Joint Project of the European Social Partner Organisations

Study on restructuring in new Member States

CZECH REPUBLIC – COUNTRY DOSSIER

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## CONTENTS

INTRODUCTION: THE DOSSIER: WHAT FOR? ............................................. 3

I. ECONOMIC TRENDS AND CHALLENGES ......................................... 4

I.1. DRIVERS OF GROWTH ................................................................ 4
     Economic development from 1995 to 2005 ................................ 4
     Since 2000, a steady increase of GDP ......................................... 4
     A stabilised inflation rate ......................................................... 6
     The choice of regular wages increase ........................................ 7
     Growing foreign trade with European partners ........................ 8
     FDI becoming more oriented towards innovation and services .... 9

I.2. MACROECONOMIC CHALLENGES .............................................. 14
     To continue the transformation of the economic model .............. 14
     To pursue the privatisation process with a new approach .......... 14
     To develop a more high value-added, services oriented economy 14
     To improve competitiveness ...................................................... 15

II. LABOUR MARKET TRENDS AND CHALLENGES ............................... 17

II.1. OVERALL CHARACTERISTICS .................................................. 17
     Total working population, education level, age and categories .... 17
     Employment and Unemployment .............................................. 19
     Geographic location of unemployment .................................... 20
     Creation of new jobs is encouraged ........................................ 21
     Change in the structure of employment .................................... 21
     Low geographical mobility ...................................................... 22

II.2. LABOUR MARKET CHALLENGES .............................................. 23
     To improve the dynamics of the labour market ......................... 23
     To implement a more innovative employment policy ................ 23
     To rethink the incomes and wages policy ................................. 23
     To promote and facilitate mobility ......................................... 24
     To develop training and skills development ............................. 24

III. SOCIAL DIALOGUE IN CZECH REPUBLIC .................................... 26

III.1. THE TRIPARTITE SYSTEM AT NATIONAL LEVEL ....................... 26

III.2. THE ROLE OF THE BIPARTITE SYSTEM ................................ 27

III.3. SOCIAL DIALOGUE AT COMPANY LEVEL ................................. 28

III.4. TRADE UNION TRIPARTITE SYSTEM IN THE REGIONS ................ 29

IV. RESTRUCTURING ISSUES .............................................................. 30
     Restructuring sectors and reasons for the process ..................... 30
     The legal framework on restructuring ...................................... 31
     Supporting tools for economic development ............................. 31
     Examples of restructuring cases in Czech Republic ................. 33

Annex 1 – List of interviewed persons ............................................. 36
Annex 2 – Sources ........................................................................... 37
INTRODUCTION: THE DOSSIER: WHAT FOR?

The following dossier introduces the main challenges faced by the Czech economy from the point of view of social dialogue and restructuring, both at the company and at macroeconomic levels.

It was discussed by the Czech Social Partners in the presence of European Social Partners at a common Seminar that took place on 22 June 2005 in Prague.

The dossier does not aspire to build innovative insight about the Czech economic or social situation, neither on political nor on academic ground. It seeks to present the existing facts and data from the point of view of restructuring treated as a phenomenon, a process and an object of the public debate.

It presents different points of view, it seeks to stimulate the debate about the future of the Czech economy, raise issues which can be treated in a constructive way, contribute to building trust and confidence among the stakeholders in view of mobilizing them for the future of the Czech Republic and Czech social dialogue within the European Union.

In the first part, the dossier highlights the main drivers of growth and economic trends and the main concerns expressed by the stakeholders in terms of growth, employment and competitiveness. Then it focuses on the restructuring process and on the social dialogue, its development, current trends and tendencies. Following are concrete cases of restructuring in different regions of Czech Republic and a case study about the restructuring process of the steel industry.

The dossier is based upon interviews and the analysis of data and documentation. The list of all sources is presented in the Annexes.

This report was elaborated by Ms. Nora Maderkova, BBP expert

The present report represents an expert view and does not necessarily reflect the view of the European Social Partners.
I. ECONOMIC TRENDS AND CHALLENGES

I.3. DRIVERS OF GROWTH

Economic development from 1995 to 2005

From 1995 to 2005, the country experienced different periods of economic development. Over the last decade, economic development in the Czech Republic has in many ways been contradictory.

