



Industrial Relations in Europe [2006]

Executive Summary



Industrial Relations in Europe 2006

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The Industrial Relations in Europe Report 2006 builds on the work of the previous report of 2004.⁽¹⁾ The first three chapters focus on industrial relations in the Member States: developments with regard to national industrial relations actors, the interaction between collective bargaining and the law in the Member States and developments in workplace representation mechanisms and practices. The next three chapters deal with European developments: concerning the promotion of social dialogue capacity building in the new Member States and candidate countries, as well as European social dialogue developments at cross-industry and sectoral level and European legislative developments. The seventh chapter addresses forms of non-standard working conditions in the enlarged EU, including trends and industrial relations perspectives on tackling potential risks to social cohesion and sustainability, and the last one endeavours to discuss the complex relationship between the industrial relations, and economic performance.

Chapter 1: Social partners as membership organisations: an overview of forms and trends in the Member States

Most unions continue to be organised on a sectoral or occupational basis, with the traditionally more powerful blue-collar unions losing influence and the white-collar unions gaining significance. In most countries there is more than one peak organisation or confederation, with divisions on occupational, religious or political lines. In general, however, confederations are increasingly distant from their political party counterparts.

Large differences in trade union density – the ratio of actual to potential membership – continue to exist between the Member States, ranging from 80% in Denmark to 8% in France. The density rate is high in the Nordic countries, while Spain, France and most of the new Central and Eastern European Member States have comparatively low rates. The overall weighted average density rate in the EU is now between 25% to 30% of wage

earners, and the trend in union density is clearly downward across Europe. Ten years ago, one in three European workers was a member of a trade union, now it is one in four. Most of the EU Member States experienced a fall in density over the period from 1995 to 2004, with unions in Central and Eastern Europe facing dramatic membership losses. Union density varies notably according to certain characteristics such as sector, age and gender: men are more likely to be unionised, as are older workers. The highest union density is usually found in public administration, health and social services with membership in the services sector the lowest. Minority ethnic groups and workers in small workplaces also tend to be less organised.

Confronting the challenge of declining membership in many countries has led the unions to introduce numerous innovations. An organising model – seeking more ‘empowerment’ of the workforce, for example, by targeting specific workplaces – is one approach. Alternatively, delivering new services such as legal and careers advice has been attempted to attract and retain members. Social movement unionism attempts to transcend the shop floor, focusing on community-based activism and campaigning about local issues. Challenges to proposed welfare reforms in, for example France (2005 and 2006) and Italy (2005) have also been used to promote the profile of the unions. Mergers to promote economies of scale and enable expansion into growing sectors are also common. Recent significant mergers, both in 2004, include that of two unskilled workers’ unions in Denmark to form the country’s largest union and the amalgamation of six blue-collar public sector unions in Finland.

The power and structure of employers’ organisations also varies across the Member States. Some countries, such as Italy – with 12 cross-sector peak organisations – have difficulty in establishing a unified front of employers’ umbrella organisations. In some countries, macro-sectoral organisations are more significant than general peak federations, and

peak organisations do not always play a significant role in bargaining. While there is a substantial role for the peak organisations in the small west European economies, in the large economies – such as Germany – sectoral organisations are more important. Employer organisation density (the proportion of employees working in companies which are members of an employers’ organisation) suggests that they are generally well-established actors in industrial relations. Except for the Nordic countries, density is higher for employers’ organisations than unions. The (weighted) average employer rate of organisation is approximately 55 to 60%. However, there are significant variations between countries. Small west European countries like Austria and Belgium have a high degree of associational power on the employers’ side, while the Czech Republic, Estonia, Latvia, Slovakia, Portugal, Lithuania and Poland have lower than average rates. In the last two countries, employers’ organisations density is 20%.

There is a variety of trends in membership structures of employers’ confederations in Europe. Mergers and rationalising have happened in several countries in recent years, for example in Luxembourg (2000) and Finland (2004), and the two major Dutch confederations have recently announced an alliance. These developments result from a push for economies-of-scale or the integration of industrial relations interests and trade interests. Splits and disagreements on representativeness have also occurred in some countries. The principal general peak organisation in Denmark, for example, is in a phase of restructuring because a major member organisation has expressed doubts about the need to be serviced by a central employers’ confederation. In central and eastern Europe mergers and splits happen on a larger and occasionally more turbulent scale.

