

CELSI Research Report No. 6

# GOVERNING THE METAL SECTOR IN SLOVAKIA

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## Summary

The metal sector occupies a central position in the Slovak economy. It is in particular the automotive industry that experienced rapid growth and is strategically important for the country's economy and labour market. Due to a high degree of integration with international product markets, supplier chains and investments, the sector is highly exposed to changes in economic cycles, market demand and economic downturns in the global perspective.

Being part of the 7<sup>th</sup> EC Framework Programme project GUSTO (Work Package 6), this report has two aims. First, it uncovers the main challenges that the metal sector in general and the automotive subsector in particular faced in the past decade. In the light of these challenges, the second aim is to present and discuss the main developments in the sector's industrial relations, in particular, the way in which actors, and institutions of collective bargaining accommodated the growing pressure for employment flexibility on the one hand and employment security on the other hand. The report concludes with a presentation on the approach of national-level social partner organizations on the flexicurity debate and its transposition into the Slovak legislation and labour market reality.

In the period of 2001-2011, two key challenges in the metal sector can be identified. First, in consequence of the economic crisis, producers were forced to cope with decline in demand, production, overcapacities and overemployment. Second, given the revised NACE classification, the metal sector encompasses a large variation of firms, which has created difficulties in the sector-level organization of interest representation. A number of mergers and splits occurred, which plays against the continuity of professional associations' aims and activities including their engagement in social dialogue and collective bargaining. Related to this, the lack of continuity in the legal framework and weak role of the state in (not) giving incentives to firms to participate in the sectoral collective bargaining continues to shape the governance of employment issues in the sector since 1999.

A particular characteristic of industrial relations in the sector is decentralization of collective bargaining and further decline in coverage of sector-level collective agreements. Sector-level collective bargaining still plays an important role, but the period since 1999 brought a trend of narrowing the scope of these agreements, formulating more general provisions, conclusion of agreements for shorter time periods, and granting more role to governance via company-level collective agreements. This applies also to the issues of flexibility and (social) security related provisions. Key bargaining issues, including wages, working time, social fund contributions and dismissal protection of certain groups of workers, remained a stable part over the period 1999-2011. Novel provisions, such as access to training, performance-related pay, contributions to the supplementary pension scheme, are subject to bargaining at the company level.

The most important substantive development regarding flexibility and sustainable security is the inclusion of stipulations on *flexikonto* in sectoral collective agreements as a temporary measure combating the effects of economic crisis. Originally invented at the company level by a key automobile producer, flexikonto represents a trade-off between job security, working time and wages.

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# 1. Economic and policy context

## 1.1 INTRODUCTION

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Metal industry belongs to the SK NACE section of Manufacturing (C), which has 23 divisions (10-33). This report selectively concentrates on the metal sector categories within the SK NACE classification:

- Manufacture of fabricated metal products, except machinery and equipment (C25)
- Manufacture of machinery and equipment (C28)
- Manufacture of motor vehicles, trailers and semi-trailers (C29)
- Manufacture of other transport equipment (C30)

Within industrial production, metal industry occupies a central position and is extremely important for the Slovak economy. At the same time, it is highly exposed to changes in economic cycles, market demand and economic downturns. Table 1.1 demonstrates that revenue in the metal industry dropped by 30%, export by 26% and the number of employees by 18% between 2009 and 2008. At the same time, added value per employee slightly improved.

The decline in production (there has been a 16% decline of industrial production in Slovakia between the years 2008 and 2009)<sup>2</sup>, exports and revenues as a consequence of the global financial and economic crisis is closely related to the export oriented Slovak automotive industry. Production of motor vehicles is the strongest division of Slovak metal industry. Its share in the overall industrial production exceeded 20% in 2008 and dropped slightly in 2009 (see Table 1.2 below).

Given the changes in world markets and the highly export-oriented character of the Slovak automotive industry, the highest decline has been reported for the manufacture of motor vehicles where production in 2009 dropped by 4,208 mil. EUR compared to the previous year (see Table 1.3). As a spillover effect, other divisions of metal industry with direct or indirect linkages to automotive production have also experienced decline in production, profit and number of workers. The next section takes a closer look at the automotive industry's specificities.

The export orientation of Slovak metal industry also influences the balance of foreign trade (see Table 1.4). Export oriented assembly production requires an extensive import of parts, which accounted for a negative balance in 2007 and 2008. In 2009 and the beginning of 2010 the saldo reached a positive balance.

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<sup>2</sup> Source: internal documents of the Association of Automotive Industry (*Združenie automobilového priemyslu SR*, ZAP SR), provided in interview with ZAP SR president, 1 July 2010.

**Table 1.1 Basic indicators of metal industry (C25,28,29,30), 2008 – 2009**

Indicator/Year	2008	2009	09/08 in %	09/08 difference in %
Number of firms active in the sector	715	528	74	-26
Revenue in mil.EUR	19715	13717	70	-30
Added value in mil.EUR	2885	2396	83	-17
Export in mil.EUR	18214	13480	74	-26
Import in mil.EUR	14181	9691	68	-32
Total number of employees	134193	110055	82	-18
Use of materials, energy in mil.EUR	14844	9670	65	-35
Costs of wages in mil.EUR	1294	1036	80	-20
Avails in mil.EUR	25087	15889	63	-37
Expenses in mil.EUR	24475	15756	64	-36
Property in mil.EUR	9017	9686	107	+7
Revenue/Employee in EUR	146914	124635	85	-15
Added value/Employee in EUR	21497	21767	101	+1
Added value/Revenue	0,146	0,175	119	+19

Source: Slovak Statistical Office

**Table 1.2 Indicators of production in Slovakia**

Indicators of production	2008	2009
Industrial manufacturing (SK NACE section C) - share in the overall industry	81,2%	76,9%
Metal industry production (C25+C28+C30) share in the overall industry	38,6%	32,5%
Metal industry production (C25+C28+C30) share in the industrial production	47,6%	42,3%
Manufacture of fabricated metal products, except machinery and equipment (C25) – share in the overall industry	11,9%	9,3%
Manufacture of machinery and equipment (C28) – share in the overall industry	4,6%	3,5%
Manufacture of motor vehicles, trailers and semi-trailers (C29) – share in the overall industry	22,2%	19,7%

Source: Slovak Statistical Office (2008 indicators based on annual data; 2009 indicators based on quarterly data of industrial production).

**Table 1.3 Metal sector production in mil. EUR**

Metal sector categories in industrial production	2008	2009	09/08 difference
Manufacture of fabricated metal products, except machinery and equipment (C25)	7556	4665	-2891
Manufacture of machinery and equipment (C28)	2893	1768	-1125
Manufacture of motor vehicles, trailers and semi-trailers (C29)	14074	9866	-4208
Manufacture of other transport equipment (C29)	2030	1509	-521
<b>Together C25+C28+C29+C30</b>	<b>26553</b>	<b>17808</b>	<b>-8745</b>

Source: Slovak Statistical Office

**Table 1.4 Balance of foreign trade of Slovakia**

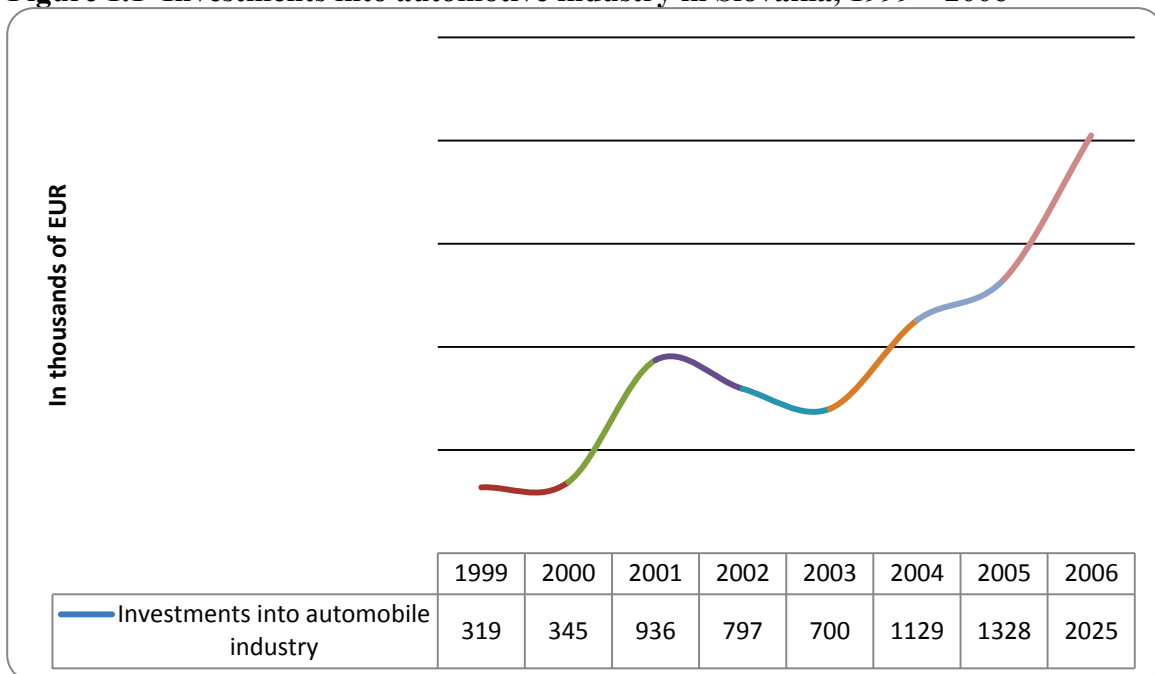
Balance of foreign trade of the Slovak Republic				
In mil. EUR	2007	2008	2009	January 2010
Import	48075,9	50280,1	38528,7	3108,1
Export	47351,0	49522,3	39715,6	3139,4
Saldo	-724,9	-757,8	+1186,9	+31,3

Source: ZAP SR

## 1.2 AUTOMOTIVE INDUSTRY

Automotive industry has an important position within the Slovak metal sector. It has been gaining in size and importance for the Slovak economy since early 1990s. The amount of investments have also been growing (see Figure 1.1).

**Figure 1.1 Investments into automotive industry in Slovakia, 1999 – 2006**



Source: SARIO and ZAP SR

The modern history of Slovak automotive industry dates back to 1991 with the investment of the Volkswagen corporation in car production. Attracting suppliers and other firms active in the sector, the Slovak automotive industry developed into a “patchwork” of several divisions within the manufacturing (C) section of SK NACE classification. The suppliers of the automotive industry deliver parts of a very diverse scale, ranging from metal plates to electrical appliances. However, the majority of the supplier firms remain in the metal sector classification of SK NACE.

Regional indicators and recent changes in the amount of automotive production are listed in Tables 1.5 and 1.6. Passenger car production has declined in all world regions except China and India where it experienced a significant growth in 2009. Despite a slight decline in production in 2009, the new EU member states in Central and Eastern Europe belong to important car



manufacturing and exporting countries. With 106 automobiles per 1000 residents, in 2007 Slovakia became the largest producer of motor vehicles per 1000 residents in the world.<sup>3</sup>

**Table 1.5 Production of passenger cars in 2007 and 2008 according to countries**

		2008	% 08/07	2009	% 09/08
World		52 726 117	-1,2	47 227 656	-10,4
Europe		18 381 339	-5,6	15 191 170	-17,4
	EU 15	12 849 218	-9,7	11 033 564	-4,1
	EU new members	3 105 470	+3,6	2 910 490	-6,3
NAFTA		6 189 535	-4,1	4 010 893	-35,2
	USA	3 776 641	-3,8	2 249 061	-40,4
	Mexico	1 217 458	+2,7	939 469	-22,8
	Canada	1 195 436	-10,9	822 363	-31,2
Asia-Oceania		24 767 495	+2,0	24 771 369	0,0
	China	6 755 609	+7,3	10 383 831	+54,1
	India	1 846 051	+6,8	2 166 238	+17,3
	Japan	9 928 143	-0,3	6 862 161	-30,9
	South Korea	3 450 478	-7,3	3 158 417	-8,5

Source: ZAP SR

**Table 1.6 Worldwide motor vehicles production according to regions**

		2007	2008	% 08/07	2009	% 09/08
World		73 189 953	70 520 493	-4,1	60 986 985	-13,5
Europe		22 898 518	21 770 913	-7,1	17 001 022	-21,9
	EU 15	16 691 210	15 174 690	-9,1	12 237 534	-19,4
	EU new members	3 079 503	3 257 508	+4,0	3 006 882	-7,7
NAFTA		15 454 764	12 943 427	-16,1	8 758 764	-32,3
	USA	10 780 729	8 693 541	-19,3	5 711 823	-34,3
	Mexico	2 095 245	2 167 944	+4,6	1 557 290	-28,2
	Canada	2 578 790	2 082 241	-19,4	1 489 651	-28,5
Asia-Oceania		30 595 443	31 285 049	+1,3	31 055 661	+0,7
	China	8 872 956	9 299 180	+5,1	13 790 994	+48,3
	India	2 253 660	2 332 328	+2,7	2 632 694	+12,9
	Japan	11 596 327	11 575 440	-0,3	7 934 516	-31,5
	South Korea	4 086 308	3 826 682	-8,2	3 512 926	-8,2

Source: ZAP SR

Production of motor vehicles in Slovakia is represented by three automobile producers: Volkswagen Slovakia, PSA Peugeot Citroën and KIA Motors. According to indicators provided by the motor vehicle producers 463,140 motor vehicles were produced in 2009, which is a 19,6% decline compared with the previous year (see Table 1.7). Only PSA Peugeot Citroën reported an 11,1% growth in production, the other two companies experienced a significant decline in their production.

<sup>3</sup> Source: SARIO Sectoral Report on the Slovak automotive industry, in <http://www.sario.sk/?automobilovy-priemysel> <http://www.sario.sk/?automobilovy-priemysel>, [accessed 3 September 2010].

**Table 1.7 Number of produced motor vehicles in Slovakia**

	2009	2008	2009/2008
Volkswagen Slovakia	105997	187872	-43,6%
KIA Motors	150015	201507	-25,6%
PSA Peugeot Citroen	207128	186397	+11,1%
<b>Together</b>	<b>463140</b>	<b>575776</b>	<b>-19,6%</b>

Source: 2009 Annual report of Ministry of Economy

Table 1.8 lists the most important investors in Slovakia's automotive industry, the amount of their investments and number of employees as of the year 2008. The first car producer to open a plant in Slovakia was **Volkswagen**<sup>5</sup> in 1991. Since then Volkswagen has become one of the major manufacturing corporations with a leading position in Slovak export and the highest number of employees within the automobile industry. This important investment brought with itself also the demand for the suppliers of components needed for production of automobiles. This attracted several renowned international suppliers to invest in Slovakia and build their plants within strategic range of automobile production plants. The supplier sector for car producers in Slovakia has increased its production value from 621,4 mil. EUR in 1998 to 8294,6 mil. EUR in 2007.<sup>6</sup> In 2006 two other automobile companies launched their production in Slovakia, **KIA Motors**<sup>7</sup> in Žilina and **PSA Peugeot Citroën**<sup>8</sup> in Trnava.

