the last fifteen years.



Source: Speranța Pîrciog *et al.*, 2006, based on *The population and housing census* 1977,1992, 2002

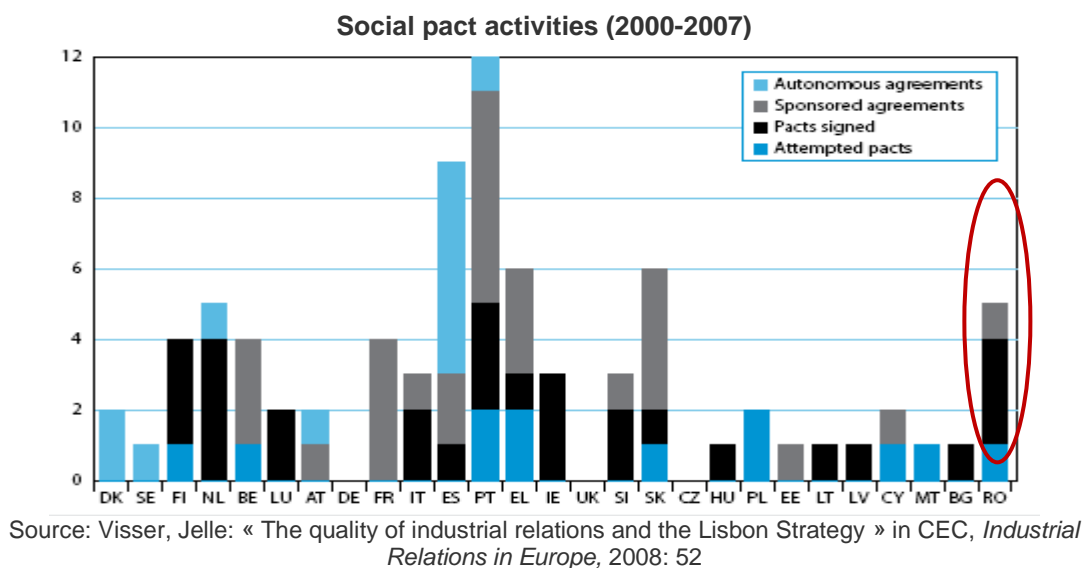
Data on the occupational structure is entirely consistent with the reported sectoral change of the economy expressed as a percentage of GDP, and with the evolution of the sectoral share of employment.

Section Two: The role of the Romanian social partners in restructuring

Since 1989, Romania has put in place a new system of industrial relations based on the ILO's core labour standards and adoption of the European Union acquis. Modern approaches to the management of employee relations and the development of social dialogue are relatively new concepts for the Romanian labour market. The changes introduced in Romania have generally brought about an increase in the role and the relevance of the social partners in the management of economic and social change. However, there still remain issues with respect to the effectiveness and consistency of bipartite social dialogue and tensions relating to the role played by government in tripartite dialogue.

1. Social Partners and Social Partnership in Romania

The principles of freedom of association and collective bargaining have been embraced legally and a range of tripartite labour market institutions have been created since 1990. Tripartite institutions include: the Economic and Social Council (*Consiliul Economic și Social, CES*), the national tripartite forum of social dialogue; the National Employment Agency (*Agenția Națională pentru Ocuparea Forței de Muncă, ANOFM*), the tripartite institution on labour market policies; the National Council for Adult Training (*Consiliul Național de Formare Profesională a Adulților, CNFPA*); the National Office for Pensions and other Forms of Social Security (*Casa Națională de Pensii și alte Drepturi de Asigurări Sociale, CNPAS*); and the National Health Insurance Office (*Casa Națională de Asigurări de Sănătate, CNAS*) and the National Commission for Equal Opportunities Between Men and Women (*Comisia Națională în domeniul Egalității de Șanse între Femei și Bărbați, CONES*)⁶.



The above analysis produced by Jelle Visser suggests that the Romanian government remains the most influential player in the labour market. Consistent with this, Visser includes Romania in the group of industrial relations regimes or arrangements that he calls “Centre-East”, whose characteristics are summarized on the graph below: a production regime whose main poles are statist and liberal, rather than a coordinated market economy; a segmented or residual welfare-regime with low levels of social protection, declining levels of absolute poverty and growing levels of relative poverty and economic inequality⁷; a politicised role of social partners on public policy; a union-based system of representation.