On the one hand, the strong GDP growth in 1996 (4.2 %) was followed by strong decline (-0.7 % in 1997 and -1.1 % in 1998). In 1999 the recession turned into stagnation, with a GDP growth of 1.2 %, and in 2000 a more rapid increase (3.9 % of GDP growth). From 2001 to 2002 the economic increase slowed down again (characterised by GDP growth of 2.6 % in 2001 and 1.5 % in 2002) but since 2003 a steady and rising growth of GDP could be observed: 2003: 3.2 %, 2004: 4.7 %, 2005: 6 %.

The recession and subsequent stagnation at the end of the nineties (1997-1999) were accompanied by relatively pronounced decreases in employment and a gradual rise of unemployment.

On the other hand, external economic relations started to improve markedly in this period – albeit only temporarily – with a gradual decline in the balance of payments current account deficit from the alarming 7% of GDP in 1996-1997 to just 2 to 3% of GDP at the end of the 90’s. Domestic financial relations were also relatively stable, with a low state budget deficit of just 1 – 1.5% of GDP, and overall public budgets were similarly favourable.

In many respects, the first years of the new century have marked a fairly fundamental turning point.

Since 2000, a steady increase of GDP

Czech GDP is expected to continue growing in the near future: GDP growth is projected to be 5.7% in 2006 and 4.7% in 2007.

The 6% GDP growth in 2005 had a large contribution from net exports. For 2006 and 2007 the growth of net exports will slow down (in 2005 it was 4.5%, but in 2006 it is expected to be only 2.5% and in 2007 1.2%). At the same time the domestic demand is expected to strengthen (growth of 3.3% in 2006 and 3.6% in 2007), (Source: OECD Economic Outlook 79, Czech Republic, http://www.oecd.org/dataoecd/6/61/20211111.pdf).

Private consumption could be considered – together with investment – the leading growth factor, encouraged by (1) growth in households’ disposable income as real wages grew by over 6%, (2) unexpectedly low inflation and interest rates, and (3) an increasing variety of commercial banks’ consumer loans. The last two factors increased households’ willingness to finance consumption by debt: households’ indebtedness grew by more than 40% on a year-to-year basis.

According to the OECD in 2006-2007 the higher consumption growth will probably add to inflationary pressures, along with increases in indirect taxation and regulated prices.

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>1,421.0</td>
<td>1,467.3</td>
<td>1,515.1</td>
<td>1,542.2</td>
<td>392.0</td>
<td>394.8</td>
<td>397.7</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>755.6</td>
<td>783.4</td>
<td>813.7</td>
<td>845.1</td>
<td>294.2</td>
<td>298.9</td>
<td>303.9</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>256.2</td>
<td>263.6</td>
<td>264.5</td>
<td>239.5</td>
<td>73.0</td>
<td>73.7</td>
<td>73.7</td>
</tr>
<tr>
<td>Total Investment</td>
<td>457.4</td>
<td>511.2</td>
<td>556.9</td>
<td>554.9</td>
<td>135.3</td>
<td>152.3</td>
<td>146.4</td>
</tr>
<tr>
<td>Net Exports</td>
<td>-88.7</td>
<td>-102.9</td>
<td>-132.7</td>
<td>-103.4</td>
<td>-37.1</td>
<td>-43.7</td>
<td>-60.5</td>
</tr>
</tbody>
</table>

Source: Czech Statistical Office, 2004

The share of private consumption in GDP in 2002 was around 55%, while the government consumption share was 15.5%. In the 3rd quarter of 2003 the share of private consumption grew to 76%, partly because of wage levels, while government and local authorities’ consumption was at 19%. It could be observed that in all the Central and Eastern European countries, public consumption is not very high. In spite of this, government consumption also contributed to growth. Investment accelerated in 2003, although in the view of the Czech National Bank, too cautious corporate lending by commercial banks kept total investment low. From an industry-disaggregated point of view, GDP grew largely due to the increase in value added in the production sector.

Production firms (mainly those with a high stake of foreign capital) concentrated on high-value-added products, which found demand in foreign markets. The service sector grew slowly over this period. The sectors with lower value added stagnated or were declining (e.g., textile production decreased by more than 3%). The Tourism industry is one of the most rapidly developing sectors of the current Czech economy.
(it accounted for about 25% of GDP in 2003). Today, the private sector represents 75% of the national economy.