**Table 1.8 Most important investors in automobile industry in Slovakia 2008**

Investor	Investment in millions of €	Nr of employees	Place	Type of enterprise
Volkswagen, Germany	1 300+	10 730	Bratislava	Production of cars
KIA, South Korea	1 250	3 250	Žilina	Production of cars
PSA Peugeot Citroën, France	1 098	4 800	Trnava	Production of cars
Getrag Ford Transmissions, Germany	300	750	Kechnec	Production of gear units
Continental Teves, Germany	60	500	Zvolen	Production of braking components
Visteon, USA	40	400	Nitra	Production of interior parts for KIA and PSA Peugeot Citroën
Johnson Controls, USA	20	550	Trenčín	R&D
Johnson Controls, USA	20	350	Lučenec	Production of sitting components
Miba, Austria	16-20	150	Vráble	Production of steel parts
Valeo Security Systems, USA	16,4	727	Košice	Production of mechanical parts
Key Plastics, USA	12	400	D.Kubín	Production of plastic components

Source: SARIO report on Slovak automobile industry

<sup>5</sup> Volkswagen Slovakia in numbers: <http://www.volkswagen.sk/en/about-us/vw-sk-in-numbers/> [accessed April 26 2011]

<sup>6</sup> SARIO Sectoral Report on the Slovak Automotive Industry, in [www.sario.sk](http://www.sario.sk) [accessed September 3 2010]

<sup>7</sup> KIA Motors company at glance: <http://eng.kia.sk/index.php?context=208> [accessed April 26 2011]

<sup>8</sup> PSA Peugeot Citroën: [http://www.psa-peugeot-Citroën.com/en/psa\\_group/fiche\\_nom\\_b5.php?id=161](http://www.psa-peugeot-Citroën.com/en/psa_group/fiche_nom_b5.php?id=161) [accessed April 26 2011].

### 1.3 MARKETS IN AUTOMOTIVE INDUSTRY

The automotive industry in Slovakia is export oriented. Automobiles produced in Slovakia are exported mainly to European countries (Czech republic being on the first place), but also other countries outside Europe. Table 1.10 shows that car manufacturing companies rank in the top five of the top ten exporters. The first ten largest exporters account for a 44,01% share in the overall Slovak export market. The first two columns in tables 1.9 and 1.10 show the share on export/import by cluster of exporters/importers. The following columns show actual top 10 ranking of exporters/importers.

**Table 1.9 Top exporters as of April 2010**

<u>Group</u>	<b>Share in %</b>	<b>Order</b>	<b>Exporter</b>
1-10 top exporters	44,01	1.	Samsung Electronics Europe Logistics B.V.
11-20 top exporters	5,92	2.	VOLKSWAGEN SLOVAKIA, a.s.
21-30 top exporters	4,31	3.	PCA Slovakia, s.r.o.
31-40 top exporters	3,12	4.	KIA Motors Slovakia, s.r.o.
41-50 top exporters	2,43	5.	SLOVNAFT, a.s.
<b>Together 50 top exporters</b>	59,79	6.	U.S.Steel Košice, s.r.o.
51-100 top exporters	7,77	7.	SONY SLOVAKIA, s.r.o.
101-150 top exporters	4,85	8.	Canon Europe N.V.
151-200 top exporters	3,34	9.	Mondi SCP, a.s.
<b>Together 200 top exporters</b>	75,76	10.	Tesco International Clothing Brand, s.r.o.

Source: ZAP SR

The assembly of cars in Slovak plants is closely related to imports (see Table 1.10): the three largest car producers belong not only to crucial exporters, but also rank within the 10 greatest importers.

**Table 1.10 Top importers (April 2010)**

<b>Group</b>	<b>Share in %</b>	<b>Order</b>	<b>Importer</b>
1-10 top importers	33,13	1.	Samsung Electronics Slovakia, s.r.o.
11-20 top importers	5,77	2.	SLOVNAFT, a.s.
21-30 top importers	3,48	3.	VOLKSWAGEN SLOVAKIA, a.s.
31-40 top importers	2,61	4.	SONY SLOVAKIA, s.r.o.
41-50 top importers	2,20	5.	Slovenský plynárenský priemysel, a.s.
Together top 50 importers	47,20	6.	PCA Slovakia, s.r.o.
51-100 top importers	7,96	7.	Samsung Electronics Europe Logistics B.V.
101-150 top importers	5,13	8.	U.S.Steel Košice, s.r.o.
151-200 top importers	3,76	9.	KIA Motors Slovakia, s.r.o.
Together 200 top importers	64,05	10.	Samsung Electronics LCD Slovakia, s.r.o.

Source: ZAP SR

- **Mode of internationalisation – mobility of goods / capital / labour / services**

The automotive industry in Slovakia is highly international, because all car manufacturing capacities are owned by foreign companies. The system of suppliers is predominantly international and located around car manufacturing plants, which creates a sufficient supply chain for all three automobile manufacturers in Slovakia.

All three car manufacturing companies are considered “Greenfield investors” with newly constructed plant facilities and a new set of manufactured goods. Suppliers of assembly production had already been involved during the construction period in order to ensure continuous supply of needed components. It is important that the car components are produced within the EU, because if the car does not have at least 50 to 55% of the components produced in the EU, it cannot be labelled as produced in the EU and will be subject to import tax.

- **intensity of market competition, including recent entrants and impact on European producers**

The production within Slovak automotive industry is thoroughly structured, each producer serving different market segments. The three car manufacturers do not compete with each other in their final products. At the same time, their suppliers complement each other. Volkswagen is producing within the expensive SUV segment of the market (Volkswagen Touareg, Audi Q7 and automotive bodies for Porsche Cayenne). PSA Peugeot Citroën is producing segment B products (Peugeot 207, Citroën C3 Picasso) and KIA Motors is producing segment C products (cee'd, sportage, cee'd\_sw, pro\_ee'd and Hyundai ix35). The arrival of KIA Motors and PSA Peugeot did not produce competition in the car industry production and among suppliers, but attracted even more international suppliers to settle in Slovakia. For example, Johnson Controls built more plants (four in total, plus finance and R&D centre) to cover the demand for its products.

The suppliers often deliver their products (with the exception of those who deliver “just in time” and are allocated close to the car manufacturing plant) also to several other car manufacturers outside the Slovak borders and often also to other types of industries.

The introduction of Euro in 2009 and also the overall growth in wages have resulted in more frequent threats of companies vis-à-vis employee representatives and the government to relocate certain types of production, mainly simple low-skilled work such as cable production, to countries such as Bulgaria, Romania or Morocco.

- **trends in demand**

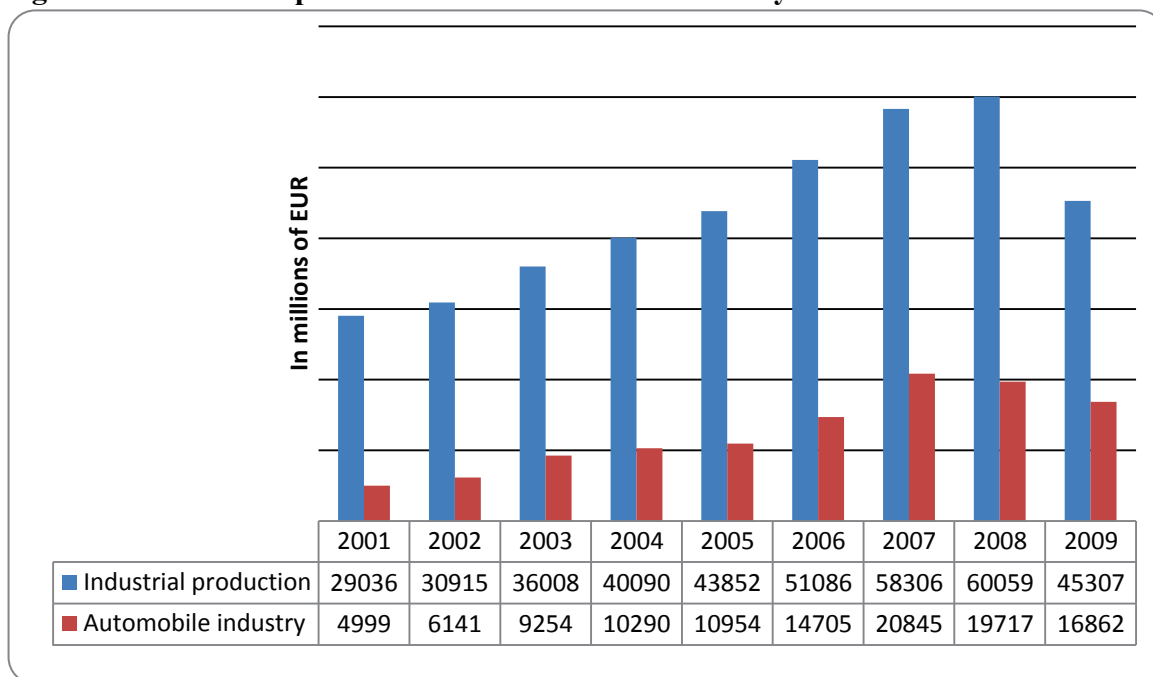
Manufacturing is a sector exposed/sensitive to economic downturns. The global financial and economic crisis has had a strong impact on automotive sector. PSA Peugeot Citroën aimed at opening a third production shift before the crisis, but as the crisis extensively hit this sector, the third shift has not been opened. The same scenario happened in KIA Motors. Both companies refrained from introducing the third production shift in order to stabilise the number of employees. All three car manufacturers have currently extra capacities in terms of human capital and technical

equipment to cope with a sudden rise in demand. The assembly lines are highly flexible and adjustable to the assembly of another product models upon changes in demand.

- **predictability of demand**

Manufacturing, metal sector and automotive industry as its division are highly exposed/sensitive to global economic downturns. The predictability of demand is very difficult to establish. The demand side can be locally affected by changes in the regulatory framework (i.e., policy changes in Slovakia to increase the number of sold cars) or monetary changes (i.e., the introduction of Euro as Slovakia’s currency in 2009) to boost demand for cars. The introduction of Euro caused high demand in the final months of 2008 when Slovak citizens aimed at spending their savings in the old currency. The fear of significant price increases after the introduction of the new currency played an important role and motivated individuals to purchase new cars for cash in the second half of 2008. This resulted in an interesting situation: overall the crisis had already hit the automotive sector in 2008, the numbers of sold cars dropped, but in Slovakia the number of sold cars reached its peak in 15 years. Given this one-time shock in demand and the overall crisis, in 2009 the number of sold cars declined also in Slovakia (see Figure 1.2).

**Figure 1.2 Industrial production and automotive industry**



Source: Slovak Statistical Office and ZAP SR

- **production configuration – capital intensity, skills and productivity level**

According to the Slovak Ministry of Economy the number and size of investments has fallen compared with the year 2008. The Ministry is very careful with predicting investment growth. 2010 should have been a stabilising year; and greater investments mainly into more sophisticated production, e.g., medium-high technologies, are predicted for 2011-2012.

As far as skill levels are concerned the Slovak automotive industry has to cope with shortage of skilled workers. This shortage was caused through abolishing the linkage between the state system of vocational education and particular manufacturing plants. After losing touch with industry and facing financial difficulties, vocational schools lagged behind with providing hands on education on new technologies in car manufacturing. Moreover, the car reparation service sector has to cope with shortage of people able to repair new types of cars. Facing the above shortages, actors in the Slovak car industry took a joint initiative and wrote a new law on vocational education. This law was passed in the Slovak parliament in 2009. It significantly changes the approach of the state, employers and employees towards vocational education. It is based on a regional-level cooperation of four parties: the state, employees, employers and schools. This reform aims at structural changes at the regional and higher levels; currently the regional structures are being built. Sectoral committees of vocational education are being established according to respective industrial divisions. Among others, the law allows employers to provide financial motivation to students, which then enters the cost side of the employer's accounting system. The new law affects together 14 other legislative norms and aims at improving the quality of vocational education in Slovakia and re-establishing the link between education and the real economy.

Although the regional structures for vocational education are only being built, there are already pilot centres/schools initiated by the automotive industry. The operation of these pilot centers played an important role in designing the new law on vocational education. In every higher administrative unit of Slovakia, a particular high school providing education in subjects related to the automotive industry has been selected as a pilot centre. Vocational guarantee is provided by the Association of Automotive Industry of the Slovak Republic and the Guild of Car Sellers and Car Service Providers of the Slovak Republic. The State Institute of Vocational Education is responsible for educating teachers of the pilot schools/centres.

The schools were provided with cars and car components taken from production in order to offer students hands on experience with the newest technologies and products. However, soon the initiators realised the broad character of the automotive industry, namely, the close tie to other sections of the metal industry. It was simply not possible to embrace the whole field and hence a system change was necessary. This situation resulted into the process of drafting and passing the new law on vocational education.

The current aim of the pilot centre/school is to provide a better quality of vocational education to students, requalification of the unemployed, lifelong learning of the teachers and lifelong learning of technical staff. They should provide the base for vocational lifelong learning and address the changes given by demands of the labour market. These pilot centres/schools are very successful and often the demand of students is higher than the capacity of the school.

- **changes to products and processes**

The Slovak Ministry of Economy is aware of the need of investments yielding high value added. This need results in the necessity to attract not only investments in manufacturing and assembly, but also in research and development, and innovation in several industry divisions. Volkswagen has started with the production of the hybrid SUV car Touareg. This direction of investments into sophisticated technologies and production of electric and hybrid cars could help the Slovak

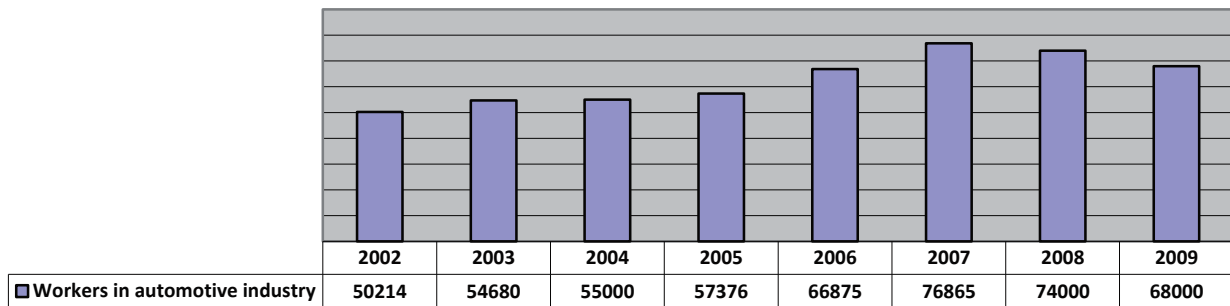
automotive industry in improving its value added. Innovation is also needed with regard to meeting environmental demands of the EU legislation on automotive industry.

#### 1.4 WORKFORCE COMPOSITION AND CHANGES

The influence of global financial and economic crisis is visible also in the number of workers currently employed in the automotive industry. There has been a significant drop of number of employees from 2007 onwards (see Figure 1.3 and Table 1.11). The current trend shows that the car manufacturers have stabilised their workforce and do not plan another round of workforce cuts.

*Flexikonto* (a flexible working account) has been introduced as a measurement against the effects of global financial and economy crisis. When the production is declining workers work less and still get their basic wage, and later when the production is on its rise, they will work off their negative hours. This will be described in more detail in Section 5 on flexibility and security.

**Figure 1.3 Development of employment in automotive industry in Slovakia**



Source: ZAP SR

**Table 1.11: Employment in metal industry and the effect of crisis**

Employment in metal industry and crisis	
As of 1.1.2008	536 000 people
As of 31.12.2009	506 000 people
<b>Decline of 5,6%</b>	
As of 31.12.2009	447 000 people
<b>Decline of 16%</b>	
Automobile industry	<b>Decline of 8,2%</b>

Source: ZAP SR

Concerning the workforce in the automotive industry, there is a gentlemen's agreement between Volkswagen and PSA Peugeot Citroën about taking over the qualified staff of the other car company. Volkswagen has been present on the Slovak market for 20 years and educated a number of HR specialists during this period. VW-trained specialists are now also working for KIA Motors and PSA Peugeot Citroën. The spillover of VW's specialists into other companies opens an

interesting research question on company culture and home-country influences on HRM in Slovak subsidiaries.