⁶ See Chivu, Luminita, available at <http://www.eurofound.europa.eu/eiro/studies/tn0803038s/ro0803039q.htm>

⁷ See Parlevliet and Xenogani, 2008: 11

Industrial relations regimes or arrangements

	North	Centre-west	South	West	Centre-east
Production regime	Coordinated market economy		Statist market economy	Liberal market economy	Statist or liberal?
Welfare regime	Universalistic	Segmented (status-oriented, corporatist)		Residual	Segmented or residual?
Employment regime	Inclusive	Dualistic		Liberal	
Industrial relations regime	Organised corporatism	Social partnership	Polarised/state-centred	Liberal pluralism	Fragmented/state-centred
Power balance	Labour-oriented	Balanced	Alternating	Employer-oriented	
Principal level of bargaining	Sector		Variable/unstable	Company	
Bargaining style	Integrating		Conflict oriented		Acquiescent
Role of SP in public policy	Institutionalised		Irregular/politicised	Rare/event-driven	Irregular/politicised
Role of the state in IR	Limited (mediator)	'Shadow of hierarchy'	Frequent intervention	Non-intervention	Organiser of transition
Employee representation	Union based/high coverage	dual system/high coverage	Variable (*)	Union based/small coverage	Union based/small coverage
Countries	Denmark Finland Norway Sweden	Belgium Germany (Ireland) Luxembourg Netherlands Austria Slovenia (Finland)	Greece Spain France Italy (Hungary) Portugal	Ireland Malta Cyprus UK	Bulgaria Czech Republic Estonia Latvia Lithuania Hungary Poland Romania Slovakia

Source: Visser, Jelle: « The quality of industrial relations and the Lisbon Strategy » in CEC, *Industrial Relations in Europe*, 2008: 49

1.1. Workers Representation

Workers representation is trade union-based at all levels. At the enterprise level, non union members can only be elected to representative bodies if there are no trade union members.

The trade union movement is very fragmented. Amongst the five leading trade union confederations, four of them are ETUC members: The National Trade Union Bloc (*Blocul Național Sindical, BNS*); National Trade Union Confederation Cartel Alfa (*Confederația Națională Sindicală Cartel Alfa, Cartel Alfa*); National Confederation of Free Trade Unions of Romania 'Brotherhood' (*Confederația Națională a Sindicatelor Libere din România Frăția, CNSLR Frăția*); Democratic Trade Union Confederation of Romania (*Confederația Sindicatelor Democratice din România, CSDR*). The fifth trade union confederation is National Trade Union Confederation Meridian (*Confederatia Sindicală Națională Meridian, CSN Meridian*).

According to EIRO⁸, overall trade union membership from 2003 to 2008 increased by 4.2%.

Confederations, trade union centres and 'other' unions	2003	2008	Change over period
CNSLR Frăția	800000	800000	0.0
Cartel Alfa	325000	400000	+23.1%
BNS	375000	375000	0.0
CSDR	345000	345000	0.0
CSN Meridian	170000	170000	0.0
Others	20000	30000	+50.0%
Total	2035000	2120000	+4.2%

Source: EIRO, 2009

In 2007, three of the five representative trade union confederations began to negotiate the terms of a merger but, like the preceding attempt in 2004, the attempt was unsuccessful⁹.