While the employers’ organisations appear not to be confronted with declining membership density – probably since they are also active in networking and lobbying activities in other areas such as competition policy – they do face certain

(1) European Commission, *Industrial Relations in Europe*, Office for the Official Publications of the European Communities, 2004.

recruitment and organising challenges. Promoting membership of SMEs is often difficult, the role of (con)federations in countries where decentralisation of collective bargaining is significant is potentially in question and there remain capacity-building issues in new Member States. Furthermore, employers' organisations face increasing pressures from their members to economise on resources, enhance the accountability of the leadership and be more assertive in promoting entrepreneurship. Nonetheless, employers' organisations, with few exceptions, are well established actors in the industrial relations systems of the EU.

Chapter 2: The evolving relationship between collective bargaining and law in the Member States

In the European tradition, collective bargaining is autonomous, enabling a free definition of wage policies and working conditions. The legal principles underpinning the autonomy of collective bargaining are: freedom of association, the presence of collective parties, the generalised enforceability of agreements through legislation or other administrative measures and the procedural function of collective agreements, which may, for example, pre-determine the contents of collective agreements at a lower level. The institutional context for autonomous collective agreements remains solid, but in certain areas covered by EU law in particular – such as working time – and where derogations from the law and collective agreements are increasingly frequent, there are ongoing discussions about the proper relationship between autonomous bargaining and the law.

Current trends in the relationship between law and collective agreements include an almost universal move toward decentralisation to the company level. The forms of decentralisation vary quite significantly, however, from country to country and are often highly changeable. In Spain, works councils operate with a clear mandate and sign 74% of plant agreements, in Germany single employer

agreements have tripled since 1990 and the spread of 'opening clauses' increases decentralisation. In Austria, commentators observe 'organised decentralisation', a phenomenon linked to 'delegation' or 'opening' clauses, enabling some flexibility on certain economic and working conditions.

Other developments include the use of collective agreements to tackle issues of restructuring, non-standard workers and social rights. According to the Swedish Employment Protection Act, for example, agreements on redundancy must include measures to facilitate redundant employees' return to work. Sweden has also been innovative in extending the benefits of collective agreements to agency workers. In Finland too, agencies must comply with the minimum wages used by the company. Collective agreements are also being used to establish certain social rights. In France, for example, an inter-professional agreement on life-long access to learning was signed in 2003, guaranteeing an individual right to training. Other examples have included measures in agreements in Denmark and Greece to reconcile work and family life.

In understanding and interpreting the main trends in collective bargaining, the chapter proposes three 'regulatory schemes'. Firstly, collective agreements may precede law. That is, an agreement in collective bargaining may prepare the ground for the adoption of the same norm in law. Examples include the 2004 French statute on training which was inspired by the 2003 agreement on life-long learning. Alternatively, there may be a vertical hierarchy between law and collective agreements, with a number of possible variations. In some countries collective agreements are subject to extension by decree. In Italy, for example, collective agreements in the public sector are generally enforceable. On the other hand, this scheme can allow for derogations from the law. For example, the Spanish Workers' Statute provides for derogations from legal standards on working time, some conditions and wages when the employer can prove that

economic, technical or productive reasons may damage the firm's competitive position. Recent developments suggest that in the name of 'modernisation' and labour market flexibility, such as in Italy, there has been expansion of the areas in which derogations are allowed. A final regulatory scheme is horizontal subsidiarity between law and collective agreements, with the regime of semi-mandatory law in Denmark being one example.

The increasing trend towards derogation by collective agreement has led to critical reflection in certain countries on the new powers of social partners, particularly where derogation from legislation occurs that is designed to protect fundamental rights. The 2004 French law establishing the majority principle – consensus of organisations representing the majority of workers to allow plant bargaining in derogation from branch agreements – is one example of how a civil law system is attempting to handle the increasingly prominent tension between the public relevance of certain rights and the available private means to achieve them. Poland sees a lively debate on possible criteria for current derogations from statutory standards through collective bargaining.