**Gross value added by sectors in 2003 (constant prices)**

- **Agriculture, forestry, fishing**: 3%
- **Construction**: 7%
- **Industry**: 33%
- **Other services**: 15%
- **Financial intermediation, business services**: 16%
- **Trade, hotels and restaurants, transport**: 25%

Source: Czech Statistical Office, April 2004

**A stabilised inflation rate**

![Inflation rate in the Czech Republic compared to EU](image)

After a period of high inflation in 1997 and 1998, a considerable reduction has been achieved. The criterion of 2% annual inflation was first met in 1999 and, after an increase to 4 - 5 % in the two following years; it fell again below the stipulated level in 2002 and was lower than all other EU countries, including the country with the lowest stable inflation rate, namely Germany. After a period of stagnation in 2003, the government decided to allow regulated rents to rise by 10 %, thereby “fostering” inflation in 2004 (2.8 %). Inflation was back down to 1.9 % in 2005.
**Czech Republic, inflation rate (%) 1993-2005**

![Inflation Rate Chart](http://www.czso.cz/eng/redakce.nsf/i/table_2_economics_and.Infrastructure_bl/$File/2bf_economics_and.Infrastructure.xls)


**The choice of regular wages increase**

**Wage and Employment Annual Growth Rates (%)**

![Wage and Employment Growth Chart](http://www.czso.cz/eng/redakce.nsf/i/table_2_economics_and.Infrastructure_bl/$File/2bf_economics_and.Infrastructure.xls)

Source: CSU (2002; 3rd Quarter)

**Average real wages, yearly growth, %**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.8</td>
<td>8.7</td>
<td>8.7</td>
<td>1.3</td>
<td>-1.4</td>
<td>6.2</td>
<td>2.4</td>
<td>3.8</td>
<td>5.4</td>
<td>6.5</td>
<td>3.7</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Czech Republic: key macroeconomic indicators Sources: CZSO

Since 2000, there have been regular increases in the level of the minimum wage. It has grown from 3,600 CZK in 1999 to 6,700 CZK in 2004. This represents a rise from below 30% to almost 40% of the average gross monthly salary.

Real wage growth has also been significant, reaching over 5% and 6% in 2002 and 2003 respectively, but then slowing again from 2004 (3.7 %) to reach 3.5 % in 2005.

Wages are growing faster in the public sector than in the private sector. Some domestic economists have expressed concerns over the sustainability of the current
wage growth trends, arguing for diversification of wages within the public sector (i.e. proportionally smaller wage increases for less skilled workers). According to them, a wage structure that overvalues unskilled workers compared to skilled ones could reduce the monetary incentive for individuals to acquire skills through education, which may, in turn, hamper technological development.

**Average nominal and real wage development (%), average monthly wage in 2003**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Average monthly wage in 1. to 4. quarter of 2003 in CZK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>nominal</td>
<td>real</td>
<td>nominal</td>
<td>real</td>
</tr>
<tr>
<td>Total</td>
<td>8.7</td>
<td>3.8</td>
<td>7.2</td>
<td>5.3</td>
</tr>
<tr>
<td>Total excl:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– business</td>
<td>8.4</td>
<td>3.5</td>
<td>0.5</td>
<td>4.0</td>
</tr>
<tr>
<td>– non-business</td>
<td>9.6</td>
<td>4.7</td>
<td>9.8</td>
<td>7.9</td>
</tr>
</tbody>
</table>

Source: CZSO

In 2005 the lowest relative growth of nominal wages was recorded in the following sectors of activity: hotels and restaurants (+3.0%), wholesale and retail trade; repair of motor vehicles, motorcycles and personal household goods (+3.8%), and fishing (+4.0%).

The highest relative growth occurred in public administration and defence, compulsory social security (+8.9%), real estate, renting and business activities (+8.0%), and electricity, gas and water supply (+6.9%). The highest nominal wage (financial intermediation) was almost three times the lowest nominal wage (hotels and restaurants). (Source: http://www.czso.cz/eng/csu.nsf/informace/apmz030906.doc)

**Growing foreign trade with European partners**

International trade is an important component of the Czech GDP. The trend in openness shows an almost invariably increasing importance of international trade for the Czech economy. Both exports and imports consistently grow faster than GDP. Until 2000, the current account deficit was lower than the trade balance deficit because of the positive balance on the services account. This effect is now dwarfed by a widening deficit in the income balance. Moreover, this development of income balance is likely to continue because of the huge inflow of direct investment in recent years. The current account deficit can be conveniently financed by the inflow of direct investment. The EU is the main trading partner of the Czech economy. Trade with Germany stands out clearly since it represents almost two thirds of the country’s trade with the EU and 37% of the overall trade volume. Trade with Germany is an asset but it could become a weakness should the economic situation of Germany deteriorate.
The composition of Czech foreign trade has changed. Specifically, the share of machinery and transport equipment in total exports doubled from 1993 until the early 90’s, while raw materials and semi finished products have shrunk in similar proportion.