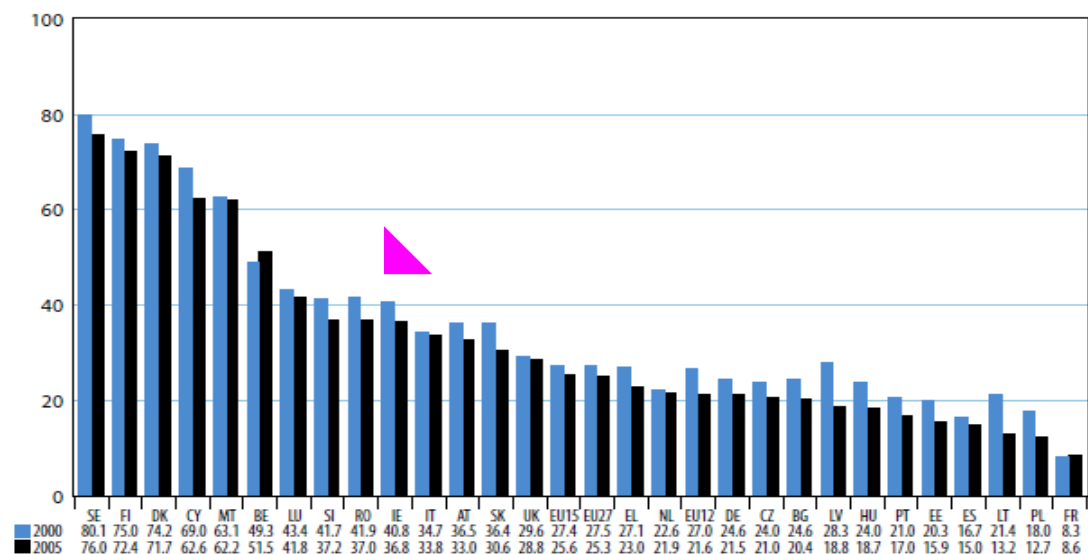
Trade union density in Romania is high, particularly for a central and eastern European country where it ranks alongside Slovenia and enjoys higher membership than other countries in the

⁸ See <http://www.eurofound.europa.eu/eiro/studies/tn0904019s/tn0904019s.htm>

⁹ See <http://www.worker-participation.eu/National-Industrial-Relations/Countries/Romania/trade-unions>

region. In common with the countries in the 2004 and 2007 EU membership group, trade union membership has shown a decline of more than 50%¹⁰ since the early 1990's.

Trade union density, EU-25, 1995-2004



Source: European Commission: *Industrial Relations in Europe 2008*, p. 74.
Data based on ICTWSS database 2007

2.1. Employers' Organizations

Romania's employers' organizations are also very fragmented. Amongst them, three are linked to the European employers' associations that take part on the European Social Dialogue: the Alliance of Romanian Employers' Confederations (*Alianta Confederatiilor Patronale din Romania*, ACPR), member of BUSINESSEUROPE; The National Employers' Federation of the Public Services Operators of Romania (FNPSPR), member of CEEP; the National Council for Private Small and Medium Enterprises of Romania (*Consiliul Național al Întreprinderilor Private Mici și Mijlocii din România*, CNIPMMR), member of UEAPME.

In 2006¹¹, eight of the eleven Romanian employers' confederations, representative at national level, agreed to become or maintain their position as ACPR members. In 2008, ACPR together with the General Union of Romanian Industrialists 1903 (*Uniunea Generală a Industriașilor din România 1903*, UGIR 1903) and CNIPMMR signed an agreement establishing the Alliance of the Confederations of Industrialists, Entrepreneurs and Employers from the Public Services Sector (*Alianța Confederațiilor Industriașilor, Întreprinzătorilor și Angajatorilor din Servicii de Interes Public Business România, Business România*).

2.2. The legal framework: recent evolution

Industrial relations in Romania take place under the provisions of the Labour Code, in force since 2003 and amended in 2005. In 2007, legislation was enacted and established joint committees for the negotiation of collective agreements, procedures for the information and consultation of employees and the training standards for Mediators¹².

The recent trend in Romanian legislation has been to give more flexibility to labour relationships by easing the regulations for individual employment contracts; creating part-time employment contracts through temporary work agencies and/or by home work; broadening lay-off procedures whether individual or collective; linking unemployment benefits to the length of social security contributions and the average of gross salary; changing the rules for calculating