## 1.5 CHANGES IN REGULATORY FRAMEWORK

- **changes in general regulatory framework relevant for employment conditions and industrial relations**

This section provides a brief overview of post-2001 legal developments with significant impact on flexibility/security issues, role of industrial relations actors, collective bargaining and state aid for investment in Slovakia. The overview below draws on EIRO reports and the respective legal documents.

The Constitution of the Slovak Republic - section 5 on economic, social and cultural rights; and within this section Article 36, letter g) guarantees the right for collective bargaining. Other major legal documents stipulating provisions on collective bargaining include the **Act on Collective Bargaining (Act No. 2/1991)**, with 12 amendments between 1991 and 2010. This Act defines and stipulates the scope of collective agreements and defines who can negotiate and conclude a collective agreement on behalf of a contractual party. It further determines validity and terms of collective agreements. Next, the Act specifies procedures in case of collective dispute and defines proceedings in case of an Intermediary/Mediator involvement. The last amendment of December 2010 has addressed the extension of sectoral collective agreements and has specified in greater detail the conditions of such extension. Earlier amendments of Act No. 2/1991 did recognize extension, but failed to specify the exact mechanism. The last amendment stipulates that extension is only possible upon a written request signed both by trade unions and the concerned employer. In other words, sectoral agreements cannot be extended without prior consent of the concerned employer.<sup>11</sup>

As a result of the tripartite concertation, the Slovak parliament adopted three new Acts in July 2001, two of which are particularly important for flexibility/security and for employment conditions in the healthcare sector. These Acts came into effect as of 1 April 2002.

- **Act no. 311/2001 - the Labour Code (followed by 8 amendments between 2002-2010)**<sup>12</sup>

The Labour Code regulates employment conditions of about 1,5 millions of employees in the business sector, setting more freedom, democracy and contract-based labour relations for its main principles. This new Labour Code abolished previous limits to the scope of collective bargaining: employers and trade union representatives in the business sector can now bargain on any issues of common interest.

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<sup>11</sup> Source: [http://www.echoz.sk/index.php?option=com\\_content&view=article&id=95:novelu-zakona-o-kolektivnom-vyjednavani&catid=49:novely-pracovnopravnych-a-socialnych-zakonov&Itemid=20](http://www.echoz.sk/index.php?option=com_content&view=article&id=95:novelu-zakona-o-kolektivnom-vyjednavani&catid=49:novely-pracovnopravnych-a-socialnych-zakonov&Itemid=20) [accessed April 7, 2011].

<sup>12</sup> Source: <http://hnonline.sk/c1-51364280-novelizacie-zakonnika-prace-od-roku-2001> [accessed March 29, 2011].



*Selected issues in the Labour Code (relevant for flexibility/security and bargaining):*<sup>13</sup>

- *employment relationship*: a requirement for the employment relationship to be established only in the form of a written employment contract; the introduction of the term 'domestic employee' to refer to home work; procedures applicable in the case of collective redundancies

- *wages*: The main principle for remuneration is that conditions of remuneration must be specified exclusively on the basis of the contractual principle. In the event that no conditions for remuneration of employees have been agreed upon in the relevant collective agreement, the Labour Code establishes an obligation for the employer to lay down such conditions in the employment contract. The law defines: wages; minimum wages; wages for overtime work; wage compensation for public holidays; and pay premia for night work and for work in a more demanding and harmful environment etc. It also specifies the term and methods for payment of wages, and wage deductions (e.g. taxes and contributions to social security funds).

- *working time*: maximum weekly working time is set at 40 hours. Until March 31, 2002, the maximum weekly working time was 42.5 hours. The reduction of 2.5 hours does not mean actual reductions in net working time because the current 40-hours does not include paid breaks for refreshments or meals. Prior to 2002, paid breaks were included in the stipulated maximum weekly working time. According to the Labour Code after 2002, weekly working hours including overtime should not exceed 58 hours, and annual overtime should not exceed 150 hours.

- *agreements for work performed outside a regular employment relationship*: forms of precarious work not considered standard employment relationship, i.e., assignment contracts, temporary contracts for students, and dependent self-employment. In the former two forms, no social security contributions/entitlements apply. In the latter, the employee can subscribe to voluntary social security contributions and upon fulfilling eligibility criteria claim social security/sickness entitlements. These workers do not have a legally stipulated right for paid holidays. These forms of employment are very common to avoid social security contributions applicable in case of a standard employment relationship.

- *introducing home work and telework* (§52): including provisions of non-discrimination of employees working from home or engaged in telework (with IT provided by the employer).

- *labour relations*: a new employee representation structure for the first time in over 15 years. Employees are entitled to collective bargaining, co-decision making and negotiations. They also have a right to information and to monitor activities. In business organisations if no trade unions in workplaces with at least 20 employees, works councils are to be elected. Councils have rights to negotiation, information and monitoring vis-à-vis the employer. In workplaces with 5-20 employees shop stewards are to be elected. Similarly, 'personnel councils' are to be elected in public organisations. The election period of both councils is four years. Moreover, the new Code strengthens the role of unions in determining employment conditions. This provision has caused

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<sup>13</sup> See EIRO reports at <http://www.eurofound.europa.eu/eiro/2003/01/feature/sk0301102f.htm> and <http://www.eurofound.europa.eu/eiro/2002/07/feature/sk0207102f.htm> [accessed on April 12, 2010].

employer protests and renewed consultations between the government and social partners (Source: EIRO 2002 reports on Slovakia).

Already in late 2002, employers signalled that the adopted labour code is not flexible enough to reflect the current labour market developments and called for further amendments, arguing that ‘at present, [...] it creates obstacles to employers employing more people and to employees working more and thus improving their income (Source: EIRO article SK0303101N). The government responded to employer demands and drew up approximately 180 proposals for changes to the Labour Code, which were forwarded to the social partners in late 2002 at a tripartite meeting. In result, the revision occurred in July 2003. The goal of all Labour Code amendments in Slovakia remained the same since 2001 - to achieve a higher level of flexibility in employment relations by reducing the number of regulations and improving the conditions for autonomous collective bargaining. Areas affected by amendments include works council and trade union rights, termination of employment, overtime, paid leave, working time and fixed-term contracts.

Labour Code amendments since 2001 also take into consideration requirements of relevant EU Directives, comments from the International Labour Organisation on the previous Labour Code, and issues arising from its implementation. The amended Labour Code stipulates only the basic framework, with actual working and employment conditions to be adjusted at enterprise level, taking into account regional and sectoral circumstances and the employer's situation. The new amendments also eliminate the administrative intervention in labour relations of a number of institutions, thus simplifying Labour Code implementation.<sup>14</sup>

After the government change following parliamentary elections in 2010, further changes to the Labour Code are expected.<sup>15</sup> These follow a single aim – further flexibilization of the Slovak labour market in order to combat high unemployment after the economic crisis. The aim is to give more room to non-standard employment and to liberalize hiring and firing regulation. These changes should result in a new Labour Code currently discussed in the parliament and tripartite council. Upon approval, the effected enforcement date is September 2011 or January 2012. Selected issues in ongoing debates relevant for the flexibility and security debate are summarized below.<sup>16</sup>

- *Shared employment*: the new Labour Code introduces the institution of shared employment that shall yield a better work-life balance for employees with children. Shared employment is defined as a job position where concerned employees decide the distribution of working time and work content for the particular job without tertiary intervention.
- *Length of notice upon employment contract termination vs. redundancy pay* – employers welcome the new regulation stipulating either redundancy pay or a length of notice period upon employment contract termination. In other words, an employee whose dismissal is planned is either entitled to redundancy pay or to the continuation of his/her employment contract for

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<sup>14</sup> Source: <http://www.eurofound.europa.eu/eiro/2003/12/feature/sk0312103f.htm> [accessed April 22, 2010].

<sup>15</sup> A minor amendment, effective from April 2011, aligns the Slovak regulation with European directives (e.g., on gender equality).

<sup>16</sup> Source: <http://ekonomika.sme.sk/c/5806791/rodicov-cakaju-v-praci-nove-vyhody.html#ixzz1HLIQFPnQ> [accessed March 22, 2011].

regular wage for one month (length of notice) before dismissal.<sup>17</sup> The employee is not entitled to both redundancy pay and length of notice at the same time. This regulation should contribute to greater labour market flexibility and easier hiring and firing.

- *Paid leave regulation:* the new Labour Code guarantees five weeks of paid leave annually for employees of 33 years of age and older without the need to present any documents to the employer. Until now the employees were entitled to the same length of paid leave, however, only upon presenting written documents, i.e., proofs of their entitlement, to the employer.
- *Variable length of probationary period:* employers welcome the diversified length of probationary period in different types of employment. This provision should increase the flexibility of employment.
- *Temporary employment contracts* – the Ministry’s proposal is to increase the number of consecutive temporary contracts with the same employer to three in three years (instead of the current regulation stipulating two consecutive temporary contracts in two years).
- *Labour relations:* the new Labour Code grants more room for voluntary agreements and bargaining at the company level and thus supports bargaining decentralization. The Entrepreneur’s alliance of Slovakia welcomes such decentralization and argues that it is a win-win situation for employers, employees and job seekers because of lower job creation costs. The new regulation should stimulate new jobs, more intensive wage growth and better employment conditions.

Trade unions are very critical of the suggested changes. The main point of critique is that the proposed Labour Code attempts to significantly increase labour market flexibility and at the same time seriously cut down security provisions. Trade union’s interpretation of suggested changes is the following:<sup>18</sup>

- extended probationary period to 6 months with the possibility to dismiss the employee anytime
- employment insecurity because of more temporary contracts and their extensions
- the law shall guarantee only the statutory minimum wage of EUR 317 instead of the current six levels of minimum wage depending on the character of work. Trade unions criticize that wages can remain as low as the minimum wage in workplaces without a collective agreement
- shorter length of notice upon dismissal, less complications in dismissals (i.e., dismissal without a specified reason)
- dismissal of a handicapped workers will no longer require an approval by the relevant Labour Market Authority
- role of trade unions and Labour Market Authority shall be more limited in hiring and firing

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<sup>17</sup> The current Labour Code stipulates a length of notice of at least two months and for employees having worked for the same employer for more than five years three months. Source: The Labour Code, § 62. Employers’ representatives propose that the new Labour Code stipulates only a one-month length of notice, or a redundancy pay of a monthly wage. Source: SOZZaSS Newsletter 2/2011 in [www.sozzass.sk](http://www.sozzass.sk) [accessed March 22, 2011].

<sup>18</sup> Source: SOZZaSS Newsletter 2/2011 in [www.sozzass.sk](http://www.sozzass.sk) [accessed March 22, 2011].

- trade unions' codetermination in issues of working time, overtime, work norms and other workplace regulation
- in case of lockouts due to lack of production inputs on the employers' side employees are entitled only to half of their regular wage
- lower dismissal protection of selected groups of employees (pregnant women, parents taking care of young children or disabled family members)
- introduction of flexikonto (working time annualization) at the workplace even without a prior approval of the trade union
- overtime payment no longer guaranteed by law but depending on agreement between employer and employee

**- Act on Tripartite Consultations (Tripartite Act)**

In 2007 Slovakia adopted the Act No. 103/2007 on tripartite consultations at the national level. The purpose of this Act is supporting effective social dialogue at the national level as democratic means toward resolving current economic and social challenges, development of employment and securing of social peace. In practice, there are different views of social partners on the real functioning of tripartism: some social partners see a great value added, whereas others remain critical and claim tripartism is dominated by the government seeking to approve its policies by (weak) social partners.

**- Act number 233/1991 on state aid and its amendments**

Act number 233/1991 and its amendments stipulates the framework on providing state aid to firms. Paragraph 15 elaborates specifically on framework applicable to automotive industry. After Slovakia joined the EU on May 1<sup>st</sup> 2004, no incentives outside the EU regulation could have been given to the investors. Entities providing state aid have to consult the European Commission via Slovak Ministry of Finance for approval of the state aid. This is not applicable for incentives falling under the act number 565/2001 and its amendments where the aid provider is the Slovak Ministry of Economy.

**- Amendment of the law on investment help number 561/2007 and its amendments**

The amendment is aimed at supporting a wider range of firms by lowering the minimum investment amount for provision of long-term corporeal property and long-term incorporeal property in areas of industrial manufacturing and tourist trade. These provisions were introduced only for limited time from April 1<sup>st</sup> 2009 till December 31<sup>st</sup> 2010.

**- Amendment of the law on employment services number 5/2004 and its amendments**

The amendment stipulates the establishment of “flexikonto” and five new contributions applicable for the labour market for supporting the sustainability of existing jobs, creation of new jobs and entrepreneurial opportunities. It increases the amount of maximum commuting contribution and it lowers the criteria for recognition of social firm status. These provisions were introduced only for limited time from March 1<sup>st</sup> 2009 till December 31<sup>st</sup> 2012.

## 1.6 SECTOR-SPECIFIC PUBLIC POLICIES

As several other countries, Slovakia also introduced the “Scrappage scheme” (*šrotovné*) as a form of support to the automotive industry and industries with close linkages to the automotive industry. The Association of Automotive Industry of the Slovak Republic (*Združenie automobilového priemyslu SR, ZAP SR*) has been the central authority in both waves of the scrappage scheme. In cooperation with the Ministry of Interior Affairs, the Association authorized scrappage places and initiated an online computer system to increase transparency in the scheme. The results of scrappage scheme in Slovakia are listed in Table 1.12.

**Table 1.12 Scrappage scheme - final report**

Indicator	1 <sup>st</sup> wave 2009	2 <sup>nd</sup> wave 2009	Together
Planned subsidy of ME* in €	33 150 000,00	22 100 000,00	55 250 000,00
Actual subsidy of ME in €	31 775 500,00	18 057 000,00	49 832 500,00
Nr of deregistered vehicles	22 100	22 100	44 200
Nr of given subsidies in pcs	21 216	18 059	39 275
Invoiced price in €	190 618 770,30	174 428 642,02	365 047 412,32
Invoiced VAT in €	35 775 581,62	30 733 261,47	66 508 843,09
Seller's subsidy in €	14 681 450,48	20 385 474,84	35 066 925,32
Ø invoiced price of car in €/car	8 984,67	9 658,82	
Max. subsidy of ME in €/car	1500,00	1000,00	
Ø used subsidy of ME in €/car	1497,71	1000,00	
Min. subsidy of seller in €/car	500,00	1000,00	
Ø actual subsidy of seller in €/car	692,00	1 128,84	
Other collected fees in €	1 434 413,00	1 224 038,00	2 658 451,00

\* ME – Ministry of Economy of Slovak Republic

Source: press release of ZAP SR

The final report on the scrappage scheme argues that the scheme had a stabilizing effect on car production and consequently employment in the industry in Slovakia. It had also a positive effect on the safety on the roads since around 44,000 scrappaged cars were at least 20 years old. The report also argues that by introducing the scrappage scheme, Slovakia sent a positive signal to the European automotive industry actors, in particularly to potential investors. ZAP SR maintains that the scrappage scheme should be an ongoing process to renew the Slovak car fleet, but under the current economic situation in Slovakia this project has been put on hold.

After the scheme's conclusion, the country experienced a decline in demand. Next, there have been four other legislative changes which had impact on consumers' decision to purchase cars. One of them is the EU's harmonization of the N1 category (small truck for undertakers, so called

“grate”). The grate had to be removed from mid 2009. Another changes are the possibility to buy a passenger car for business purposes with VAT deduction and the introduction of Euro from 2009. All the above changed had a positive impact on car production in Slovakia.