Accession to the EU in 2004 does not seem to have brought any major shift in trade patterns, since the existing association agreements had already created a free trade area between the Czech Republic and the rest of the EU. Nevertheless, EU accession means that the Czech Republic has had to accept the common trade policy with respect to third countries.

FDIs are becoming more oriented towards innovation and services

According to the investment and business development Agency, Czechinvest:

“The structure of Foreign Direct Investment (FDI) coming to the Czech Republic has started to differ significantly from previous years. After several years of important
investments in the processing industry, the Czech Republic is slowly becoming more attractive for research, development, and strategic service projects. For this new and very important type of economy, people knowledge is the main indicator."

Ing. Martin Jahn, General manager of Czechinvest, 1999-2004

**Foreign direct investment Inflow (USD million)**

![Bar chart showing foreign direct investment inflow from 1997 to 2003. The chart indicates that the highest inflow occurred in 2002 due to the takeover of Transgas, a major gas distribution company, by Germany’s RWE. The inflow was lower in 2003 due to no major privatisations. The majority of inflows consisted of Greenfield investment and reinvested profits of existing foreign enterprises. While large privatisation deals have fuelled the rise in FDI in the past, they do not account for more than a quarter of the FDI stock.](chart.png)

The Czech Republic attracts the highest amount of FDI per capita among Central and Eastern European countries. During 1989–2003 the Czech Republic attracted over USD 40 billion of FDI, of which about half came during 2000-2002. FDI flow into the Czech Republic reached its peak in 2002 due to the takeover of Transgas, a major gas distribution company, by Germany’s RWE. In 2003 the inflow of FDI was lower because there were no major privatisations. The majority of the inflows therefore consisted of Greenfield investment and reinvested profits of existing foreign enterprises. While large privatisation deals have fuelled the rise in FDI in the past, they do not account for more than a quarter of the FDI stock.

Recent data shows that in 2004, inward FDI increased again to USD 5 billion and in 2005 it reached a peak of USD 11 billion. (Source: OECD, Recent trends in foreign direct investments, http://66.249.93.104/search?q=cache:I_8QFkJuOTMJ:www.oecd.org/dataoecd/13/30/35439819.pdf+Foreign+Direct+Investment+Czech+). An important part of the Greenfield investments has been attracted by the relatively generous investment incentives allotted to investors that meet certain requirements. By the beginning of 2003, over 130 firms had been awarded incentives and another 50 applications were being processed. Originally, only manufacturers were eligible, but since recently, service companies can also apply for tax holidays of up to 10 years, financial support for creation of new jobs, job training of new employees and provision of low-cost land and infrastructure. Attracting FDI also generates costs. First, the state had to financially restructure many companies prior to or during privatization. Second, there are costs involved in providing investment incentives. Some investors first tend to use the incentives and later leave the country (such was the case of the electronics manufacturer Flextronics, which committed itself to
creating three thousand jobs but then withdrew from the country). All the social partners think that the risk of relocation is real for the years to come.

In 2003, the EU countries continued to dominate FDI in the Czech Republic. Germany maintained the strongest position, followed by the Netherlands, Austria, and France. There is relatively little FDI from the USA and Japan, although Japan’s share is growing. Figures may be blurred by the fact that multinationals often establish companies in Netherlands through which they invest abroad.

Cumulative FDI in the Czech Republic, 1993–2003 by Economic Activity (mil.USD)

Cumulative FDI in the Czech Republic by regions, 1993-2003

Source: CNB

The Largest Foreign Investments in the Czech Republic (in mil. of USD) by 2003
So far, almost 60% of the assets of foreign investment companies are concentrated in three industries: motor vehicles, food products, and non-metallic minerals. Foreign penetration in manufacturing has increased rapidly, reaching 61% of sales by 2003. On average, foreign-owned firms outperform domestic enterprises in both profits and productivity. They offer higher salaries, attract more skilled labour, and are more export oriented than domestic-owned firms.