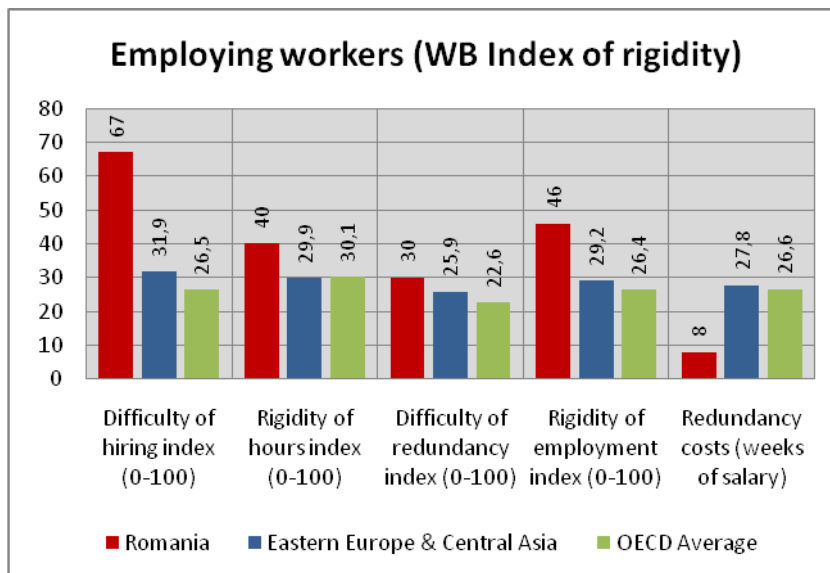
¹⁰ See Hanke Hassel et al., CEC, *Industrial Relations in Europe 2008*: 74

¹¹ See <http://www.acpr.ro/events1.htm>

¹² See <http://www.eurofound.europa.eu/eiro/studies/tn0803029s/ro0803029q.htm>

the national minimum wage; establishing the obligation to put in place adequate work safety and health conditions for the employees through a new health and safety at work law¹³.

Nevertheless, and consistent with the role played by government in the management of employee relations, according to the World Bank's evaluation, Romania's labour market is characterized by a rigid legal framework¹⁴.



It should be recalled however that the World Bank indicators measure legal rigidities based on the labour code rather than actual practice at the enterprise level. This means that employer criticisms of excessive rigidity and trade union claims of high practical flexibility, delivered in part through non application of the labour code, are not necessarily contradictory. The very high incidence of informal work also places many individuals in whole, or in part, outside the legislative provisions that exist.

3. Restructuring as an issue of social dialogue and collective bargaining

3.1. Collective bargaining

Social Partners negotiate, at national level, the level of the national minimum wage. At the end of 2007, a minimum wage of RON 500 was agreed¹⁵ and, on July 2008, a tripartite agreement on the growth of the gross national minimum wage over the period 2008-2014, provides for the minimum wage to rise from 31% of the national average wage at present to 50% in 2014¹⁶.

According to the law in force, negotiations may take place at national, industry and company level, as well as for groups of companies. The right to negotiate exists for representative trade unions (i.e., with, at least, 5% of all employees in membership) and for representative employers' associations (i.e., representing enterprises that employ at least 7% of the national workforce)¹⁷. The negotiated collective agreements cover all the employees of the enterprises involved and negotiations at lower levels may only improve terms and conditions agreed at a higher level.

¹³ See <http://www.eurofound.europa.eu/eiro/studies/tn0803038s/ro0803039q.htm>

¹⁴ See <http://www.doingbusiness.org/ExploreEconomies/?economyid=158>

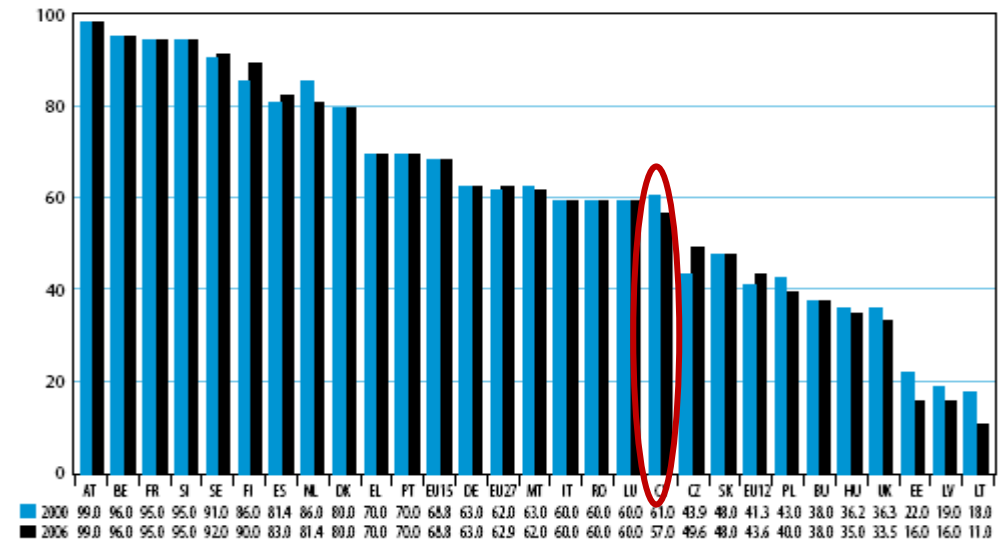
¹⁵ See <http://www.eurofound.europa.eu/eiro/studies/tn0803029s/ro0803029q.htm>