The chapter notes that while the basic rules of national labour systems have not been shaken in recent years, there are certain tendencies which challenge the traditional relationship between the law and collective bargaining. As well as the discussions on the comparability of standards arising from increased derogations from the law and higher collective agreements, it emerges that strengthening the legal ground on which voluntary sources must rely involves the need to clarify criteria for the negotiation of binding agreements, particularly when there is a departure from higher standards. The increasing recourse to non-legal terminology, like in 'experimental' or 'temporary' legislation, as well as legislation aimed at 'modernisation' often leaves significant space for manoeuvre to the relevant social partners and collective agreements can be crucial in

setting standards adaptable to different contracts of employment. Finally, increasing decentralisation of bargaining that sometimes deals with fundamental rights implies the need to strengthen the procedural rules coordinating company and plant bargaining as well as transnational company bargaining. As part of its new social agenda, the Commission is exploring this latter question.

Chapter 3: Employee representation at the workplace in the Member States

Workplace representation has been legally established and formally installed in most of the EU countries and is a distinctive feature of the EU industrial relations system. There is, however, a great range of forms of representation, reflecting the specific characteristics of industrial relations in particular countries. The most significant European legislation on workplace representation is the framework directive of minimum standards for informing and consulting employees at company level in all Member States (Directive 2002/14). This generalised the obligation to inform and consult employees and, in effect, institutionalised mandatory workplace representation in the European social model. However, the directive is drafted in very broad terms, leaving considerable scope for individual States to implement its terms. Thus it creates a general framework for informing and consulting employees, without harmonising representation. There remains, therefore, a patchwork of information and consultation requirements, although most countries have adopted a system in line with the EU directive, with implementation leading to a policy debate in several countries. The biggest statutory changes as a result of the directive are occurring in the previously non-statutory countries of the UK and Ireland and in some central and eastern European countries.

The principle differences in workplace representation in the EU are to be found in the structures of the national models and in the levels of participatory rights. The legal basis of representation is also

variable: while it is mostly statutory law which creates the national framework, in the Nordic countries, collective agreements form the legal basis. Structurally, differences arise in whether representations are elected by all employees, are elected or nominated by trade union members within the company or whether there is a combination of the two channels (dual channel system). While in Cyprus, Ireland and Sweden, for example, single channel representation by a trade union is the norm, in France, Greece, Portugal and Spain, the works councils are seen as complementary bodies to the trade union representation. Very significant variations are also obvious in minimum thresholds for representation. While in Portugal and Sweden there is no minimum, in Belgium at least 100 employees are required for a works council. Rights to participation also vary. While statutory prescriptions in many Member States require employers to give information on financial and business matters, employment levels and closures and so on – as well as to consult on structural changes – co-determination or joint decision-making is less common. In Austria, Germany and Sweden, however, there are strong participatory rights extending to substantial co-determination.

The presence and impact of workplace representation also varies according to a range of factors such as sector, establishment size and occupational category. Coverage – the share of employees working in an establishment with a workplace representation – is quite variable. While the EU average is approximately 50%, over 80% are covered in Sweden, while the Baltic States have coverage of only 25% or under. Coverage also varies substantially by sector, with 80% represented in the education sector across Europe, compared with only approximately a third in sales, hotels and restaurants. There is, broadly speaking, a linear relationship between size of establishment and coverage of representation, with 87% coverage in establishments of 500 workers or more, compared to only 24% in workplaces with under 10 employees. Occupational category also has some

bearing on the chances of representation, with professional and managerial staff more likely to have representation than manual workers. In terms of the perceived impact of workplace representation in influencing conditions at work, those covered by representative arrangements seem to discern only a relatively moderate influence. Broadly speaking, employees in the new Member States perceive representation to be less influential.

While the overall structures of workplace representation vary significantly from country to country, the limited available research suggests that the practice – the processes and dilemmas faced by representatives – is often broadly similar. Nevertheless, certain differences at a national level can be seen. In Germany, research suggests that the institution of the works council retains strength, but that the role of the representative has become increasingly difficult with increased company restructurings, economic problems and organisational changes. The research also suggests that works councils have a moderate positive impact on economic performance, but that those in particular which have a strong cooperative role in organisational or technological changes may have a more noticeable positive effect. In the Netherlands it appears that the institution of works councils has matured with legal obligations and procedures being more closely followed, but that influence on strategic matters remains relatively limited. Barriers to enhanced impact include a certain degree of mistrust on the part of the business side and the challenge of changing organisational structures. In Nordic countries research suggests that the well-established structures of workplace representation are increasingly developing into more involvement and co-determination.