Recently, the Czech Republic has succeeded in attracting a new foreign direct investment project by Toyota Motor Corp and PSA Peugeot Citroen - a Euro 1.5 billion greenfield car assembly plant in the Central Bohemian town of Kolín (the largest greenfield investment in the country). This investment project should bring approximately 3,000 direct jobs to the Czech Republic and generate the creation of another 7,000 jobs in suppliers and services companies.

Another major new foreign investment project in the Czech Republic is the opening of DHL’s (the world’s largest logistics company) IT Operations Centre for all Europe, making it the largest technology centre in DHL’s network. This new investment is very important for the Czech Republic because it is a services company and not an industry one.

In spring 2003 DHL International merged with the company DANZAS. This started an extensive restructuring process, whose main aim was to harmonise all products and services. The legal integration of DHL International and DANZAS was completed in October 2004 and resulted in the
establishment of the companies DHL Express (Czech Republic), s.r.o. and DHL Logistics (Czech Republic), s.r.o. Both companies employ over 1,300 highly qualified employees and offer the widest portfolio of express forwarding and logistic services in the Czech Republic.

It is expected that in the future FDI flows will remain high thanks also to re-invested profits of existing enterprises. Furthermore, FDI stock should keep growing if the government manages to sell the Unipetrol petrochemical conglomerate, as well as CEZ, the national electricity monopoly. Compared to other PECO countries, the Czech Republic FDI stock to GDP ratio is almost double. This also implies a higher sensitivity to external shocks.

**Inward stock as a percentage**

![Bar chart showing inward stock as a percentage for various countries and years (1993, 1996, 1999, 2002). Source: NIAA holding based on IAF.](chart.png)
I.4. MACROECONOMIC CHALLENGES

To continue the transformation of the economic model

In recent years, the Czech Republic has been quite successful in terms of GDP growth and FDI development. However, given the degree of competition, some important challenges need to be addressed in order to maintain a satisfactory growth rate and to foster economic development. These present and future challenges are related to the fiscal policy, the creation of a business friendly environment and the labour market conditions.

These challenges will also need to be addressed in the perspective of the Czech Republic entry into the euro zone. The key policy issues can be summed up under three headings:

1. To pursue the privatisation process with a new approach

During the 90’s, the Czech approach to privatisation was particular. The social partners claim that the coupons privatisation method was marked by a lack of transparency. It often led to bankruptcies, and sometimes to corruption.

![Privatisation progress in selected transition economies](http://www.oecd.org/document/37/0,2340,en_33873108_33873739_32265381_1_1_1_1,00.html)

Some important sectors such as the energy sector, public utilities and transports are due to undergo a privatisation process in the near future. According to observers and the social partners, these privatisations should be processed differently from the first wave of privatisations, with a stricter approach and more transparency.

2. To develop a more high value-added, services oriented economy

From the point of view of many experts, and also from the social partners’ point of view, until recently, the economic model of the Czech Republic was mainly based on...
rather cheap labour costs, especially in industry (although the level of tax wedge remains high, it is around 50% of the wages of the average industrial worker), and on a favourable exchange rate for the Czech Krone. (Note: the tax wedge is the ratio of income tax plus employee and employer social security contributions less cash benefits as a percentage of labour costs.) The strategy for joining the euro zone will take a central place for the years to come, in particular the need to pay attention to the price stability criterion.

The new economic pattern should be characterised by innovation, a higher rate of R&D budgets and a highly specialised workforce. The economy should also become more services-oriented. (Sources: OECD, Economic Survey on the Czech Republic, 2004, and the Wim Kok recommendations for the Czech Republic, 2003).

Because of the changes in competences for employees, the shift from industry to services is a major challenge for economic employment policies, as well as for the education system.

**To improve competitiveness**

“To keep its current position, the Czech Republic has to improve its entrepreneurial environment including human resources, taxation and legislation”.

*Ing. Martin Jahn, General manager of Czechinvest, 1999-2004*

In order to develop a more business friendly environment and to develop attractiveness, measures should be taken in order to make the business creation administrative process less difficult, particularly for small businesses, and to implement the much needed reform of bankruptcy legislation.