¹⁶ See <http://www.eurofound.europa.eu/eiro/2008/08/articles/ro0808019i.htm>

¹⁷ See <http://www.worker-participation.eu/National-Industrial-Relations/Countries/Romania/collective-bargaining>

Usually, industry wide agreements reproduce large parts of the national framework agreement. The legal obligation to negotiate – but not the obligation to reach agreement – exists only at the enterprise level and applies to companies with 21 or more employees. In 2006, 47.7% of the enterprises covered by these obligations signed agreements.

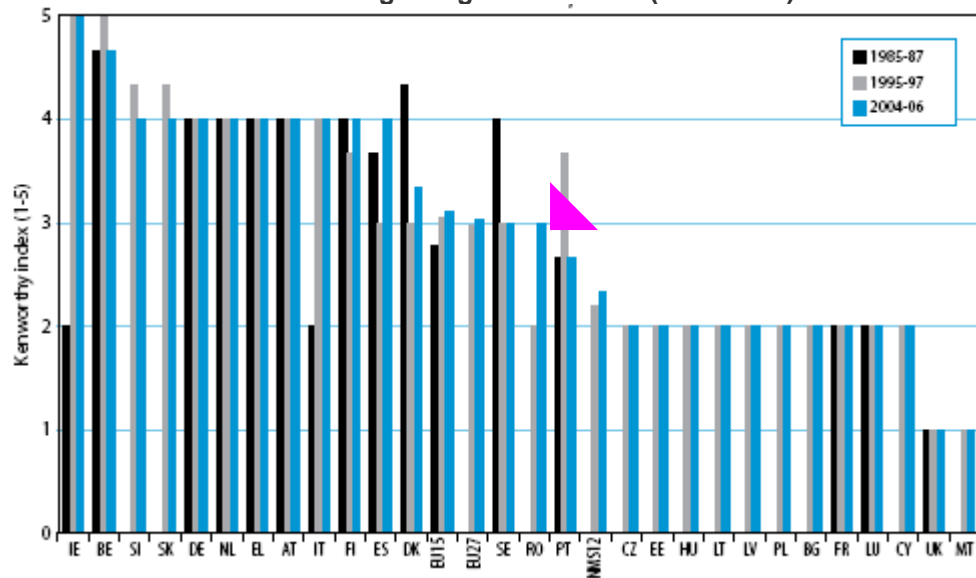
Collective bargaining coverage (2000; 2006)



Source: Hanke Hassel *et al.*, CEC, *Industrial Relations in Europe* 2008: 78

Compared to other EU Member States, bargaining coordination is close to the average but much higher than every other central and eastern European country with the exception of Slovenia. Both collective bargaining coverage and coordination has increased since 1997.

Bargaining coordination (1985-2007)



Source: Visser, Jelle: « Europe's industrial relations in a global perspective » in CEC, *Industrial Relations in Europe*, 2008: 24

3.2. *The social partners and restructuring*

The transposition of the European Directive on information and consultation (Directive 2002/14/EC) has been done by the Romanian Law no. 476/2006, which came into force on January 1, 2007, when Romania joined the EU¹⁸. Before the transposition, several provisions already existed in the Romanian law on collective bargaining (Law no. 130/1999), on the law on trade unions (Law no. 54/2003), on the Labour Code and on the law on the European Works Councils (Law no. 217/2005).