## 2. Industrial relations actors and institutions

This section highlights the major characteristics of industrial relations in the Slovak metal sector.

### 2.1 INDUSTRIAL RELATIONS ACTORS IN THE METAL SECTOR

#### - Trade union organization and membership density; recent changes

OZ KOVO is the single sector-level trade union active in the metal sector, covering also employees in the automotive sector. OZ KOVO was founded on April 3<sup>rd</sup> 1993. It associates members mainly from mechanical engineering, electrotechnical industry, metallurgy, services and public road transport. Its aim is to enforce the justified claims of its members and defend their interests.

OZ KOVO is a sectoral organization embracing 430 base or company-level organizations (*základné organizácie*) in 2010. Base organizations are relatively autonomous, offer training to the members and also inform the headquarters about the annual meeting and other issues. Individual members of base organizations are at the same time members of OZ KOVO. If the member no longer wishes to continue his/her membership in the base organization, he/she is obliged to cease his/her membership in OZ KOVO, too. Union representatives of base organizations may participate in the meetings of the headquarters and also the board members of OZ KOVO can join the meetings of the base organizations and add issues to the agenda of the meetings. Members of the board support the base organizations. There are also 3 methodical centres which help with preparation of supporting material, templates of collective agreements and also support legal representation of union interests in court cases.

The current level of unionization in the metal sector is approximately 35%. However, the dispersion of unionization is large across the variety of firms in the sector. Some firms have over 90% unionization, whereas others have only 15%<sup>21</sup>. In general, unionization is higher in firms with a history dating to periods before 1989 than in firms founded in post-socialism. In firms founded after 1989, unionization rates are either lower, or unions are not present at all. In general, automobile manufacturers, especially Volkswagen and PSA Peugeot Citroën have a decent level of unionization within OZ KOVO. Volkswagen has approximately 6700 union members out of 9000 employees (almost 75%) and PSA Peugeot Citroën has approximately 800 members out of 3100 employees (about 25%). The relationship between KIA and trade unions is very tense due to cultural differences.

In recent years, trade union membership has been declining due to bankruptcy of firms, organizational changes and the global financial and economy crisis. More members are leaving

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<sup>21</sup> Source: Interview OZ KOVO, 7 July 2010.

than joining OZ KOVO. OZ KOVO faces the challenge of developing a new strategy to attract new members. Recently, the union won new members through mergers with other trade unions. In 2010, OZ KOVO reported approximately 70,000 members. Compared to 370,000 members in 1989, this is a significant decline. The most drastic decline came with the conversion of armament industry (loss of approximately 70,000 union members) in early 1990s. About 10% of current members are retired workers, workers on maternity leave or (temporarily) unemployed.

- **Employers' organization and membership density; recent changes**

Two sector-level employers' organizations with clearly defined fields of operation and different roles within the automotive sector.

**Automotive Association of the Slovak Republic** (*Združenie automobilového priemyslu Slovenskej republiky, ZAP SR*) - is a voluntary association of legal entities (societies, enterprises, co-operative producers and other legal subjects), established in 1993 and operating in following fields:

- superstructures for motor and trailing vehicles, accessories for motor and trailing vehicles
- research, development, manufacturing and sale of motor and trailing vehicles and components
- design and manufacturing of tools and equipment for automotive and allied industries
- import and sale of motor vehicles
- technical university education of specialists for automotive, allied and supplying industries as well as for service and vehicle operating

ZAP SR has four divisions: Automotive importers, Motorcycle importers, Manufacturers and Specific organizations. All together, ZAP SR represents 144 legal subjects, is active in keeping and developing local and foreign contacts and cooperates with organizations with similar interests.

Although ZAP SR is currently not directly involved in any bargaining structures, it is a powerful organization and an important player in Slovak industrial relations that has shaped the development of employers' associations and bargaining processes. ZAP SR is a former member of the peak-level Federation of Employers' Associations of the Slovak Republic (*Asociácia zamestnávateľských zväzov a zdužení Slovenskej republiky - AZZZ*). In 2003 ZAP SR left the AZZZ due to AZZZ's diversity and ZAP SR's dissatisfaction with AZZZ's way of representing interests of actors in the automotive sector at the tripartite level. In 2004, ZAP SR founded the National Union of Employers (*Republiková únia zamestnávateľov – RUZ*) with members mainly from the private sector. RUZ is now together with AZZZ a peak-level association engaged in the tripartite council. In 2008 ZAP SR left RUZ due to significant differences in strategy on how to cooperate with the government. RUZ was in militant opposition to the left-oriented government of Robert Fico (2006-2010) and engaged in open antagonism with the government on all fronts and using all possible channels including the media. ZAP SR refrained from these methods, left RUZ and operates as an independent organization since 1998.

ZAP has been very active in coping with challenges of the automotive sector in Slovakia. Pilot projects of professional vocational education; preparation of the law on vocational education;

active participation in scrappage scheme; active dialogue with the government in order to achieve positive outcomes for the automotive industry; those are one of the few (policy) achievements and strategies of ZAP.

As already mentioned, ZAP does not actively participate in collective bargaining at any level. It has mandated the Federation of Mechanical Engineering of the Slovak Republic (*Zväz strojárského priemyslu SR, ZSP SR*) to participate in collective bargaining on behalf of the automotive industry. Suppliers to the automotive industry, which simultaneously serve as supply to other industries linked with car industry, are also members of ZAP SR. However, for bargaining purposes these suppliers have the option to be members and thus be represented by the respective employers' associations in a particular industry. For example, US Steel Košice, the largest steel company in Slovakia, is a member of the Association of Metallurgy, Mining and Geology of the Slovak Republic (*Zväz hutníctva, ťažobného priemyslu a geológie SR, ZHTPG SR*).

The **Federation of Mechanical Engineering of the Slovak Republic** (*Zväz strojárského priemyslu Slovenskej republiky – ZSP SR*) was established on July 10, 1990. ZSP is an open organization and associates large as well as small and medium size companies from mechanical engineering and related industries. The main objectives of the Federation are to represent and advocate the members' interests in tripartite negotiations with the Government and trade unions and the conclusion of higher-level (sectoral) collective agreements. Sectoral agreements concluded by ZSP also cover the automotive industry, because ZSP negotiates with trade unions on behalf of ZAP SR. The professional activities of the Federation are organized within expert sections targeted on collective bargaining, economy, legislation and foreign relations and professional sections which associate members upon their relevant production.

**Slovak Industry Association** (*Zväz priemyslu - ZP*) – is an employers' association established in 2005. It's primary goals are to support the mutual interests of its members in the field of industrial policies, social policies, R&D and education. Until recently, there have been informal discussions concerning the possibility of ZP's merger with RUZ. However, by mid 2010 this initiative has seized and the interview informants for this project maintained that no merger between ZP and RUZ is likely to occur. Instead, ZP aimed at becoming the third peak-level employers' association, active in the national tripartite council together with RUZ and AZZZ<sup>22</sup>.

Both ZAP SR and ZSP are ZP members, however they are not satisfied with ZP's activities in the field of social dialogue. For this reason, both ZAP SR and ZSP are currently reconsidering their membership in ZP. In particular, ZAP SR does not agree with the merger of ZP and RUZ.

Finally, according to informal information, Korean firms in Slovakia, most of which operate in the automotive industry and electronics, plan to found a separate employers' association of Korean employers. This association shall have 17 members.<sup>23</sup>

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<sup>22</sup> Source: interview ZSP chief negotiator, 6 July 2010.

<sup>23</sup> Source: interview OZ KOVO, 7 July 2010.



## 2.2 INDUSTRIAL RELATIONS INSTITUTIONS IN THE METAL SECTOR

### - **Multi- or single-employer bargaining arrangements**

Collective bargaining in the sector is mostly decentralized. Sector-level bargaining plays an important role for the trade unions, but it lacks coordination with SEB-level and in case of automotive industry it sets minimum standards.

### - **Amongst MEB, sector and/or inter-sector**

Automobile industry is covered by MEB bargaining in mechanical engineering. In addition, from among automobile manufacturing firms only Volkswagen and PSA Peugeot Citroën take active part in collective bargaining at the SEB level. Since the metal industry embraces firms in many different sections of SK NACE, bargaining has to target a large diversity of employees and types of work ranging from low-skilled to high-skilled types of work. Therefore, higher-level collective agreements (sector-level agreements) set predominantly minimum standards in wages.

The problem with the SK NACE classification is the fact that this classification was created mainly for statistical purposes, but its divisions are not fully feasible for bargaining purposes. For example, production of lighting in broad sense belongs to electrotechnical SK NACE classification, but the production of lighting for cars belongs to the automotive section of SK NACE. This organization complicates the clear delineations between sector-wide bargaining practices and raises questions on bargaining coverage of sector-level collective agreements.

Another problem with the bargaining structure derives from the diversity of production within some firms. Some firms produce various types of products, which belong to various SK NACE groups. The firm then gets an SK NACE code of the product which brought the highest profit. There was a case of an artificial fertilizer firm which had more profit from renting property, hence the firm received an SK NACE code applicable to real estate and not to artificial fertilizer production. In an industrial relations perspective, the fact that this firm would be covered by the respective collective agreement applicable to its most profitable activity distorts the real function of bargaining. Only 20 people worked in the real estate section, whereas 140 employees worked in the artificial fertilizer section. Following the SK NACE classification and application of collective agreements accordingly, it would mean that the majority of employees are covered by an agreement tailored at only a small number of employees within the firm.

### - **Amongst SEB, relative incidence of multi-site organisations of site-based or company-wide CB arrangements**

There are bargaining arrangements in individual firms especially where trade unions are present. Also in case of multinational companies, the industrial relations within the headquarters and the fact whether unions are present and agreements concluded at headquarters influences the subsidiaries. Volkswagen and PSA Peugeot Citroën are good examples of site-based or company-wide collective arrangements. Small firms or local firms tend to avoid the conclusion of collective agreements.

There is also a trend of decreasing number of collective agreements concluded at the firm level as well as the sector level. The reason for this might be the hesitation of employers to engage in sector-level bargaining (through sector-level social partners) and the perception that agreements are biased towards employees' interests and hinder the competitive advantage of the employer.

- **Collective bargaining coverage and recent changes**

The collective bargaining coverage in the metal sector is decreasing. The Act on collective bargaining 2/1991 and its amendments, in particular the section on collective agreement extensions (paragraph 7), has been subject to changes in the past years and this has had a significant effect on collective agreement coverage.

Until the end of 2009 collective agreements could have been extended selectively to firms where trade unions and/or employers' associations were present and both or one of them agreed to such extension. Extension was not mandatory for employers outside sector-level employers' associations. Only voluntary extension did apply upon request of the firm.

Act no. 564/2009, which amends and complements the Act on collective bargaining no. 2/1991 and its amendments, aimed at offering a solution to the decreasing coverage of sector-level collective agreements. This act, valid from January 2010, stipulated that higher-level collective agreements can be extended sector-wide according to the applicable SK NACE. Trade unions welcomed this Act, whereas employers were strongly against it. OZ KOVO started the procedure of extending higher-level collective agreement in the field of mechanical engineering with the Ministry of Labour, Social Affairs and Family already in March 2010. The former Minister Viera Tomanová signed the decree of the extension on July 7 2010, making the extensions effective from August 1 2010. The signature of this decree was the last action of the former Minister of Labour, Social Affairs and Family in office. The new Minister revoked this decree on July 27 2010. The current situation follows the last amendment of the Act on Collective Bargaining, approved in December 2010, and stipulating only a voluntary extension upon the concerned employers' consent.

**Table 2.1 Simulating the coverage by sector-level collective agreements, 31 December 2008, in the light of the legally stipulated extension mechanism\***

Division code	Division name	Nr of all firms **	Nr of all employees	Nr of firms > 20 employees	Nr of employees in firms > 20 employees	Nr of employees covered by CA	All coverage in %	Coverage of >20 in %****
24	Production of metals	111	25 781	66	25 472	13 249	51,4	52,0
25	Production of metal constructions	2 080	40 404	388	33 088	2 158	5,3	6,5
26	Production of computers, electronics and optical products	299	21 236	64	20 094	504	2,4	2,5
27	Production of electrical appliances	438	30 035	118	28 363	4 472	14,9	15,8
28	Production of machines and equipment	656	39 569	201	37 743	8 142	20,6	21,6
29	Production of motor vehicles, semi-trailers and trailers	182	53 872	115	53 764	13 682	25,4	25,5
30	Production of other motor vehicles	52	4 098	29	3 944	69	1,7	1,7
32	Other production	307	5 892	33	4 700	225	3,8	4,8
24-32	<b>Together METAL industry</b>	4 125	220 977	1 006	207 218	42 501	19,2	20,5
24	<b>Metallurgy**</b>	111	25 781	66	25 472	13 249	51,4	52,0
25,28, 29,30, 32	<b>Engineering</b>	3 277	143 835	758	133 289	24 276	16,9	18,2
26,27	<b>Electrical engineering</b>	737	51 271	182	48 457	4 976	9,7	10,3

**Source: statistics.sk and OZ KOVO trade union**

- \* OZ KOVO comment: Information on numbers of employees covered by a higher-level collective agreement in 2008 was adapted according to the planned amendment of the Act on collective bargaining from 2009. Numbered are all employees in divisions where there is a higher-level collective agreement, including those where there is no trade union. In sum, information in the table on coverage of agreements due to legally enforced extension is hypothetical.
- \*\* OZ KOVO comment: Small firms form more than 75% of all firms, however they employ only 6,2% employees. Larger firms (over 20 employees) employ almost 94% employees. For the purposes of representativeness only the data on firms with more than 20 employees should be considered. This recommendation is confirmed by comparison of percentage coverage where the maximum difference in coverage is 1,3%. This simplification makes also the calculations more easy, because it excludes about 75% of firms to which the higher-level collective agreement cannot be extended according to the law.
- \*\*\* OZ KOVO comment: Currently there is no valid higher-level collective agreement for metallurgy, which would have the highest coverage and is also mentioned in the table. Excluding this particular higher-level collective agreement would result in the drop of real average percentage coverage of employees to 16% with the difference reaching from 1,7% to 25,5%.
- \*\*\*\* OZ KOVO comment: Coverage in respective divisions is very differentiated. Despite the average coverage of 20,5%, there is a significant dispersion between the maximum (52% in division 24) and minimum (1,7% in division 32)

**Table 2.2 Higher-level collective agreements bargained by OZ KOVO - coverage of employers**

Sector	Valid	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Mechanical engineering	Members of EA Extension	89 111	82 82	71 74	59 26(104)	52 •	52 •	43 •	38 •	38 •	34 40	34 38
Mechanical engineering - DIVIDEND	Members of EA Extension	17 24	18 16	16 15	15 4(22)	15 •	10 1(13)	14 •	9 •	9 •	9 •	N N
Electrotechnics	Members of EA Extension	9 •	9 3	9 2	11 4(4)	10 •	10 •	8 •	8 •	9 •	6 4	9 5
Metallurgy	Members of EA Extension	10 2	10 3	10 4	10 0(2)	10 •	10 •	7 •	7 •	7 •	N N	N N
Foundries and blacksmitheries	Members of EA Extension	15 4	18 •	15 •	16 •	16 •	16 •	Employers' association seized to exist				
OZ KOVO	Members of EA Extension	140 141	137 109	121 99	111 34(128)	103 •	98 1(13)	72 •	62 •	63 •	51 44	43 43
<b>Total</b>	Members of EA + Extension	281	246	220	145	103	99	72	62	63	95	86

**Source:** Archive of OZ KOVO

**Comments:**

Members of EA - number of members of employers' association of respective sector

- extension of higher-level collective agreement not requested, or requested but not extended to firms outside of existing employers' associations

26(104): Number in front of the brackets depicts the number of firms to which extension of higher-level collective agreement has been applied. Number in brackets depicts the requested extension of high-level collective agreement by OZ KOVO

N: Higher-level collective agreement not signed therefore no extension

- **Existence and use of extension arrangements**

During the office of the Fico government (2006-2010), Slovakia experienced an extensive discussion and action of trade unions and the government on the extension arrangements of higher-level collective agreements. The aim was to institutionalize a wide extension arrangement: extending agreements concluded by sector-level social partners also to firms that are not members of an employers' association and did not participate in the sectoral bargaining process. Act 564/2009 amending and complementing the Act on collective bargaining number 2/1991 and its amendments fulfilled this aim. The extension of higher-level collective agreements in automotive industry and manufacturing of machinery and equipment was requested by OZ KOVO in March 2010 and signed by the former Minister of Labour, Social Affairs and Family on her last day in the office on July 7<sup>th</sup> 2010 (Act 316/2010). This decision was revoked a couple of days later, on July 27<sup>th</sup> 2010 (Act 328/2010), by the new Minister. In consequence, currently new initiatives have started to amend the law so that extension to non-organized employers is possible, but only on a voluntary basis.