Representation remains broadly speaking low or lacking in influence, however, in the central and eastern European countries and southern Europe. Recent research on the Czech Republic, for example, suggests that lack of enthusiasm

among employees and indifference from employers are barriers to expansion in representation. While France has a well-developed and increasingly institutionalised, professional and influential system of workplace representation, Portuguese and Greek representation remains relatively weak in terms of impact and influence. Despite the fact that workplace representation has been strengthened and professionalised in recent years in countries with an already institutionalised tradition, and despite the growing evidence from north-west Europe that a well-functioning representation can play a significant role in modernisation and performance, there remains therefore a weak system of employee representation in several countries, with significant gaps in the private sector. This poses a challenge for those advocating representation in countries with less well-established traditions, while in countries with strong institutions, the challenge is more to adapt representation to the increasingly complex landscape of internationalisation and the network economy to ensure its ongoing contribution.

Chapter 4: Social dialogue capacity-building initiatives in the new Member States, accession and candidate countries

The Commission has, the chapter notes, continually stressed the importance of social dialogue for better governance and made various recommendations for the improvement of the capacity and involvement of social partners in new Member States, accession and candidate countries. The industrial relations traditions in the new Member States, however, pose something of a challenge for the EU approach, since they have tended to emphasise more tripartite bargaining and national level concertation than bipartite, collective bargaining. Collective bargaining has largely been limited to the company level and both trade unions and employers' organisations in eastern and central Europe are weak. The Commission is particularly concerned about the capacity of social partners in these countries, because of the difficulties it poses in terms of involvement

in the various fora of the European social dialogue. This encouraged the Commission to request accession countries to include social dialogue projects in the context of the Phare programme.

Between 2001 and 2005, social dialogue capacity-building projects were established in all former and current accession countries of central and eastern Europe. Each country could choose one or two twinning partners from the EU-15 – typically social affairs and labour ministries and national experts – with whom they would work. Examples included the Czech Ministry of Social and Labour Affairs' collaboration with Danish twinning partners which produced an initial assessment report, developed recommendations on procedures for extending collective agreements and promoted activities aimed at strengthening the extension of collective agreements at enterprise level. Similar capacity-building activities such as seminars and working groups were reproduced in the other CEE countries, with the partners' monitoring reports often emphasising positive impacts on public awareness and on the strength of employers' and employee associations. However, as well as some fluctuating political support, projects faced the difficulty that employers' organisations were generally less well represented – something project partners believed needed to be remedied if the projects were to be sustainable.

The European cross-industry social partners also initiated their own projects funded by the EU either through the Phare programme or the Commission's social dialogue budget headings. These included business support programmes such as the European Association of Craft, SME (UEAPME) designed project – SME-FIT – which focused on helping small enterprises familiarise themselves with the *acquis*. The cross-industry partners' 'Integrated Programme', launched in 2003 aimed to enhance the capacity of social partners to participate in European social dialogue through, for example, developing competencies and providing resource centres.

The Commission also financed capacity building initiatives organised by the ITC-ILO. The EMPACT project set up training programmes for staff of participating employers' organisations, leading to changes in the internal structure of the employers' organisations, with new committees being established, for example. ACTRAV was the corresponding project aimed at strengthening the capacity of workers' organisations. The European Foundation for the Improvement of Living and Working Conditions (EFILWC), an EU agency, also launched a number of projects preparing the national social partners for enlargement, including a project on social dialogue and EMU in the candidate countries.

Social dialogue capacity-building projects in the candidate countries and potential candidate countries are also being increasingly emphasised. For example, a conference organised by the Commission in Skopje in October 2005 on strengthening social dialogue in the Western Balkans highlighted the key role of social dialogue as a social policy tool.

Broadly speaking, evaluation of the projects suggests positive and encouraging results. However, there remain important weaknesses. The availability of independent, structured and representative organisations, particularly on the employers' side, is still limited. Bipartite social dialogue, particularly at the sectoral level, can be strengthened. The on-going viability of the improvements that have been made and the capacity to respond to these challenges will depend on the will of the social partners, since social partners are autonomous, and will also be significantly influenced by the determination of national governments to promote social dialogue.