Another factor quoted as limiting the Czech Republic’s competitiveness is the level of corporate tax rate, which is relatively higher than in the other CEE countries. Some targeted tax advantages make the effective tax rate lower. The corporate tax rate is planned to be reduced to 24 per cent by 2006.
Tax rates (January 1, 2005.; %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Corporate tax</th>
<th>VAT</th>
<th>Personal income tax</th>
<th>Dividend tax</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimum</td>
<td>Maximum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>15</td>
<td>10</td>
<td>24</td>
<td>17</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>26</td>
<td>15</td>
<td>32</td>
<td>15</td>
</tr>
<tr>
<td>Poland</td>
<td>19</td>
<td>19</td>
<td>40</td>
<td>19</td>
</tr>
<tr>
<td>Hungary</td>
<td>16</td>
<td>18</td>
<td>38</td>
<td>25</td>
</tr>
<tr>
<td>Romania</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Slovakia</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Estonia</td>
<td>0</td>
<td>24</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Latvia</td>
<td>15</td>
<td>25</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>Lithuania</td>
<td>15</td>
<td>33</td>
<td>33</td>
<td>15</td>
</tr>
</tbody>
</table>


However, this reduction of the tax burden, including the high tax wedge on labour, will have to take place in the same time frame as the needed reduction of the high public budget deficit.

Another factor underlying the Czech economy’s competitiveness is also the companies’ ability to rapidly modernize and increase their labour productivity, which means adopting new technologies as well as managerial and organisational methods adapted to the conditions of competition.
II. LABOUR MARKET TRENDS AND CHALLENGES

II.1. OVERALL CHARACTERISTICS

- The country’s population is 10.3 million. The fecundity rate is low (1.16 child per woman), and demographic issues are going to be very poignant for the next ten years.
- The Czech Republic has a skilled and educated labour force. The literacy rate is over 98%.
- Employment law is contained in the Labour Code and numerous government orders.
- The maximum working week is 40 hours. The normal working week is Monday to Friday from 8:00 to 16:30, although many companies start earlier.
- The average retirement age is generally 58 for women, or earlier depending on the number of children, and 60 for men. The minimum retirement age for both men and women will gradually be increased until 2012, when the retirement age for women will be from 59 to 63, depending on the number of children, and 63 for men.

### Total working population, education level, age categories, and male/female

**Population and its structure: by education, age group and region, 2003**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Active</th>
<th>Inactive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Employed</td>
</tr>
<tr>
<td></td>
<td>10 211,1</td>
<td>4 733,2</td>
</tr>
</tbody>
</table>

#### Highest educational attainment:

- **Basic**: 1 831,8
  - Employed: 320,5
  - Unemployed: 92,9
  - Total: 1 418,5
  - Retired: 770,4
  - Students: 558,5
  - Parental leave: 14,5
- **Secondary without GCSE**: 3 299,2
  - Employed: 2 076,5
  - Unemployed: 191,4
  - Total: 1 031,3
  - Retired: 808,9
  - Students: 22,0
  - Parental leave: 66,4
- **Secondary with GCSE**: 2 650,6
  - Employed: 1 695,2
  - Unemployed: 100,0
  - Total: 855,4
  - Retired: 460,4
  - Students: 217,6
  - Parental leave: 79,6
- **University**: 831,7
  - Employed: 638,2
  - Unemployed: 14,4
  - Total: 179,1
  - Retired: 127,6
  - Students: 14,0
  - Parental leave: 18,7
- **Without education**: 19,1
  - Employed: 0,5
  - Unemployed: 0,5
  - Total: 18,1
  - Retired: 13,9
  - Students: 0,2
  - Parental leave: -
- **Children up to 15 years**: 1 574,2
  - Employed: -
  - Unemployed: -
  - Total: 1 574,2
  - Retired: -
  - Students: -
  - Parental leave: -
- **Not identified**: 4,4
  - Employed: 2,2
  - Unemployed: 2,2
  - Total: 0,8
  - Retired: -
  - Students: -
  - Parental leave: -

**Age groups:**

- **0-14**: 1 574,2
  - Employed: -
  - Unemployed: -
  - Total: 1 574,2
  - Retired: -
  - Students: -
  - Parental leave: -
The comparison of foreign investors’ opinions or of matter-of-fact statistics, and their subsequent analysis, reveal quite clearly that the Czech workforce is relatively highly qualified and that the standard of the education system is generally good. The guiding principles are the scope and quality of the Czech ‘upper’ secondary education system (i.e. education completed with a ‘maturita’, the Czech school-leaving exam - or, for those at vocational colleges, with an exam corresponding to their specialisation).