- **Procedural provisions for articulation between levels (under MEB)**

Both sector-level and firm-level bargaining do play an important role in the metal sector and in particular the automotive industry, but lack mutual coordination. There is only a vague relationship between firm-level collective agreements and the sector-level collective agreement. It happens often that the firm-level collective agreements are signed before the sector-level collective agreement. There are no set dates or coordination of the bargaining procedure between levels.

The bargaining teams are however stabilized, because the same people have been involved since early 1990s. Trade unions and employers' associations do know each other and the members they represent; and their personal relations are obvious in the higher-level collective agreement. An interview respondent maintained that it is enough to look at each other with the bargaining partner in order to find out the other party's opinion on a particular issue and to evaluate the possibility of an agreement/compromise.

The mechanical engineering sector encompasses different types of firms requiring different skills from the workers. The wage differences in the mechanical engineering sector are huge, reaching from the outlier like Volkswagen with average wage of 1200 EUR to a firm producing cables where the average wage is around 400 EUR. Therefore, higher-level collective agreement stipulates wages just above the legally required minima, in order to avoid the increase the costs of firms engaged in low-skilled (and low paid) work.

- **Coordination of bargaining across sectors (formal / informal means)**

There is very little to no coordination of bargaining across sectors.

- **Incidence of second-tier (company) bargaining under two (multi) tier arrangements**

There is incidence of company bargaining under two tier arrangements. In case of automotive industry which is being part of higher-level collective agreement of mechanical engineering, stipulations in the higher-level collective agreement are set at minimum standards in the sector, only slightly exceeding legal minima. Large car manufacturers do not face any cost problems in meeting the low benchmarks set by sectoral collective agreements. This is one of the reasons why large car manufacturers agreed to be part of sectoral bargaining and coverage by sectoral agreements. Company-level agreements may stipulate higher wages and better working conditions than sectoral agreements, but this is subject to single-employer bargaining. In case the firm-level collective agreement goes below a certain requirement set in the higher-level collective agreement, then the requirement from the higher-level collective agreement is taken into consideration. This applies also the other way around.

- **Workplace representation, including crucial distinction between single- and dual- channel arrangements**

At workplaces, employees are represented through trade union base organizations (*základné organizácie*). OZ KOVO reported 430 base organizations (source: interview OZ KOVO, July 2010). The law allows parallel presence of trade union representation and works council at the same workplace. However; works councils are no legally independent organizations, which means they cannot sign collective agreements. The OZ KOVO representative mentioned in the interview that there have been cases of firms' forcefully establishing works councils in order to weaken the influence of trade unions, but this has never been the case in the automobile manufacturing firms.

### **3. Cross-border dimension to collective bargaining**

#### **3.1 REGIME COMPETITION**

- **Use of cross-border benchmarks and comparisons on flexibility and sustainable security in *sector/inter-sector negotiations***

Cross-border cooperation of industrial relations actors and the use of cross-border benchmarks is more developed on the side of trade unions. There are several initiatives in this respect. First, OZ KOVO participates in the so-called Vienna Memorandum group. Other trade union members come from Germany (Bavaria), Austria, Czech Republic, Hungary and Slovenia. Cooperation of this group is based mainly on exchange of information and bilateral/multilateral visits especially among trade unions present in multinational companies, which have branches in the Vienna Memorandum group countries. The group meets twice a year and discusses topics concerning industrial relations and collective bargaining: members are expected to inform each other of industrial action, difficulties with closing collective agreements, or unions' experience with multinationals. Although this group operates on a relatively informal basis, it plays an important role in the cross-border dimension to domestic bargaining. With the help of the Vienna Memorandum group OZ KOVO achieved the change of German management in Siemens Michalovce

through works council of Siemens in Germany. Members also try to jointly address specific issues that are relevant in all member countries, such as temporary work contracts.

Second, OZ KOVO has a long-existing strong cooperation with its Czech trade union counterparts (OS KOVO). In relation to flexibility and security, the Czech-Slovak cooperation is particularly important for posted workers. Unions support each others' members if they are posted to Slovakia or to Czech Republic, even though they are not members of the respective country trade union.

Third, OZ KOVO cooperates with the European Metalworkers Federation (EMF). EMF encourages cross-border networks, including networks among unions from neighboring countries. OZ KOVO presents topics to collective bargaining also through the EMF coordination rule. EMF organizes every four years a conference where it presents a crucial topic to be incorporated into collective agreements of its members. Topics included lifelong learning or precarious work.

Other source of information is the ECOBAN database of EMF where details of collective bargaining and collective agreements of the EMF members are stored and available for consultation.

Cross-border benchmarking on the side of employers is less advanced. According to the Federation of Mechanical Engineering it is difficult to apply employers' international experience to the Slovak conditions. Moreover, recent developments in the past years show that from the employers' perspective collective bargaining offers increasingly more advantages for employees due to the growing demands of trade unions. In the eyes of employers, bargaining is thus increasingly less attractive from the employers' perspective. Nevertheless, employers did develop some international contacts and benchmarking. The Federation of Mechanical Engineering is cooperating with its foreign counterparts mostly on the informal level. The exchange of information has concerned mainly the bargaining methods (win-win situation). Main contact partners include employers' organizations from neighbouring countries, or Western European countries of origin of largest foreign investors in Slovakia.

- **Relative importance compared to local/national factors in shaping outcomes at sector/inter-sector level?**

Both OZ KOVO and the Federation of Mechanical Engineering follow the developments in collective bargaining at the European level; however, they maintain that best practices are very difficult to implement. This is due to differences in the fiscal regulation (i.e. the fact that Slovak fiscal regulation undergoes frequent changes) and frequent changes of the legal settings (i.e. the Labour code) in Slovakia. It is likely that associations from other postsocialist EU members share this perspective, as the legal framework in these countries is not as stable yet as in the EU-15 countries.

- **Use of cross-border benchmarks and comparisons on flexibility and sustainable security in *company negotiations* (by either or both parties)? On flexibility and/or sustainability issues? Drawing on which countries?**

There is little information on cross-border benchmarks and comparisons in company negotiations, because companies do not disclose this type of information to sector-level organizations due to competition reasons. Company-level case studies are necessary to collect more evidence on cross-border benchmarks and comparisons at the company level. Multinational firms are an exception, because they might take their mother company or country's benchmarks and apply them in foreign subsidiaries (home country effect). However, MNCs' managers often argue that the host-country's social, economic and legal environment differs significantly and influences subsidiary practices to greater extent than best practices imported from abroad (host-country effect). More evidence at the company level is necessary to address this point with a particular reference to MNCs operating in car industry with subsidiaries in Slovakia.

- **Relative importance compared to local/national factors in shaping outcomes at company level?**

It is difficult to establish the importance of cross-border benchmarks in shaping outcomes at company level, because firms do not disclose their agreements/know-how. Company-level case studies are necessary to provide more detailed information.

### **3.2 MOBILITY OF CAPITAL, LABOUR AND SERVICES**

- **Cross-border restructurings/threatened relocation: specific lens on CB's engagement with flexibility and sustainable security**

According to OZ KOVO, threats of relocation are always present in the collective bargaining sessions. It occurs mostly in firms employing low-skilled workers (e.g. cable producing companies that serve as suppliers to the main automotive producers). These employers calculate labour costs per minute and use international benchmarks. After Slovakia joined the European Monetary Union, wages and thus labour costs have grown. In consequence, such firms started to look for cheaper production locations. There have already been some relocations to countries like Ukraine, Romania, Hungary, Morocco and Lebanon.

- **Arising in context of migrant workers? eg increased pressure for flexibility from indigenous workforce? Demands for job security and employability from migrant workers?**

The issue of migrant workers is currently not too relevant in the context of Slovak automotive industry. Migrant non-management level workers are present mostly in the construction sector but are of marginal importance in the metal sector. However, several years ago, during the automotive industry boom in Slovakia and before the global financial and economic crisis, employers experienced shortages of domestic skilled workers at the non-management level (particularly because of great demand and the mismatch between industry needs and vocational education, see above). In this period, some firms hired migrant workers from Vietnam and Ukraine. Currently only few non-management level



migrant workers are still working in the automotive industry and only in positions for which skilled Slovak workers were not available.

The use of agency workers is on the rise; however, agency workers cannot be discriminated against in terms of pay. Their salaries cannot be lower than salaries of core staff and same dismissal procedures apply. This is stipulated in the Labour Code.

Another issue mentioned by the representatives of OZ KOVO was the growth of precarious forms of employment, namely, dependent self-employment. In such cases, the employer do not bears the responsibility for social security, payroll taxes and job security for the employee; the whole administration of healthcare and social security provisions are on the workers shoulders.

- **Arising in context of posted workers (mobility of services)? eg increased pressure for flexibility and/or demands for job security from indigenous workforce?**

Posted workers are mostly present in the middle and high management of multinational firms. They do not represent any pressure for flexibility and do not present a threat to job security of indigenous workforce. OZ KOVO reports also some posted workers among non-management level workers. Trade unions assisted these workers in providing correct information about travel and accommodation expenses.

## **4. Procedural dimension to collective bargaining**

### **4.1 DECENTRALIZATION / CENTRALIZATION**

- **Relationship between levels (articulation and relative weight) under two (multi) tier bargaining arrangements, recent changes therein and rationale(s) for these**

The automobile industry is covered by multi-employer bargaining in mechanical engineering. Metal industry embraces firms belonging to many different sections of SK NACE classification. Sectoral collective bargaining has to take this into account and target a large diversity of employees and types of work ranging from low-skilled to high-skilled types of work. Given this large diversity of firms, higher-level collective agreements (concluded by sectoral social partners) set predominantly minimum standards and are mostly concerned with minimum standards in wages. Resulting from this role of sectoral bargaining, individual firms do not tend to adjust the timing of company-level bargaining with sector-level bargaining. Company-level collective agreements are thus signed independently from sectoral higher-level collective agreement. The diversity challenge for sector-level bargaining has therefore caused a lack of coordination between bargaining at the two levels.

One of the most important changes affecting collective bargaining was the adoption of SK NACE revision 2 regulation EC No 1893/2006 of the European Parliament and of the Council establishing the statistical classification of economic activities. According to Slovak social partners in the metal sector, this classification was created mainly for

statistical purposes, but lacks a clear division of economic activities for bargaining purposes. Another problem with the bargaining structure derives from the diversity of production *within* firms. Some firms produce various types of products, which belong to various SK NACE groups. The firm then gets an SK NACE code of the product which brought the highest profit. There have been cases that firms smallest department as far as staff is concerned created the highest profit, hence following the SK NACE classification and application of collective agreements accordingly, it would mean that the majority of employees have been covered by an agreement tailored at only a small number of employees within the firm.

- **Recent changes which have a decentralising effect under two (multi) tier arrangements**

The decentralization trend is obvious in bargaining procedures in the metal sector. Most important changes, which have a decentralizing effect in the conditions where both sectoral and company-level bargaining are important, are summarized below. First, the unclear classification of sectors in the SK NACE division, coupled to the problematic definition of the “*sector*”, serves as a demotivating factor for employers and trade unions to bargain at the sector and inter-sector levels.

Second, the character of automobile production in itself also contributes to the decentralization of bargaining. Employers find difficult to govern their employment relationship via sector-level agreements, which are very general in order to grasp the large variety of firms engaged in very different types of production (ranging from textile production for car interiors, cable production, steel production to final assembly of vehicles). Given this fact, sector-level agreements lack tailor-made provisions and remain “teethless”, which motivates employers to engage in company-level bargaining.<sup>24</sup>

Third, sector-level associations lack organizational capacities and finances for engaging in sector-level collective bargaining. Turbulences in changing organizational structures, mergers, and splits of associations in the metal/automotive industry in the past 15 years show the difficulty in maintaining sector-level organization in this particular industry. Such associations are voluntary and their interests centre around professional issues (i.e. education, research and development, innovations) and lobbying (i.e., for reasonable investment conditions), leaving social dialogue and collective bargaining out of the main priorities. Several separate sector-level organizations already ceased to exist, including organizations in the glass manufacturing and the textile industry.

Although in may seem that employers welcome the decentralization trend, the ZSP chief negotiator claims the opposite. The reason why employers are against decentralization is the growing competition among companies that in the past cooperated with each other. Despite this opinion, employers do not engage in any major attempts to maintain the sector-level arrangements because of lacking capacities for such action. Such efforts would require a

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<sup>24</sup> Source: interview ZSP chief negotiator, 6 July 2010.

long-term vision and commitment, whereas the existing sector-level associations organize their activities and goals in a shorter time perspective.<sup>25</sup>

- **Recent changes which have a (re)centralising effect under two (multi) tier arrangements?**

The above trend of decentralization through diversification of employers and the split of former sector-level employers' organizations also includes an element with a re-centralising effect on collective bargaining arrangements. This effect is particularly obvious in the automobile industry. Although ZAP SR as the central professional association in the automotive industry split from other associations in the sector and withdrew from peak employers' federations, it commissioned ZSP to bargain on behalf of the automobile industry. In consequence, instead of decentralized bargaining applicable exclusively to the automobile sub-sector, car manufacturers and suppliers are covered by more encompassing collective agreements bargained for the mechanical engineering sub-sector. This sector-level bargaining is complementary to and establishes minimum standards for company-level bargaining.

#### **4.2 NATURE OF COLLECTIVE REGULATION**

- **Nature of sector/inter-sector agreements, recent changes therein and rationale(s) for these**
  - o **Legally binding or not**

Collective agreements are legally binding if signed by both parties (employers and trade unions).

- o **Establishing minimum or universal standards**

Minimum standards are set by law. Sectoral collective agreements replicate some provisions from the Labour Code and other acts connected to labour relations, i.e., the Act on work and healthy safety or Act on minimum wage. Trade unions maintain that even if replicating legal documents, for the practical implementation of work standards it is important that collective agreements repeat legal provisions in detail instead of only referring to legal texts.

Besides replicating legal stipulations, other collective agreement provisions might exceed the law, i.e., if considering particular needs of the mechanical engineering sector. Firm-level agreements cannot undercut sectoral provisions, the two levels are complementary in setting standards in particular stipulations. If concrete provisions are set at sector level, employers can build on them and provide better conditions, or include firm-specific stipulations in firm-level agreements that are not addressed in sector-level agreements. In this respect, the two bargaining levels are complementary and sector-level agreements do in fact establish minimum standards, which are however sector-specific.