Chapter 5: European social dialogue developments

The chapter offers an overview of recent developments in social dialogue at European level. 2005 was a notable year, marking the 20th anniversary of the

launch of European social dialogue by the then Commission President Jacques Delors. A special Social Dialogue Summit was held in September 2005, chaired by Commission President Jose Manuel Barroso, looking back over the previous 20 years and considering future challenges. The leaders of the European Social Partners also officially launched their discussions on the next multi-annual work programme for European social dialogue (2006-2008).

In terms of tripartite dialogue, the mid-term review of the Lisbon Strategy called for enhanced ownership of the process through improved governance, streamlined processes and stronger involvement of all stakeholders. The European cross-industry social partners issued a joint declaration on the mid-term review of the Lisbon Strategy and supported the refocusing exercise. Tripartite social summits continue to meet ahead of every Spring European Council, and all EU presidencies have so far held extraordinary autumn meetings on specific issues. These have been seen as valuable opportunities for the Commission and the Council to monitor progress and discuss various aspects of the Lisbon Strategy. In almost all Member States, social partners were informed and consulted to varying degrees on the national reform programmes, outlining their strategy on employment and macro- and micro-economic policy. The Commission's 2006 Annual Progress Report again emphasised the importance of the involvement of social partners in the implementation phase of the Lisbon strategy.

At the bipartite level, the 'flexicurity' model of employment relations, combining labour market flexibility and employment security, has been promoted through various social dialogue activities. Implementation of the 'autonomous' European framework agreement on telework, for example, has been ongoing in the Member States; European social partners have continued to monitor the process and will draw up a report. Subsequent to the 2002 cross-industry framework of action on lifelong learning, annual reports

have monitored social partner initiatives at the national level. An evaluation report examined the impact of the framework on both companies and workers, arguing that it has both supported pre-existing actions and helped to bring about new initiatives. Sectoral social dialogue committees have also developed instruments to improve training systems and provision in ways adapted to their economic activities. In response to the Commission's encouragement to work more on the anticipation of change and restructuring, the cross-industry social partners agreed in the joint work programme for 2006-2008 to complete national studies of economic and social change for all Member States and, on that basis, promote and assess the 2003 'orientations for reference'. Sector-level initiatives include the innovative 'tool box' of the ship-building sector, containing guidance on best practice on dealing with cyclical fluctuations in demand. The sugar sector also developed various initiatives such as an electronic practical guide to accessing structural funds. In 2005 the cross-industry social partners also discussed the functioning of European Works Councils (EWC) on the basis of case studies and drew conclusions in their joint text 'Lessons learned on EWC'.

The social partners have considered the challenges arising from demographic change, with youth integration and active aging taken up by the 2006-2008 cross-industry work programme. Sectoral social dialogue committees also developed proposals for integrating young people into the labour market. In promoting gender equality the Commission roadmap of March 2006 and the 'European Pact for Gender Equality' endorsed by the 2006 Spring Council underline the role of social partners. In March 2005, the cross-industry social partners agreed a framework of actions on gender equality, addressing gender roles, promoting women in decision-making, supporting work-life balance and tackling the pay gap.

One of the areas in which social partners have been most active is quality of work. The Council adopted in July 2005 a directive which implements the agree-

ment on certain aspects of the working conditions of mobile railway workers. In the area of health and safety at work, the Commission launched several article 138 consultations (carcinogens, mutagens and substances which are toxic for human reproduction; musculoskeletal disorders), and some sectors responded with their own initiatives. Seventeen European social partner and industrial organisations in various sectors concluded the first multi-sector agreement on protecting workers against silica crystalline dusts in April 2006. The agriculture sector also signed a framework of actions on musculoskeletal disorders in 2005. In the area of well-being at work the cross-industry social partners signed a second autonomous agreement on stress in October 2004 which has to be implemented by member organisations by 2007. On violence and harassment, they started negotiations on an autonomous agreement in February 2006. Corporate social responsibility (CSR) continues to attract and retain considerable interest, with sectoral initiatives including websites and the collection and dissemination of best practice.