The share of the population with this upper secondary education in the Czech Republic is way above the average level of OECD countries. On the other hand, the share of the population with only a ‘lower’ secondary education (or ‘elementary’ education under the Czech classification) is lower than in OECD countries. It is significant that the generally sound level of education does not relate just to the lower age groups, but to practically the whole population. The share of people with tertiary education in the Czech Republic is also lower than in OECD countries. However, this difference is hardly fatal and is decreasing rapidly. The gap is not just due to the truly low number of university and college students, but also (and mainly) to differences in methodology when measuring these trends.

The trend towards increasing the share of the population with tertiary education is fully respected by the Czech Republic; it places greater emphasis on “higher” education in the traditional sense of the word, and less emphasis on shorter courses and post-maturita extension courses. There are, for the time being, not enough university graduates in Czech Republic.

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>Education level</th>
<th>Population</th>
<th>Education level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Praha</td>
<td>1 164,1</td>
<td>529,5</td>
<td>100,2</td>
<td>17,7</td>
</tr>
<tr>
<td>Středočeský</td>
<td>1 132,7</td>
<td>555,9</td>
<td>82,4</td>
<td>22,4</td>
</tr>
<tr>
<td>Jihočeský</td>
<td>625,5</td>
<td>312,4</td>
<td>50,4</td>
<td>8,8</td>
</tr>
<tr>
<td>Plzeňský</td>
<td>549,8</td>
<td>271,7</td>
<td>44,0</td>
<td>9,6</td>
</tr>
<tr>
<td>Karlovarský</td>
<td>304,5</td>
<td>147,6</td>
<td>24,2</td>
<td>5,0</td>
</tr>
<tr>
<td>Ústecký</td>
<td>820,6</td>
<td>414,7</td>
<td>52,9</td>
<td>19,9</td>
</tr>
<tr>
<td>Liberecký</td>
<td>427,6</td>
<td>212,9</td>
<td>35,1</td>
<td>11,4</td>
</tr>
<tr>
<td>Královéhradecký</td>
<td>548,3</td>
<td>275,0</td>
<td>42,6</td>
<td>7,5</td>
</tr>
<tr>
<td>Pardubický</td>
<td>506,6</td>
<td>254,0</td>
<td>38,5</td>
<td>7,1</td>
</tr>
<tr>
<td>Vysočina</td>
<td>517,7</td>
<td>266,5</td>
<td>43,2</td>
<td>9,7</td>
</tr>
<tr>
<td>Jihomoravský</td>
<td>1 122,5</td>
<td>568,9</td>
<td>94,9</td>
<td>22,9</td>
</tr>
<tr>
<td>Olomoucký</td>
<td>636,5</td>
<td>320,4</td>
<td>50,2</td>
<td>10,1</td>
</tr>
<tr>
<td>Zlínský</td>
<td>592,9</td>
<td>302,3</td>
<td>50,8</td>
<td>10,1</td>
</tr>
<tr>
<td>Moravskoslezský</td>
<td>1 261,9</td>
<td>646,9</td>
<td>102,9</td>
<td>17,2</td>
</tr>
</tbody>
</table>

Source: CSO
A new trend has been to focus on the regional role of Universities and colleges to be more flexible in adapting to economical and social changes within regional markets.

**Employment and Unemployment in Czech Republic: an unemployment rate of around 10%**

The structure and level of Czech employment and unemployment is very similar to that of a typical EU-15 member state. The ILO unemployment rate (defined as the number of jobless people searching for work over the total size of the active labour force) rose from around 4% in the middle of the 1990s to 7.9% in 2005.

<table>
<thead>
<tr>
<th>Year</th>
<th>Registered unemployment rate</th>
<th>ILO general unemployment rate</th>
<th>Long-term unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>2.95</td>
<td>4.3</td>
<td>0.7</td>
</tr>
<tr>
<td>1994</td>
<td>3.29</td>
<td>4.3</td>
<td>0.9</td>
</tr>
<tr>
<td>1995</td>
<td>2.99</td>
<td>4.0</td>
<td>1.1</td>
</tr>
<tr>
<td>1996</td>
<td>3.08</td>
<td>3.9</td>
<td>1.1</td>
</tr>
<tr>
<td>1997</td>
<td>4.28</td>
<td>4.8</td>
<td>1.3</td>
</tr>
<tr>
<td>1998</td>
<td>6.04</td>
<td>6.5</td>
<td>1.9</td>
</tr>
<tr>
<td>1999</td>
<td>8.54</td>
<td>8.7</td>
<td>3.1</td>
</tr>
<tr>
<td>2000</td>
<td>9.02</td>
<td>8.8</td>
<td>4.1</td>
</tr>
<tr>
<td>2001</td>
<td>8.54</td>
<td>8.1</td>
<td>4.2</td>
</tr>
<tr>
<td>2002</td>
<td>9.15</td>
<td>7.3</td>
<td>3.7</td>
</tr>
<tr>
<td>2003</td>
<td>9.90</td>
<td>7.8</td>
<td>3.8</td>
</tr>
<tr>
<td>2004</td>
<td>10.2</td>
<td></td>
<td>4.2</td>
</tr>
<tr>
<td>2005</td>
<td>10.4</td>
<td></td>
<td>4.2</td>
</tr>
</tbody>
</table>