The major legal provisions include;

- ✧ The definition of minimum requirements regarding the right to information and consultation of employees, particularly when major changes occur;
- ✧ Information is defined as the transmission of data from the employer to the representatives of the employees;
- ✧ Consultation is defined as the exchange of opinions and initiation of dialogue between the employers and the representatives of the employees;
- ✧ The need for practical arrangements for information and consultation are defined and implemented through the law and collective bargaining agreement;
- ✧ The representatives of trade union organizations, or in cases where no trade union is present, individuals elected to represent the employees, are defined as the employers' partners for information and consultation.

According to the law, and consistent with European level provisions, employees' rights to information and consultation relate to the following issues;

- ✧ The recent and probable development of the activity and the economic situation of the company;
- ✧ Foreseeable employment related changes within the undertaking or establishment and any anticipatory measures envisaged, in particular where there is a threat to employment;
- ✧ Collective redundancies and employee rights in transfers of undertakings and other decisions that may lead to substantial changes in work organisation or in contractual relations.

In the national collective agreement for 2007-2010, the social partners integrated new provisions on the introduction in all lower-level collective agreements of provisions on the time frame and practical means for providing information to employees.

No specific social partner's evaluation on the implementation of the law could be found, however, an evaluation report of 2005 for the Economic and Social Council concludes:

- ✧ The Romanian social partners consider that the information and consultation of employees should have a positive impact on employers' profitability, efficiency and management practices and should be beneficial for employees;
- ✧ 65% of employees and 57% of the employers interviewed for the preparation of the report were aware of the fact that legislation regarding the information and consultation of employees was in force.

3.3. *Social partners' demands and other initiatives in the context of the current economic crisis*

In February 2009, the social partners agreed on an anti-crisis programme in light of the global economic downturn designed to support economic growth, to reduce budget expenditure and to increase financial resources for economic growth. The agreement also includes legislative

¹⁸ See <http://www.eurofound.europa.eu/eiro/studies/tn0710029s/ro0710029q.htm>

measures designed to adapt wage policies, pensions, social welfare and social dialogue to the current global crisis¹⁹.

Despite that agreement, recent trade union protests have led the Government to prepare a new social pact for 2009 containing measures aiming at the creation of new jobs and the protection of worker's purchasing power. Along with these measures, new laws on the legal framework for collective agreements, a labour resolution law and amendments in laws relating to trade unions' and employer organizations are to be introduced before the end of 2009. Both sides of the social partnership reported that government, in their view, had been insufficiently responsive to their ideas and had not put adequate anti crisis measures in place.

¹⁹ See <http://www.eurofound.europa.eu/eiro/2009/02/articles/ro0902039i.htm>

Section Three: Case studies

Dacia Group Renault

The Dacia automotive company was created in 1966 and privatised in 1999 when it was purchased by the major French company Renault. Dacia is the most important auto maker in Romania. Its values are: simplicity, robustness and unbeatable value for money. A large part of its success comes from the emblematic vehicle: Logan. Dacia is also the Group's centre for development in Central and Eastern Europe. Today Dacia employs 13,800 workers (10% of the Renault Group's work force), produces 257,854 vehicles and is Romania's leading auto maker with 27.4% market share in passenger and light commercial vehicles. The company has expanded rapidly and today 67% of sales are made outside Romania

The company's main production site in Romania is in Pitesti. Since privatisation in 1999, Renault has invested €489m to bring the site up to Group standards and it now manufactures engines and gearboxes for Renault vehicles.

At the time the company was highly uncompetitive internationally in terms of productivity, product range and product quality. The privatisation agreement stipulated 20 phases of job losses against quarterly targets over the period December 1999 to September 2004. Under the plan some 11,271 jobs were removed. Subsequently further initiatives were launched in 2004 and 2005 involving a further 1,697 and 922 jobs respectively.

In addition to statutory provisions, the Dacia restructuring programme provided compensation payments for redundant employees in line with the collective agreement and provided specialised assistance to facilitate job-to-job transitions.

The redundancy provisions established detailed conditions for the examination of voluntary severance requests and the selection of redundant workers. A complex system of severance payments was established based on multiples of current remuneration based on service.

Using external service providers, a "Technical Reinsertion Unit" was established to promote job-to-job moves and a "Business Building Assistance" programme was set up to help those contemplating starting a new business. Assistance provisions included professional advice and guidance on an individual basis; training in job search activities; skills building training to improve job prospects; new business development training; and financial support for the creation of new companies. Assistance was also given on the provisions of social protection arrangements.