Steps have also been taken to strengthen working methods. In line with the Commission communication of August 2004 identifying future challenges, social partners have devoted efforts to improve their working methods and the functioning of European social dialogue. According to the cross-industry social partners, their first joint work programme for 2003-2005 has helped to focus European social dialogue and to enhance its autonomy. A second work programme has therefore been drawn up for 2006-2008. This programme foresees social partners developing a common understanding of their instruments and how they can have a positive impact at the various levels of social dialogue. The adoption of annual or multi-annual work programmes by all sectoral social dialogue committees (SSDCs) has also been a positive development. Three new SSDCs have been set up with the social partners of the chemical industry, the steel industry and the hospital sector. Other requests for the crea-

tion of SSDCs (gas) are being considered by the Commission. An external evaluation of the use of financial instruments in support of European social dialogue, carried out in 2005, confirmed their positive impact. The 1011 projects carried out by 525 social partner organisations in research, capacity-building, conferences and seminars were aimed principally at increasing participation, supporting the European Employment Strategy and increasing awareness of legislation. Added value and additionality of projects were found to be generally high. The evaluation suggested increasing participation of organisations from Member States that recently joined the EU, of knowledge intensive growth sectors and of sectors with predominantly small and medium-sized companies.

Chapter 6: Review of European legislation 2004-2006

This chapter notes that legislative action in the reference period was carried out in the areas of labour law, health and safety at work, equality between men and women and free movement of workers, including social security issues. A number of legislative acts were proposed or adopted with a view to recasting existing legislation regarding health and safety, equality and free movement of workers, in line with European policy aiming at better regulation and simplification. The Commission continued to make considerable efforts to monitor the implementation and application of EU law, particularly in the context of the enlargement.

In the field of labour law, a Commission proposal on working time, currently under discussion before the Council and the European Parliament, involves amending the existing directive as regards mainly the issues of on-call time, reference period, opt-out and reconciliation of work and family life. In the railway sector, the EU social partners concluded an agreement on certain working conditions of mobile workers engaged in interoperable cross-border services which was

implemented, at their request, by way of Directive 2005/47/EC. The Commission Communication on restructuring of March 2005 outlines measures that should be developed or strengthened around the various means that the Union can use in anticipation and management of corporate restructuring. It constitutes the second stage of consultation of the European social partners, calling on them to become more involved in anticipating and managing restructuring. The new cross-border mergers directive regulates, among other things, the issue of employee participation in the company resulting from the merger.

The Commission undertook several actions in order to ensure the effective implementation of Community labour law, including launching a series of studies concerning the transposition and application of the relevant *acquis* in the enlarged Union. Looking forward, the Commission plans to publish a Green Paper on the evolution of labour law analysing trends in new work patterns and the role labour law can play in tackling these developments. The publication of this paper, and the ensuing public debate that it will launch, will play a key strategic role for future developments in this field.

There have been several developments in the area of health and safety at work. These include the adoption of two directives in 2004 concerning the exposure to risks arising from electromagnetic fields and the exposure to carcinogens or mutagens respectively. In November 2004, the Commission launched a consultation of the European social partners on musculoskeletal disorders at work. A Commission directive adopted in February 2006 established a second list of indicative occupational exposure limit values in implementation of earlier directives on chemical agents. Furthermore, in April 2006 a directive on minimum requirements regarding the exposure of workers to risks arising from artificial optical radiation was adopted. Other developments included the December 2004 launch by the Commission of the first stage of consultation of the social part-

ners on the protection of workers from violence at work, and the 2004 communication on the practical implementation of six health and safety directives.

In the area of anti-discrimination, the Commission focused its efforts on the full and correct transposition into national law of the two anti-discrimination directives (the racial equality directive and the employment equality directive) as well as upon their effective application in practice. These directives have helped to raise significantly the level of protection in the EU and have led to the introduction of legal provisions covering certain grounds for the first time in some Member States. In the field of equality for women and men the Commission adopted in April 2004 a proposal for a directive on the implementation of the principle of equal treatment in matters of employment and occupation that aims at simplifying and updating existing Community legislation. A directive was adopted in December 2004 on access to and supply of goods and services establishing for the first time the principle of equal treatment outside the employment field.