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<sup>25</sup> Source: interview ZSP chief negotiator, 6 July and 13 July 2010.

- **Framework or detailed in provisions specified**

The extent of details depends on the particular issue; i.e. in wages – general % of wage increases are set. See section 5 on flexibility and security for concrete examples.

- **Derogations possible? Under what circumstances?**

The Act on collective bargaining does not specify any formal derogation practices and opt-out rules. In consequence, sector-level agreements are obligatory for employers that are members of respective employers' associations that concluded the agreement with OZ KOVO.

- **Complete or incomplete (i.e. leaving aspects open) regulation of an issue**

Some aspects are specified in detail in sector-level agreements, others are open for company-level bargaining. See Section 6 on flexibility and security for concrete examples.

- **Has regulation via collective agreements at inter-sector/sector levels become 'harder' / 'softer' / remain unchanged in character? Rationale for changes?**

See above for more information on the character of sector-level agreement in the two-tier bargaining system. In general, regulation via sectoral agreements has remained unchanged in character. This is due to strong institutionalization of two-tier bargaining (despite a lack of formal and informal coordination between them) and the role of sector-level industrial relations in Slovakia in general.

#### **4.3 COVERAGE OF COLLECTIVE AGREEMENTS**

According to the Federation of Mechanical Engineering, collective agreement coverage in the mechanical engineering sector is very low and reaches just about 10%. Tables 2.1 and 2.2. above show more detailed coverage by collective agreements. Division 29 which encloses production of motor vehicles, semi-trailers and trailers, included 182 firms with 53 872 employees of whose 13 682 were covered by a higher-level collective agreement at the end of 2008 (25.4% coverage). Table 2.2 shows the declining trend of firms being members of employers' associations.

- **Opting-out of sector CB arrangements? Reasons for this?**

Sectoral collective agreements apply to all employees working in establishments associated to one of sector-level employers' associations engaged in sector-level bargaining. All employers that are covered respect these agreements and the practice of opting out is not common. It is also unlikely that such practice is possible, given the strong institutionalization of sector-level agreements in Slovakia.

- **Switching between sector agreements?**

Switching between sectoral higher-level collective agreements is possible when a firm joins a different employers' association active in the metal sector. This might be the case for example of a car manufacturer supplier whose products cover several SK NACE groups. As far as car manufacturers engaged in sector-level collective bargaining are concerned, there has not been a (known) case of switching between sectoral higher-level collective agreements. Car producers are covered by the higher-level collective agreement in the mechanical engineering sector.

- **Under company-based bargaining arrangements, instances of de-recognition? Non-recognition at new sites? So-called 'double breasting' (recognition continues at existing sites but no recognition at new sites)?**

Company-level agreements in automotive industry apply usually to a single workplace. There is one known case of 'double breasting'. Volkswagen Slovakia has got two sites, in Bratislava and in Martin. In Martin workers were paid significantly lower wages than the workers in Bratislava. Volkswagen was justifying this decision by regional differences and costs of living. Upon the initiative of OZ KOVO, the employer had to pay workers in Martin the same wage and pay out the difference for the period during which wage discrepancies occurred. This example has taught firms with multiple sites either to set the same conditions among the sites or make sure the other sites are different legal establishments so that they could set there different conditions. However, OZ KOVO maintains that employers always find ways to proceed with their strategies, i.e., by placing workers into a different category of an internal job classification scheme in order to avoid paying higher wages in the site located in a poorer region.

#### **4.4 ASSESSMENT AND PROSPECTS**

- **What advantages have recent procedural changes brought for employers/trade unions?**

The amendment of the section on extension of Act on collective bargaining could have extended the sectoral higher-level collective agreement coverage also to firms which are not members of employers organizations and have no trade unions present at their sites. However this act was revoked by the new Minister of Labour, Social Affairs and Family after the June 2010 elections.

- **What problems/difficulties have they caused?**

The extension of higher-level collective agreements might have caused financial difficulties of firms employing low-skilled workforce and give them additional reasons to consider relocation of production to a country with lower labour costs.

- **Looking to the future, what further developments might be on the horizon? What proposals are employers' advancing? What proposals are trade unions advancing?**

There is a profound lack of continuity in Slovak legal regulation of the employment relationship. Related to that, legislation on collective bargaining and agreements is also undergoing frequent changes. Legislative changes, especially in labour law are concluded by every new government. In sector-level bargaining, bargaining teams stay the same, but have to deal with new legislation and lead the dialogue accordingly. Despite frequent legal changes, the Slovak situation documents a relatively stable bargaining landscape at the sector-level, with significant decentralization trends and an increasing role of company-level bargaining that complements sector-level bargaining and collective agreements. Given the right-wing orientation of the current government, in office since 2010, many changes in the social dialogue and respective Acts can be expected. The government already introduced a significant revision of the Labour Code (see Part 1 of this report), leaving more room for flexibility in employment and for company-level collective regulation of the employment relationship.

Another challenge is the financing of the sectoral collective bargaining. The government set the requirement for sectoral bargaining, but does not support it financially. Employers' organizations complain that there are absolutely no benefits for them to take part in sectoral collective bargaining and that collective agreements' stipulations always tend to favour the workers and never consider the possible needs of employers. For example, during the global financial and economic crisis, employers covered by collective agreements were not allowed to decrease wages. Employers' organizations request more mutual flexibility in collective agreements.

Trade unions are coping with declining membership and need to work on strategies to avert this unfavourable situation. Collective bargaining is one of the tool they are using, but the revoke of the extension of collective agreements crossed their plans and they have to work on new strategies.

## **5. Substantive agenda and outcomes of collective bargaining**

This section covers the agenda and outcomes of collective bargaining between 1999 – 2011 in the mechanical engineering sector which also covers the automobile industry. It focuses on questions of flexibility and employment security. Seven higher-level collective agreements have been signed in the period of 1999 – 2011. Table 5.1 demonstrates the trend of signing the higher-level collective agreements for shorter periods. Since the respective legislation changes quite often, employers prefer to sign the higher-level collective agreement for a one year period. The next trend is that the dialogue among the social partners is increasingly more difficult/complex resulting in late signing of the collective agreement for the respective year (the dates of signing the last two agreements already interfered in the period of the agreements' validity).

During the period 1999 – 2011 four amendments to the higher-level collective agreements were signed. The most important addition was signed on May 13<sup>th</sup> 2009 while the higher-level collective agreement for 2008 – 2009 has been valid. In this amendment, OZ KOVO

and ZSP agreed on strategies how to deal with the impacts of the economic crisis. The amendment incorporated the following provisions:

- Shorter working time of the employees (according to § 49 of article 4 of Labour Code)
- Hinderance to work on the side of the employer with wage compensation to the employee of minimum 60% of the wage (according to § 142 of article 4 of Labour Code)
- “*Flexikonto*” ( § 252, article 4 of Labour Code)

**Table 5.1 Collective agreements in the mechanical engineering sector 1999-2011**

<b>Year/Period</b>	<b>Agreement type</b>	<b>Signatory parties</b>	<b>Level</b>	<b>Comment</b>
<b>1999-2003</b> (signed 27.1.1999)	Higher-level collective agreement	Sector-level social partners (OZ KOVO and ZSP SR)	Multi- employer, sector- wide	The HLCA was replaced by HLCA signed in 2002. Amendment to the HLCA signed on 11.1.2000
<b>2002-2004</b> (signed 28.6.2002)	Higher-level collective agreement	Sector-level social partners (OZ KOVO and ZSP SR)	Multi- employer, sector- wide	Amendment to the HLCA signed on 5.11.2003
<b>2005</b> (signed 11.1.2005)	Higher-level collective agreement	Sector-level social partners (OZ KOVO and ZSP SR)	Multi- employer, sector- wide	
<b>2006</b> (signed 25.1.2006)	Higher-level collective agreement	Sector-level social partners (OZ KOVO and ZSP SR)	Multi- employer, sector- wide	
<b>2007</b> (signed 23.1.2007)	Higher-level collective agreement	Sector-level social partners (OZ KOVO and ZSP SR)	Multi- employer, sector- wide	
<b>2008-2009</b> (signed 13.3.2008)	Higher-level collective agreement	Sector-level social partners (OZ KOVO and ZSP SR)	Multi- employer, sector- wide	The HLCA covered the period 1.3.2008 – 31.12.2009 Two amendments to the HLCA signed during this period.
<b>2010-2011</b> (signed 30.3.2010)	Higher-level collective agreement	Sector-level social partners (OZ KOVO and ZSP SR)	Multi- employer, sector- wide	The HLCA covered the period 1.4.2010 – 31.3.2011

Source: OZ KOVO database of collective agreements

The order and extent of these measures would be agreed after consultation with respective trade union body. Specific attention was given to the conditions of “*Flexikonto*” which are valid for the period of March 1<sup>st</sup> 2009 till December 31<sup>st</sup> 2012. If for serious operation reasons the employee cannot perform his/her work, the employer after consultation with the employee representatives, according to § 230 of Labour Code, is allowed to give the employee time off from work for which he/she gets wages at least in the amount of basic pay, according to § 119 article 3 of the Labour Code. When the employers’ economic conditions stabilize, the employee has to work off the provided leave without the entitlement of pay outside the regular working hours, which will not be considered as overtime work. If there is no operating trade union organization present at the employer’s premises, it is possible to agree on the conditions directly with the sector-level union OZ KOVO. The employer is obliged to keep record of the time off with pay given to the employee and of the period when the employee work off the time off with pay given, so that there is a correct record of the beginning and the end of the time frame when the employer



performed work. Both sides are allowed to discuss more favourable conditions for the employee.

Flexikonto was first introduced by Volkswagen Slovakia at the company level. Later, it was also included as a temporary measure to combat the consequences of the economic crisis in the Labour Code (§ 252).

In the higher-level collective agreement covering the period 2010-2011, the employers involved and OZ KOVO agreed on a common procedure in the period of economic crisis. It should be aimed at legislative changes which lower the non-productive expenses of employers resulting from the general obligatory law regulations; or changes which solve the current economic problems caused by the crisis, in particular in the following areas:

- *Bankruptcy and restructuralisation* – support legislation changes which ensure the employer will be able to restructure and prevent closure of the firm.
- *Insolvency* – according to the development in this area suggest measures which eliminate the negative impact of insolvency, especially the so-called secondary insolvency.
- *Bipartite social dialogue* – enforce its legislation including the participation of the state financially.
- *Energy audit* – act 555/2005 and its amendments about energy efficiency of buildings
- *Health work service* – act 355/2007 and its amendments about protection, support and development of public health

## **5.1 SUBSTANTIVE ISSUES IN SECTORAL COLLECTIVE AGREEMENTS BETWEEN 1999 - 2011**

### **- Jobs and contracts**

Each higher-level mechanical engineering collective agreement has a section on effective employment policy which should be the main task of all parties involved. Unless the newly announced jobs require special skills not available among the workers (to be dismissed), these jobs should be first offered to (these) workers and only after no match has been found they should be forwarded to the state employment agency.

From the HLCA covering the period 2008-2009 onwards, there is a special paragraph on contracts for the limited period. It allows the prolongation of the work contract for limited period up to three years or for three years, according to § 48 section 4 letter d of the Labour Code, in the collective agreement at the company level.

### **o Dismissal protection**

All higher-level collective agreements from 1999 onwards stipulate groups of employees who should be spared the dismissal according to §63 section 1 letters a) and b) if the situation allows. The groups are :

- Employees who have worked for the employer more than 20 years and have less than 5 years till retirement.

- Employees who have worked for the employer more than 30 years. This does not apply to employees who have already reached the retirement age.
- If a husband and wife are considered for dismissal one of them should keep the position
- Lonely employee who takes care of a child younger than 15 years. Lonely employee is a single, divorced or widowed man or woman.
- Employer with health problems or bad social situation

These provisions do not apply if the firm ceases to exist.

The Labour Code stipulates redundancy pay (*odstupné*) to those employees whose employment relationship is terminated on the grounds of redundancy or if the employer or part thereof is closed or relocated (and to those doing work in relation to the employer's liquidation in such circumstances). Discharge benefit (*odchodné*) is provided to employees upon the first termination of their employment; upon entitlement to an old age or invalidity pension; or upon entitlement to pension on grounds of length of employment.

Higher-level collective agreements stipulate that redundancy pay in the amount higher than required by the Labour Code can be agreed in the company level collective agreement.

#### ○ **Employment guarantees**

There are no specific employment guarantees stipulated in the higher-level collective agreements, however they might be agreed on in the company level collective agreement.

#### ○ **Re-employment assistance in case of dismissal**

Only in the last higher-level collective agreement covering the period 2010-2011 in the section on employment during the times of crisis, there is a paragraph on assistance from the side of employer in case the worker was dismissed due to restructualisation, organizational changes, or company closure. The employee should be assisted with registration at the state employment agency and be advised on best practices with searching for work.

This assistance might be described in more detail in the company level collective agreement.

#### ○ **Promotion of mobility within enterprise, within sector, outside sector**

There is no specific promotion of mobility within enterprise/sector/outside stipulated in the higher-level collective agreements, however it might be agreed on in the company level collective agreement.

As a rule in the automobile manufacturing companies, the workers need to be able to perform more operations at the assembly line. First, it is for health reasons, since the body is performing the same movements and second, the worker should be able to stand in. The best workers can be promoted to the function of the foreman.

#### ○ **Use fixed-term, part-time contracts, agency workers, foreign labour**

As mentioned above, from the HLCA covering the period 2008-2009 onwards, there is a special paragraph on contracts for the limited period. It allows the prolongation of the work contract for limited period up to three years or for three years, according to § 48 section 4 letter d of the Labour Code, in the collective agreement at the company level.

The use of part-time contracts, agency workers and foreign labour are not stipulated in the higher-level collective agreements. However in the HLCA covering the period 2010-2011, in the section on dealing with employment during the times of crisis, the employers and OZ KOVO agreed that in case of needed redundancies, workers with contracts for the limited period should be dismissed after the period of the contract expires. Further the use of agency workers should be limited, as well as the use of self-employed workers.

#### - **Working time flexibility**

Working time regulations' section in the higher-level collective agreements has been shrinking with time. In the HLCAs in the period 1999-2004 there were paragraphs on maximum amount of working hours in case of work in specific environment (e.g. work with chemicals). Further the rules of shift work, night work, work of young workers and on-call duty were specified.

From the year 2005 onwards, the working time in HLCAs mirrors the Labour Code with annotations that further details can be agreed on in company-level collective agreements, which however should not go below the rules set by the Labour Code.

In the HLCA covering the period 2010-2011, in the section on dealing with employment during the times of crisis, it is suggested that after mutual agreement following provisions could be adopted:

- Abolishing work during weekend, national holidays and overtime work
- Application of uneven distribution of working time according to § 87 section 1 and 2 of the Labour Code up to the period of 12 months
- "Flexikonto"
- Application of § 142 section 4 of the Labour Code on hinderance to work on the side of the employer with wage compensation to the employee of minimum 60% of the wage

#### o **Flexible working time schedules**

All HLCAs stipulate that in order to rise the work efficiency, flexible working time schedules can be agreed on with the trade union representatives according to § 88 and 89 of the Labour Code. More details can be agreed on in the company-level collective agreement.

#### o **Reduced working time**

In HLCAs from 2005 onwards the employers agree to create conditions for accepting the employees' requests for reduced working time, work from home or telework if they have health or other serious reasons for these work arrangements and if it adheres to the effective employment policy and the production arrangements allow for these work arrangements.

#### o **Working time accounts**

See paragraph on “Flexikonto” at the beginning of section 5.