The company kept detailed statistics on the use made of the assistance programmes including the number of letters written, telephone calls made on behalf of participants, home visits to staff, attendance at workshops and facilitation of access to external training. The outreach programme to 1,429 other employers, for example, generated some 8,153 job offers to Dacia staff.

The following table contains the detailed overall results of the Social Reinsertion Service;

Registered beneficiary filed 9,340			
Refusal of accompanying measures 1,771			
Processed files 7,569			
Placements 2,148	Businesses created 265	Other cases 4,694	Files in process 462
		<ul style="list-style-type: none"> • Retirement at age limit 4% • Early retirement 9% • Medical retirement 16% • Change of residence 14% • No answer after 6 months 29% • Other 28% 	

In an innovative partnership venture with the national and local employment agencies, the Arges County Council and the national trade union confederation a “Development and Solidarity Foundation” (FDS) was established including a major training centre for re-skilling workers. The training location was provided by Dacia and fitted out by the national employment agency (ANOFM). The objectives of the FDS are to;

- Support the setting up and development of micro-enterprises and small and medium sized companies;
- Facilitate the professional reinsertion of DACIA employees;
- Strengthen the development of staff skills and outplacement;
- Promote the county industrial sector in order to support job creation in the area;
- Improve land use to develop services and strengthen the role of tourism and agriculture.

Today Dacia is an internationally competitive company in its market segment with a large export market and an integral part of the Renault Groupe.

Arcelor Mittal

The 17,000 hectare Sidex integrated steelworks in Galati was constructed in 1961. The plant made 70% of Romania's steel and 95% of its flat steel products. 45% of the plants production was for export. In 2001 Arcelor Mittal acquired the plant when it was privatised by the Romanian government. The company represented around 4% of Romania's GDP. At the time of purchase, it was widely viewed as critical to the country's economic reform programme but in a parlous state. Its equipment was outdated, it was critically short of cash and losing around US\$1 million a day.

In the purchase agreement Arcelor Mittal paid \$70m and committed to investing US\$350 million in the company and working capital of \$100m. By 2003 the company's turnover topped US\$1 billion and Mittal Steel Galati, was profitable. In 2004, the company built on its success in turning Ispat Sidex around by buying three more steel facilities from the Romanian government - Ispat Tepro, Petrotub Roman and Siderurgica Hunedoara. The three were subsequently renamed Mittal Steel Iasi, Mittal Steel Roman and Mittal Steel Hunedoara.

Over the period 2002 to 2009 eight campaigns to attract voluntary leavers with service related lump sum payments were launched. As a result of these programmes, from 26,500 workers in 2001, the company headcount reduced to 10,300 in 2009.

IMSAT SA

IMSAT specialises in mechanical engineering and erection, steel structures engineering and erection, electrical engineering, industrial process, HVAC, security systems, industrial shelters, and equipment maintenance. established in 1962. Since 2007 the company has been a wholly owned subsidiary of the Marseilles headquartered Groupe SNEF. IMSAT, headquartered in Bucharest, has around 1,700 employees and an annual turnover in 2008 of €106m.

There are 13 IMSAT companies in Romania which work on complex engineering projects such as: the Saint Gobain glass plant in Călărași, Romania; HOLCIM, Lafarge and CarpatCement cement plants; tramway infrastructure in Bucharest; the Bucharest metro upgrade; the Carrefour, Kaufland, Cora, Auchan shopping centers; the Dacia-Renault car plant and the Bucharest-Câmpina, Bucharest Constanța railway.

Over recent years the company has maintained its competitiveness by decentralising the company structure, moving into areas of market growth through internal expansion and acquisition and investing in upskilling its workforce. Workforce re-skilling programmes have led to improved flexibility, improved product quality standards and the management of job changes without resort to compulsory lay-offs.

The company and employee representatives undertook restructuring of the company with a shared view that managing change did not necessarily mean redundancies and that markets and jobs should evolve in parallel. Although much of the work involved in the restructuring programme involved internal skill transformation, the company also undertook some offshoring of activities where this added to competitiveness.