The complex body of EU legislation on the mobility and residence rights of workers exercising their fundamental right to free movement was simplified and improved by way of a directive adopted in April 2004. Member States had until April 2006 to transpose this directive. In the framework of the regular up-dating of EU legislation on the coordination of social security schemes, a 2005 Regulation reduced the number of special non-contributory benefits to which special coordination rules apply. In October 2005, the Commission presented a proposal for a directive on improving the portability of supplementary pension rights. This directive intends to support the 'Jobs and Growth' strategy by making it easier for workers to move jobs and countries. The European Health Insurance card formally replaced the E-forms in all EU and EEA States from the beginning of January 2006 (end of the transitional period regarding some Member States).

Chapter 7: Trends and potential risks in the EU labour market

This chapter considers the increasing trend towards enhancing flexibility of labour markets and towards non-standard working conditions in terms of greater diversity in employment contracts and working time arrangements, as well as the potential associated benefits and risks. Some countries gave preference to one form of flexible contract over others, such as Spain, which remains the country with the highest proportion of employees – one third – on temporary work contracts, followed by Poland, Portugal, Slovenia and Finland. However, while between 1998 and 2005 this percentage slightly decreased in Spain and Finland, and did not significantly increase in Portugal, it doubled over the same period in Poland (from 5.4% to 25.5%) and increased substantially in Slovenia (from 11.5% to 17%). In other EU countries where it was still only marginally developed in 1998 the increase was more significant, as in Sweden, the Netherlands and Italy. In the UK, the share of temporary jobs grew during the 1990s and then decreased from 7% to around 5.5% of the workforce. The EU-wide trend is towards more temporary contracts (12.8% in 1998 and 14.2% in 2005) although permanent contracts remain more common. Interim agency work and part-time work also show upward trends. While these different contract forms can be summarised as external numerical flexibility, flexible working time arrangements – internal numerical flexibility – continue to become more important. These developments are found with regard to overall flexibility in working time, as evidenced in a recent survey of the European Foundation for the Improvement of Living and Working Conditions, as well as concerning increased proportions of employees reporting shift and night work and those working during weekends.

The motivation for greater flexibility comes from both employers and national governments. At the company level, the perceived need for increased competitiveness in the context of globalisation

as well as increasing expectations of consumers is leading to more flexible and atypical forms of employment and work organisation. National governments promote flexibility measures with the aim of boosting employment. In particular, governments try to facilitate exit and entry to the labour market. There is evidence, furthermore, to suggest that measures to enhance flexibility have had success. For example, in Sweden recent data suggests that interim agency work led to employment with the agency's client for the majority of employees and also provided an integrative role for immigrants and young workers. More generally, part-time work has become very important in a large number of countries and has enhanced employment opportunities, while one fifth of part-time workers would prefer to work full-time.

Focusing on the risks associated with more flexible work it has been found that it is mostly employees aged under 30 who are on temporary contracts and exposed to the greater risks associated with enhanced labour market flexibility. 54.6% of workers under 30 are on such contracts in Spain, 49.3% in Poland and 42.3% in Slovenia. Women tend to be more likely to be employed on a temporary basis, especially in Slovenia, where 48 per cent of women under 30 are affected compared to 38% of their male colleagues, but also in Finland (48% and 36%) and Sweden (46% versus 36%). Certain sectors appear to be more affected by 'flexible' and atypical forms of employment, such as those exposed to international competition and the retail sector.

Increasing labour market flexibility does not, however, necessarily lead to higher job quality. There are many virtuous combinations leading to increases in jobs and job quality, but there are also the potential risks of increased poverty and inequality in working conditions, weakening social dialogue, and reduced worker motivation. Concentration of unskilled jobs in contingent employment, shortening of contract duration and involuntary part-time work are forms of employment which can lead to reduced

possibilities to find and retain a secure place in the labour market. They also offer more limited prospects of upward mobility, particularly where access to training is limited and can, on the contrary lead to higher segmentation on the labour market and an underutilisation of human capital. Uncoordinated working time arrangements may, for example, impede an optimal work/life balance. These uncertainties on the labour market may also have a demographic impact as they can lead young people to postpone the decision to set up a family. While each of the individual risks does not necessarily imply exclusion, in combination they may lead to workers being trapped in 'vulnerability vectors' and facing long term exclusion. The chapter observes that certain groups are most at risk of facing exclusion through an accumulation of risks: women, young people, older people, minority groups and those with lower levels of education.