### ○ **Holidays**

Mechanical engineering higher-level collective agreements adhere predominantly to the Labour Code. Provisions that are part of every HLCA in Table 5.1 include:

- Planned mass company holiday has to be agreed with trade union representatives and the employer has to announce it at least one month before the beginning.
- Lonely men and women who take care of a child till the age of 10 have the right for time off work with full remuneration in the length of at least three working days.
- If the employee worked at least 21 days with the employer, he/she has the right of minimum one extra day above the provision stated in § 141 of the Labour Code in these cases:
  - death of parents, parents of husband/wife, partner, grandparents, siblings
  - relocation of the employee if it is in the interest of the employer
  - extra day in case of death of husband/wife, partner, (adopted) child for making funeral arrangements

From the year 2008 onwards *wedding* and *relocation not in the interest of the employer* were removed from this list.

In HLCAs covering the period 1999-2004, the employer was obliged to give extra holiday of one week per calendar year to employees performing strenuous work, or exposed to harmful physical or chemical elements in such extent that they could seriously influence the health condition of the employee. Respective employees and the rules of providing the extra holiday shall have been stipulated in company-level collective agreements.

In HLCAs covering the period 1999-2004, alone living women and men taking care of children up to the age of 10 were given extra two weeks of unpaid leave in the time of school holidays in case the production situation allowed this.

### ○ **Leaves (parental, study, etc.)**

Other forms of leaves are not subject to collective bargaining at sector level. The fundamental governance refers to the Labour Code and related Acts (i.e., concerning parental leave). Additional leaves, i.e., for study purposes, may be agreed individually between the employer and employee.

### - **Education and training**

Higher-level collective agreements stipulate that the employer will create an education/training plan for the employees according to its needs and with agreement of the employees will provide for its realisation.

In case the employee wants to higher/deepen his/her qualification which is not connected to his/her current job position, the employer will allow the employee to attend the

education/training if the production situation allows without remuneration. All expenses will be paid by the employee himself/herself.

OZ KOVO representatives mentioned in the interview that employers do not want to stipulate the education/training section in the HLCA in more details due to a high diversity of covered companies. Therefore, more detailed education/training rules are specified in in company-level collective agreements.

- **Work organization**

Work organization as such is not subject to collective bargaining at sector and inter-sector levels. Workplace rules refer to the Labour Code and are adjusted to particular workplaces. Trade unions have a monitoring role and report cases of abuse. The experience shows that unions do not see work organization as a central point of dispute with the employer or an issue on which more bargaining should take place.

- o **Polivalency, multi-skilling**

- Polivalency and multi-skilling are not subject to collective bargaining at the sector level and are not part of the substantive agenda of sector-level collective agreements.

- **Wages**

Wages are the most important issue of collective bargaining and the fundamental provision in each higher-level collective agreement. OZ KOVO representatives claimed that the rules on presence of the trade union representatives in the company and wages are the crucial topic of collective bargaining.

Sector-level collective agreements specify 12 wage levels for particular occupations (with a detailed job classification scheme). These are seen as sectoral minimum wages, since there are significant differences among companies covered by the mechanical-engineering HLCA. Volkswagen and other large foreign firms do not face difficulties with setting the wages far above the stipulated wage in the HLCA. However, a cable production company, which has to keep production costs low, implements wage levels in accordance with the HLCA.

Besides the agreed changes in the amount of minimum wages in each of the 12 wage levels, HLCAs do not stipulate any other detailed provisions on wages. Instead, all HLCAs signed in the period 1999-2011 stipulate that detailed wage conditions will be agreed on among the employer and the trade union representatives in a company-level collective agreement. Thus, the development of average monthly wage is agreed in company-level collective agreements. The base for agreement on concrete wage development in a year are the economic indicators of expected economic growth of the employer and information on development of consumers' prices (daily life expenses).

- o **Wage scales**

All HLCAs signed in the period 1999-2011 state that the employers and unions shall agree on particular job descriptions in individual companies in company-level collective agreement.

HLCAs contains characteristics of 12 occupational groups and their wage scales. These groups describe the job content, difficulty, responsibility and robustness of the work. Each characteristics has a wage tariff scale assigned, which is the minimum wage for the work falling into the respective characteristics. The tariffs apply to a 40 hours work week for one shift work. More favourable wage tariff scales can be agreed in the company-level collective agreement.

- **Minimum wages**

Minimum wage is governed by Act 663/2007 on the Minimum Wage and its later amendments. A statutory monthly minimum wage is 317 EUR for a full-time employment. However, the Appendix to the Labour Code stipulates six levels of occupations according to the job content's difficulty. Minimum wages in each level are calculated through appointed coefficients. This means that in fact Slovakia has six minimum wages, which cannot be lower than the statutory 317 EUR. Prior to 2011, the legally stipulated minimum wage is not subject to collective bargaining at sector level. Social partners negotiate over legal increases in minimum wage in the tripartite council. However, the proposed new Labour Code, which is currently under revision, aims at abolishing the six occupational levels, thus stipulating a single minimum wage. The Minister of Work, Social Affairs and Family aims at giving more scope to sector-level social partners to negotiate particular minimum wages in respective sectors.<sup>26</sup>

Moreover, besides the national-level minimum wage stipulations, higher-level collective agreements in mechanical engineering stipulate the wage level and its changes for 12 wage tariff levels, which in fact serve as sector-wide minimum wages for particular occupations.

- **Variable pay systems**

HLCAs signed in the period 1999-2011 do not stipulate variable pay systems. They only refer to company-level collective agreements where variable pay systems should be agreed.

- **Opening or hardship clauses allowing for reduced payments in situations of economic difficulties**

Existing collective agreements at the sector-level do not include opening or hardship clauses. All provisions are binding either upon an agreement of social partners.

- **Scope for employee choice between current income (wages) / deferred income (pensions) / time (more holiday)**

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<sup>26</sup> Source: Pravda, article *Minimálna mzda závisí od náročnosti práce* [Minimum wage depends on how demanding the job is], 17 April 2011, in [http://profesia.pravda.sk/minimalna-mzda-zavisi-od-arocnostiprace-fgv-/sk-przam.asp?c=A110417\\_092311\\_sk-przam\\_p01](http://profesia.pravda.sk/minimalna-mzda-zavisi-od-arocnostiprace-fgv-/sk-przam.asp?c=A110417_092311_sk-przam_p01) [accessed 26 April 2011].

A trade off between wages, pensions and holidays has not been subject to collective bargaining or direct regulation by law or collective agreements at the sector level.

- **Retirement**

Retirement-related provisions belongs to substantive bargaining agenda in Slovakia, however details for employees who do not work in risk categories are agreed on mainly in company-level collective agreements.

o **Retirement age**

The retirement age is part of a complex legal regulation of retirement age, pension insurance schemes and related entitlement. It is not subject to collective bargaining.

o **Pre-pension arrangements**

There are no pre-pension arrangements stipulated the HLCAs signed in the period 1999-2011.

o **Pension provisions**

By law, employers are obliged to contribute to their employees' pension provision (1st and 2nd pillar). Particular details of these contributions, especially employer contributions to supplementary pension schemes (3rd pillar), are an important part of collective bargaining. The law stipulates obligatory contributions to supplementary pensions for employees practicing occupations clustered in particular risk groups.

HLCAs signed in 2006 stipulates for the first time details of supplementary pension provision. It is included in personnel expenses of the employer and the amount should be agreed on in company-level collective agreement.

In HLCAs signed in 2007 it was added that the employees who perform risk work (category 3 and 4) will receive contribution of at least 2% of the tax base to the supplementary pension provision from the employer.

HLCAs signed from 2008 onwards stipulate that the contributions to the supplementary pension provision (SPP) for the category 3 and 4 workers should be according to the respective existing legislation. The employer is not required to contribute to the SPP in case the employee refuses to sign the contract with supplementary pension provision provider, or if the employee is not fulfilling his/her duties.

- **Others, i.e. greening the workplace, gender equality**

Such issues are not subject to bargaining or other explicit form of regulation. The interviewed trade union representative claimed that Slovakia is lagging behind Western European countries in the governance of similar issues, including ecological workplaces and gender equality.

## 5.2 HORIZONTAL ISSUES IN BARGAINING OUTCOMES

- **Explicit linkages/trade-offs between different policies (e.g. trade-offs between certain types of flexibility and security; between employment guarantees and concessions in terms of wages or working time, etc.)**

There were no known linkages/trade-offs up to the year 2009, when a separate amendment to the higher-level collective agreement was signed. This amendment stipulated the common approach of the social partners to the economic crisis. The major trade off between certain types of flexibility and security is the *Flexikonto* described in part 5.1. The trade-off occurs between job stability, wages and working time flexibility.

The HLCA covering the period 2010-2011 includes a section on common procedure in the period of economic crisis.

- **Explicit life-course approaches integrating measures over time**

There are no explicit life-course approaches integrating measures over time in the higher-level collective agreements covering the mechanical engineering sector.

- **Different treatment of different groups determined by age, contract, education, establishment, etc.**

Up to year 2004 there was a non-discrimination clause included in the HLCAs which did not re-appear in the following agreements.

- **Measures anticipating / addressing restructuring**

The higher-level collective agreements contain a paragraph on protecting certain groups of employees from dismissal due to restructuring or closure of the company/relocation of (part of) the company. Please see section 5.1 on dismissal protection provisions.

- **Measures prompted by threat of relocation**

No specific measures were agreed in higher-level collective agreements between 1999-2011.

- **Crisis-induced measures to ensure business survival**

In the higher-level collective agreement covering the period 2010-2011, ZSP and OZ KOVO agreed on a common procedure in the period of economic crisis. The *Flexikonto*, introduced in the 2009 Amendment to the sectoral collective agreement, is the best example of a collectively stipulated crisis-induced measure.

## 5.3 INTEGRATIVE AND DISTRIBUTIVE OUTCOMES



- **Extent to which negotiations on substantive issues above are seen as deliberative (zero-sum) and/or integrative (positive sum)**

Bargaining on the above substantive agenda is seen as deliberative. Table 5.1 shows that in recent years, agreements have been concluded more frequently and their period of validity has been shortening. This suggests a higher uncertainty and difficulty in evaluating the economic situation over a longer time period. In consequence, social partners agree to predictable deliberative outcomes, rather than engaging in risk of uncertain integrative bargaining outcomes.

However, from an analytical point of view, the fact that wage increases satisfy employees and at the same time increase their motivation, commitment and attachment to a particular employer, can also be interpreted as an integrative outcome of bargaining with benefits to both the employer and the employee. The fact that sector-level and establishment-level bargaining are well established and regularly exercised in the metal sector in Slovakia can also be seen as integrative for the social partners and for the reinforcement of collective regulation of employment issues.

- **Balance between integrative and distributive elements in agreements involving explicit linkages / trade-offs**

We evaluate agreements involving explicit trade offs as distributive, helping the social partners to cope with high uncertainty in the aftermath of economic crisis. The provision on *flexikonto* can at the same time be seen as a strong integrative element, which offers a balance between flexibility and security to employers, trade unions and employees.

- **Which have been the most difficult issues over which to reach agreement?**

Wages continue to be the major point of dispute and the most difficult issue, together with conditions of trade union activities within company, over which social partners negotiate.

- **Are gender implications identified, and if so how addressed?**

Explicit gender implications are not identified; however, includes a provision on nondiscrimination based on gender.

- **Which issues have had created difficulties in reaching a common position on the employer side?**

The Federation of Mechanical Engineering of the Slovak Republic (ZSP SR) is the only association representing employers in collective bargaining at the sector level; therefore reaching a common position among employers' association is an irrelevant question in the Slovak context. However, which creates difficulties for individual employers in the sector in reaching a common position in collective bargaining is the very high diversity of engaged firms (ZSP members) covered by collective agreements. For large foreign firms, sector-level collective stipulations are seen as minimum standards, which are easily exceeded in

company-level agreements. At the same time, small subcontractors face difficulties in fulfilling sector-level stipulations. This discrepancy in employers creates a challenge for the character of sector-level stipulations.

- **Which issues have had the potential to undermine solidarity on the trade union side?**

Since there is only one trade union representing the mechanical engineering sector, the undermining solidarity issue is not relevant in the Slovak context.

#### **5.4 TRENDS AND CHANGING INTERFACE OF COLLECTIVE BARGAINING WITH OTHER MODES OF GOVERNANCE**

- **Has inter-sector/sector regulation via collective bargaining of flexibility and sustainable security broadened / narrowed / stayed the same in terms of the scope of the agenda?**

Key bargaining issues remain the same for the period 1999-2011. These include wages, working time, social fund contributions and dismissal protection of certain groups of workers. The overall trend is that the scope of sector-level collective agreements is getting narrower and many issues are left to bargaining at the company-level. This applies also to the issues of flexibility and (social) security related provisions. In particular it concerns access to training, performance-related pay, contributions to the supplementary pension scheme etc.

- **Has company-level regulation via collective bargaining of flexibility and sustainable security broadened / narrowed / stayed the same in terms of the scope of the agenda?**

Company-level regulation via collective bargaining of flexibility and sustainable security has broadened over the years. Issues such as performance-related pay, contribution to the supplementary pension scheme, or training are mentioned in the higher-level collective agreement with reference that the details will be agreed on in the company-level collective agreement.

- **In the absence of inter-sector / sector bargaining on flexibility and sustainable security, have company level collective agreements become more widespread / less widespread / neither?**

Not applicable to Slovakia, because sector-level bargaining is equally important as establishment-level bargaining in mechanical engineering sector.

### 3. Industrial relations at tripartite level – flexibility and security as part of substantive agenda of tripartite negotiations and peak-level social partners’ goals

#### 6.1 FLEXICURITY AS A SUBSTANTIVE AGENDA IN TRIPARTITE NEGOTIATIONS<sup>28</sup>

Slovakia is a country with a functioning tripartite-level social concertation within the tripartite Economic and Social Council of the Slovak Republic (*Hospodárska a sociálna rada, HSR*).<sup>29</sup> The council serves as an advisory body to the government, consisting of governmental representatives, representatives of trade unions (the single peak federation KOZ SR), representatives of employers (two peak employers’ associations: AZZZ SR and RUZ SR), and representatives of the Federation of cities and municipalities (ZMOS).

The tripartite Economic and Social Council has covered the issue of flexibility/security in several negotiation rounds between 2001-2010. Between 2001 and the spring of 2008, social partners have addressed flexibility and security issues almost exclusively within the debates of Labour Code amendments. These debates focused, e.g., on more flexible hiring and firing (external flexibility) rather than on a substantial debate on flexicurity and the inclusion of flexicurity provisions into the regulation of formal employment contracts. The Ministry of Labour, Social Affairs and Family (MPSVR) brought the “*EU Green Book on modernisation of the Labour Law with the aim of meeting the challenges of the 21<sup>st</sup> century*” into discussion during the meeting of April 28<sup>th</sup> 2008. Social partners discussed the definition of flexicurity as an “integrated approach where both flexibility, social security and protection of employee are granted; there is no universal model which could be applied in every state.”<sup>30</sup> In the same meeting, the HSR agreed to launch a working group in order to produce a document on flexicurity by the end of September 2008. This document would serve as the basis for further discussions on flexicurity within the HSR. The strategic aim of this process (working group, document and further discussions) should have led to creating a “*National System of Flexicurity*”.

In August 2008, all previous action was stopped on the initiative of MPSVR, which suggested to include the flexicurity agenda into the “*National program of reforms*”<sup>31</sup>. Representatives appointed by tripartite-level social partners would be part of the steering team and expert teams for the implementation of the “*National system of flexicurity*”<sup>32</sup>. Upon an agreement of social partners, MPSVR was preparing the “*National system of*

<sup>28</sup> This section draws on a content analysis and keyword search of all tripartite sessions taking place in Slovakia since 2001. Summary notes on each tripartite session are available (in Slovak) at the HSR website <http://www.vlada.gov.sk/2802/zaznamy-z-rokovania-hospodarskej-a-socialnej-rady.php>. Evidence selected for this session is limited to the substantive agenda relevant for flexibility and security.

<sup>29</sup> Transcripts from meetings of ESCSR: <http://www.vlada.gov.sk/2802/zaznamy-z-rokovania-hospodarskej-a-socialnej-rady.php?page=0> [accessed May 3, 2010].

<sup>30</sup> Transcript of the ESCSR meeting from April 28<sup>th</sup> 2008: <http://www.vlada.gov.sk/7053/zaznam-z-plenarneho-zasadnutia-hospodarskej-a-socialnej-rady-slovenskej-republiky-konaneho-dna-28-4-2008.php> [accessed May 3, 2010].

<sup>31</sup> National program of reforms 2008-2010: [http://www.minedu.sk/data/USERDATA/EUZAL/LSaNPR/NPR\\_2008-2010.pdf](http://www.minedu.sk/data/USERDATA/EUZAL/LSaNPR/NPR_2008-2010.pdf) [accessed May 3, 2010].

<sup>32</sup> Report on the National System of Flexicurity: [http://www.rokovania.sk/app/rhsp.nsf/0/90D462E2EF0CFF23C1257435003F15A6/\\$FILE/Zdroj.html](http://www.rokovania.sk/app/rhsp.nsf/0/90D462E2EF0CFF23C1257435003F15A6/$FILE/Zdroj.html) [accessed May 3, 2010].

*flexicurity*” based on the operational program “*Employment and Social Inclusion*”. Following a country-specific advice of the EC to Slovakia, the “*National system of flexicurity*” sets its strategic goals mainly in lifelong learning and a reform of education (primary, secondary and tertiary) to better align employee skills with labour market demands. Another goal has been an improved access of unemployed to jobs.

In 2009, the Education Centre of MPSVR launched a call for a monitoring project on Slovakia’s preparation for the National System of Flexicurity. As part of this project, in 2009-2010, several organizations (i.e. the Law Faculty of Trnava University and Trexima s.r.o.) elaborated reports monitoring the legislative situation a social security system in Slovakia from a flexicurity perspective. This contributed to the *Proposed Action Plan for the Implementation of the National System of Flexicurity*. The project was funded by the operational program Employment and Social Inclusion of the European Social Fund.

**- Transposition of the national flexicurity agenda and preparatory action into the tripartite council**

On December 4<sup>th</sup> 2009 HSR officials agreed on debating the “*National system of flexicurity*” in 2010. However, the HSR agenda in 2010 excluded this point<sup>33</sup>, excluding the debate on the National System of Flexicurity. On April 30<sup>th</sup> 2010 in a press release in the Slovak Press Agency the Minister of Labour, Social Affairs and Family, Viera Tomanová<sup>34</sup>, admitted that the government failed in creating the “*National system of flexicurity*”, referring to global economic crisis and high demands on putting such types of systems into practice as reasons for the failure.

The HSR negotiation agenda for 2011 does not include the National System of Flexicurity; however, the National Program of Reforms is scheduled for a debate in Spring 2011 (March and April). Two other HSR meetings in Autumn 2011 shall handle issues that are directly or indirectly related to flexicurity: the *Strategy on Lifelong Learning* and the update to the *National Action Plan for Gender Equality*.

**- Overview of laws affected by and/or referred to during the tripartite flexicurity debate**

- Act 5/2004 on employment services and its amendments
- Draft Act on regional development support
- EC Directive 1997/81/ES from December 15<sup>th</sup> 1997 (framework agreement on part-time work)
- EC Directive 1990/70/ES from June 28<sup>th</sup> 1999 (framework agreement on temporary work)
- Act 311/2001 (the Slovak Labour Code) and its later amendments

## **6.2 APPROACHES OF PEAK-LEVEL SOCIAL PARTNERS TO FLEXICURITY**

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<sup>33</sup> Due to parliamentary elections in June 2010, the HSR agenda has initially been set only for January-June 2010. After the elections and change in government, the agenda for the second part of 2010 for HSR meetings has been set

<sup>34</sup> News Agency of the Slovak Republic: <http://www.tasr.sk/25.axd?k=20100430TBB00590> (viewed on May 3<sup>rd</sup> 2010)

Acknowledging that flexicurity remained outside the main points of interest in the tripartite council, the author interviewed representatives of KOZ SR, AZZZ and RUZ involved in the HSR in order to obtain evidence on the approach that each partner adopted on flexicurity. Slovak trade unions do use a Slovak translation of the term ‘flexicurity’, introduced by the Secretary of State to the Ministry of Labour, Family and Social Affairs within the National Flexicurity Plan. Employers’ associations do not accept the Slovak translation of the term ‘flexicurity’ and argue that flexibility and security are two distinct concepts that cannot be merged. Approaches of particular organizations help evaluating to what extent flexicurity is a priority in trade unions’ and employer associations’ agenda; and helps understanding the overall context of flexicurity debates in Slovakia, especially the lack of interest in placing flexicurity into the spotlight of debates within the tripartite council. The next section presents the approaches of peak-level organizations to flexicurity.

- **Trade union confederations’ (KOZ SR) approach to flexicurity<sup>35</sup>**

KOZ SR does not directly participate in collective bargaining on flexicurity measures, neither is actively involved in flexicurity-related policies. KOZ SR regularly monitors the activities of European bodies in the issue of flexicurity, in order to follow the 2006 call of the European Commission that member states should pay attention to balancing flexibility with security of employees. KOZ SR’s involvement in shaping flexicurity measures in Slovakia remains indirect: flexicurity is predominantly discussed in a broader context of Labour Code amendments in the tripartite council. KOZ SR advisors participate in a working group on flexicurity, which prepares internal documents for the HSR. Nevertheless, attention that social partners in HSR paid to flexicurity remained marginal, as presented above. The only exception and evidence on KOZ’s approach to flexicurity is a written document, elaborated in April 2010, on KOZ SR’s approach to flexicurity. The summary of this document is presented below.

- **General trade union attitudes towards flexicurity, its context and its implementation in the labour market**

- Flexicurity shall be viewed/monitored in the context of global labour market developments. The Slovak labour market cannot be separated from challenges that labour markets face in a broader context.
- Legal regulation is especially important in shaping the character of working conditions within the EU and global context. EU should not foster a competitive advantage of low wages, but of diversified quality production. Legal regulation is central for achieving this aim and accordingly implementing flexicurity provisions in EU member states.
- A greater exposure of workers to international challenges and their increased vulnerability is also crucial for understanding the context in which flexicurity shall be implemented.
- KOZ SR presents its critique of precarious work despite the fact that flexible labour markets have brought employment growth.

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<sup>35</sup> This section is based on the interview with KOZ SR’s advisor for social partnership in HSR (interviewed on 3 May 2010) and Ondruška (2010).

- KOZ SR agrees with the statement that no single solution is feasible for all member states; rather, each member state should adjust/develop flexicurity tools to particular labour market conditions.
- KOZ SR claims that the discussion on flexicurity shall not be limited to external flexibility, i.e., flexibility of employment contracts, its legal regulation and labour market tools. KOZ SR argues that flexicurity shall be considered as a complex matter, covering a variety of dimensions, in order to create win-win situations for all involved parties, namely, achieving a balance in the rights/obligations of employees and employers. More attention should be given to internal flexibility – especially working time flexibility over longer periods of time (i.e., working time annualization) and functional flexibility.
- **Trade union attitudes to institutional underpinning of flexicurity**

First, KOZ SR points to the necessity of revising/adjusting the system of workplace protection and the related institutions/process of collective bargaining, in order to introduce a balance between flexibility and security in all forms of employment contracts (including precarious work). KOZ SR believes this is important in the context of solving segmentation between different employment forms.

Second, KOZ SR finds important to elaborate additional tools to support job mobility from less attractive to attractive workplaces.

Third, KOZ SR fosters a strengthening of legal stipulations and transparency in rights/obligations for employers and employees, which should improve the implementation of labour law

Fourth, KOZ SR appeals to follow the Directives of the European Commission, in particular those that resulted from a general agreement of EU-level social partners

Fifth, KOZ SR supports work-life balance that shall contribute to an effective use of European workers' potential

Sixth, the discussion/dialogue on flexicurity needs to develop in an environment of institutional trust where each party is ready to bear responsibility for relevant policies and their implementation

- **Trade union attitudes towards flexicurity as a topic in collective bargaining**

KOZ SR maintains that the fundamentals for a successful implementation of any flexicurity model is a welfare state that is able to guarantee a high degree of social protection, together with a stable and transparent legal framework for collective bargaining and social dialogue. The legal framework should motivate social partners to contribute to the flexicurity project and to engage in fruitful bargaining about the use of flexicurity tools. In bargaining about flexicurity, KOZ SR maintains that the dialogue should be extended in three directions:

- First, it is necessary to strengthen the role of social partners in the discussion on flexicurity and in bringing about labour market reforms in general. Social partners should have more opportunities to debate, influence and take on responsibility for defining and shaping flexicurity measures and their implementation.
- Second, greater attention should be paid to gender differences in the bargaining process

- Third, trade unions support the process of exploring alternative processes (?) that help supporting employability, lifelong learning, improvement in productivity and innovativeness

All of the above requires a tighter link between the flexicurity debate and social dialogue and collective bargaining processes in general at all levels in EU member states.

#### - **KOZ SR's note on particular types of flexibility in the flexicurity context**

KOZ SR in principle supports selected forms of flexibility, but only if particular measures derive from collective bargaining, and if flexibility is implemented in a legal context that provides for a high level of job security. In particular, KOZ SR supports internal flexibility as an alternative to external flexibility. However, it is important to define the dimensions of flexibility accordingly, because if internal flexibility is too high it may yield a degradation of working conditions, increase of uncertainty, and barriers between harmonizing employees' work with leisure.

In internal flexibility, KOZ SR fosters an extension of time periods, in which working time is defined. Instead of weekly working time, the law and/or collective agreements should introduce working time flexibility arrangements over periods beyond a standard working week, which should also benefit the employer by increasing labour productivity and thus competitiveness of firms. Next, KOZ SR fosters lifelong working time flexibility, or in other words, flexible arrangements over the entire career of an employee in order to coordinate work and leisure. Forms of such arrangements are, e.g., working time accounts, working time annualization, workplace agreements over flexible working time, parental leave, paid leave for education and training, and flexible contracts.

Next to internal flexibility, KOZ SR also fosters functional flexibility through workplace mobility; in particular, through broadening the work content of particular employees. Functional flexibility can only be effective if implemented in stable and decent employment conditions, where employees share the responsibility for firm performance and cooperative forms of work, i.e. teamwork, is fostered. Functional flexibility that will balance the rights and obligations of workers and employers requires continuous learning and a functioning infrastructure of training and lifelong learning. Functional flexibility shall also be a key point in collective bargaining, where social partners should together balance the needs of employers and their employees; and define the appropriate wage levels given the increasing skills of employees.

#### - **Flexicurity in the agenda of employers' associations**

Both employers' associations, AZZZ and RUZ, remain critical of the flexicurity concept as such, of its transposition across EU countries across different institutional domains, as well as of the current state of flexicurity debates in Slovakia, in particular, in the HSR. At the same time, AZZZ and RUZ differ in their approach to flexicurity, in particular, in whether such a concept is useful and desired in the Slovak labour market. AZZZ does find flexicurity useful as a concept, but claims that the current institutional, financial, legal and cultural context in Slovakia is immature for implementing a wide ranging set of tools that would yield the desired level of flexicurity. In contrast, RUZ claims that flexicurity is a problematic concept, with a problematic operationalization, which the Slovak labour market does not even need and is not prepared for.

AZZZ is a long-existing employers' association participating in HSR. AZZZ is in principle not against the flexicurity concept, or in other words, does not adopt a straightforward negative approach to flexicurity as RUZ does. AZZZ finds flexicurity a useful concept, which could be implemented directly through Labour Code provisions and not necessarily with trade union involvement. However, AZZZ remains skeptical of flexicurity's implementation in the Slovak conditions, arguing that operationalizing flexicurity and implementing flexicurity measures would be meaningful only if more jobs would be available in the Slovak economy. Second, AZZZ does not find the Slovak labour market prepared for implementing flexicurity measures and argues that the transposition/implementation of flexicurity is possible (if possible) only in the long run.

As for flexibility measures, AZZZ finds several forms of flexibility useful. First, it is financial flexibility in form of variable pay depending on employees' motivation, commitment and productivity. Second, internal flexibility in terms of working time, where employees would have the choice to work more if desired. Currently many blue-collar workers work in second jobs in the informal economy parallel with their standard employment in the formal economy; therefore AZZZ does not find a limitation in working time stipulated by the Labour Code as a solution for maximum working time regulation. Third, AZZZ argues for a lowering of payroll taxes, which would yield more jobs in the economy as a precondition for external flexibility and for giving employees more choice for switching between jobs. Finally, AZZZ finds on the job training and lifelong learning as positive tools for both employers and employees, but argues that employers should be more motivated for creating conditions for training/learning, i.e., through tax bonuses or similar measures. The current legal system is unsatisfactory for supporting employers to a desired extent in training/learning initiatives; therefore, employers have to find individual means how to provide training in the current legally hostile conditions.

AZZZ also takes a particular approach to security. Questioning the concept of security, AZZZ argues that security is not an alone standing concept, but is closely related to public finance. Any operationalization of security should question the link between security and public finance. Security should be responsible and sustainable, or in other words, should not place too high burdens on public finance in a long-term perspective. AZZZ also views security as related to flexibility: security is only possible in a highly flexible labour market, where security means high job mobility derived from high external flexibility and enough available jobs.

RUZ is a young peak-level employers' organization. Although RUZ participates in the tripartite HSR, it remains highly critical of tripartism, arguing that industrial relations and social dialogue should be anchored at the company level, where discussions/negotiations can yield real results. In contrast, RUZ argues that tripartism in its current form is merely a façade for negotiations, because the scope of action of HSR is set in a way that HSR only discusses laws that have already been prepared or even approved. The perspective of RUZ on a functioning tripartism is that HSR would bring solutions to particular problems of particular sectors in depth, i.e., by creating specialized committees that would work out real solutions, instead of discussing merely legal regulation.

RUZ remains positive about particular forms of flexibility. Related to that, RUZ is highly critical of the current labour regulation, which hinders the extent of flexibility that RUZ considers to be optimal for both employers and employees. First, RUZ criticizes regulation



for being too rigid and not allowing a desired degree of external and internal flexibility in the labour market (e.g., for job seekers to find jobs or to work as many hours as individuals would wish). RUZ argues that the labour market should be more regulated by market forces itself, and the demand for and supply of labour would serve as a cristalizing mechanism for setting moral standards in employment relationships and keep unserious employers out of the labour market. Second, RUZ opposes minimum wage and argues for more financial flexibility and solidarity in an employment relation without external pressures (e.g., in successful times, employers should share their profits with employees, but in difficult times, employees should accept lower wages). Third, RUZ supports employability and multiple skills of employees in order to flexibly move between jobs. For this, training and lifelong learning is essential. RUZ claims not to have capacities for security such training/learning for members' employees. At the same time, RUZ criticizes trade unions for too little attention and activities to secure a desired level of employability of workers. In sum, RUZ supports the increase of flexibility, but is unclear about which institution/organizations shall have enough power to implement and monitor flexibility measures in the Slovak labour market.

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