In attempting to balance flexibility, job quality and employment security, governments and social partners have implemented measures to limit excessive forms of flexibility, including enhanced quality of training and lifelong learning. The chapter urges for more efforts in this respect. For example, there has to be monitoring and, where appropriate, action needs to be taken by both governments and social partners with regard to limiting certain forms of inequality in working conditions, including those related to health and safety, access to training and combining work with family life. Certain groups on the labour market such as female contingent employees on low pay and young workers facing possible vicious circles of exclusion need particular attention. More generally, the incidence of low pay is high in a number of Member States (notably where more than 30% of all employees receive less than 60% of the average/median wage as in most of the new Member States, but also in the UK and Portugal). While statutory minimum wages have been in place in most Member States, the percentage of workers covered by them is very variable among Member States. But the

aim endorsed by the European Council of substantially reducing the incidence of poverty including the working poor requires further forceful action. Overall, the chapter underlines the importance of ensuring that employment growth is not pursued at the expense of social cohesion and sustainability and that the possible risk factors are counteracted in the promotion of economic growth and job creation.

Chapter 8: Industrial relations and economic performance: an overview of research results

The aim of the Lisbon agenda is to promote Europe as the most competitive knowledge economy, while retaining social cohesion. The social partners are encouraged to participate in this process, and this chapter examines the social foundations of competitiveness, addressing the role of industrial relations in promoting economic growth and efficiency.

The contested nature of indicators of economic performance and classifications of industrial relations systems makes a definitive statement of the relationship – particularly in quantitative terms – difficult to achieve. Indicators of international comparisons of competitiveness and performance are numerous and subject to some dispute, while the diversity of industrial relations and national social-protection systems in Europe resist any straightforward quantitative classification. Nevertheless, there is a substantial body of research addressing the relationship between industrial relations systems and competitiveness. No single model of social dialogue emerges as the best for promoting competitiveness. Indeed, the findings of comparative studies are relatively modest on the impact of industrial relations on growth and economic performance. Rather, the importance of complementarity between industrial relations systems and other institutions of labour, employment and social protection seems to be decisive.

Nevertheless, drawing a distinction between systems with high levels of unionism and/or a high degree of coordinated collective bargaining and those with low unionism and low levels of coordinated bargaining enables some broad, high level observations. While the existing empirical research on productivity, employment growth, product market competition and research and development spending gives either indeterminate or non-robust results, it appears that certain macroeconomic indicators display more favourable outcomes in systems with high unionism and/or high coordinated collective bargaining. Unemployment appeared broadly speaking to be lower and less persistent in systems with high unionism. The most robust results, however, are on incomes. Union density and high coverage by collective bargaining go hand in hand with more limited income inequalities and a more limited wage distribution as well as higher average wages, fringe benefits and training.

A definitive statement of the single best system is therefore impossible. However, the research does suggest that low coordination generally leads to poorer results than high coordination or no coordination at all. The most crucial dimension is the *complementarity* between industrial relations system and other institutions which constitute a 'package of institutions'. Research also suggests that the participation of industrial-relations players in political and institutional debates can offer a decisive means of improving the environment necessary for economic growth, where the parties see the coordination as a common good.

In the context of the changes occurring in the European polity as it moves towards the competitive knowledge economy envisaged by the Lisbon Strategy, the social partners face a number of challenges. The development of the knowledge economy implies an individualisation of the employment relationship and emphasises the importance of individual skills and competencies and constantly replenishing knowledge to ensure employability, rather than rigid or-

ganisational routines. This implies an emphasis on industrial relations agreements on qualifications and on the definition and organisation of careers. In general, the creation of methods of training and acquisition of skills are becoming critical challenges for the social partners.

Other developments also pose challenges. The increasing emphasis on greater individual responsibility for insurance against risk in the context of the difficulties faced by European welfare States poses a problem for unions which are more accustomed to defending members' rights rather than assuming specific individual duties of their members. And an increasing re-orientation of industrial relations activity to the company because of diversification of productive activities limits the notion of sector. There is arguably an increasing weakening of the role of sectoral negotiations 'from hard law to soft law', with an increasing number of firms negotiating opt-outs or drop-outs. Tensions between the national context of industrial relations and the globalisation of the economy tend to increase, raising the question of the need of further Europeanisation of industrial relations.