Source: Czech Republic: key macroeconomic indicators, CZSO

On the other hand, the registered unemployment rate (based on the number of people registered at District Labour Offices and typically collecting some government-funded benefits) reached a new historic high of about 10.2% in 2004.

**Development of registered unemployment rate**

*Source: Czechinvest, (2005 forecast)*

Long term unemployment is a serious problem, since 2000 around half of the unemployed have been in long-term unemployed, meanwhile in 1993 their share was only 33%. (Source: Report on ageing and good practices in managing older workers. EU, 2005).
**Geographic location of unemployment: a high degree of disparities**

There are important disparities in regional unemployment rates. Traditionally, unemployment is the lowest in Praha. On the other hand, the unemployment rate is high in the regions which went through restructuring process, such as the Moravskoslezsky and Ustecky regions. Here the unemployment rate in 2003 reached about 14%.

**General unemployment rate (ILO): by region – in total**

Source: own graph based on CSO data

**General unemployment rate (ILO): by region – males**

Source: own graph based on CSO data
Creation of new jobs is encouraged

Financial support is provided to an employer who creates new jobs in a region where unemployment is at least as high as the national average. Both Czech employees and employees from other EU member states can be taken into account in this calculation. The financial support is between CZK 100,000 and CZK 200,000 per new job depending on the unemployment rate in the region. If 1,000 or more new jobs are created, the unemployment rate in neighbouring regions needs also to be taken into account. Investments in regions not seriously affected by unemployment do not qualify for this type of financial support.

Several science and technological parks, and various economic cluster projects, with financial supports for companies, are being created.

Change in the structure of employment

Substantial shifts have occurred in the structure of employment – from early 1990s we can notice the following trends.

The share of employment in industry has declined from approximately 38% to 31% since the early 1990s, while the share of employment in agriculture has declined from 12% to 3%. So, theses figures are now close to the average of European countries, but for some experts, the Czech Republic is still characterised by an industrial pattern.

Expanding sectors such as trade and banking increased their shares in employment in the first half of the 1990s. The main sources of the changes in employment
structure were massive labour force withdrawals in agriculture and industry (exits of working pensioners from the labour market, mass retirements and dismissals, both regular and early, and also a decrease in women’s participation), coupled with job-to-job movements and ongoing restructuring processes. Flows to employment from unemployment were rather complementary, with no substantial impact on the structure of employment. Within public services, state administration and defence have increased their employment shares, while education and health services have stagnated. Despite all these changes, the Czech labour force is still relatively important in industry and less developed in services, in particular advisory, information, personnel and other modern services for firms, which should be more developed.

<table>
<thead>
<tr>
<th>Employment Structure (in %)</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>31.7</td>
<td>31.9</td>
<td>31.5</td>
<td>30.5</td>
</tr>
<tr>
<td>Construction</td>
<td>8.3</td>
<td>7.8</td>
<td>7.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.4</td>
<td>4.2</td>
<td>4.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Transport, communications</td>
<td>7.2</td>
<td>7.3</td>
<td>7.3</td>
<td>7.2</td>
</tr>
<tr>
<td>Trade and catering</td>
<td>18.8</td>
<td>19.2</td>
<td>19.3</td>
<td>19.6</td>
</tr>
<tr>
<td>Health and welfare</td>
<td>5.6</td>
<td>5.6</td>
<td>5.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Education</td>
<td>6.3</td>
<td>6.2</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Banking and insurance</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Administration, defence</td>
<td>3.9</td>
<td>4.1</td>
<td>4.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Other services</td>
<td>12.0</td>
<td>12.2</td>
<td>12.4</td>
<td>12.4</td>
</tr>
</tbody>
</table>

*Source: CSO*

Low geographical mobility

The territorial labour mobility in the Czech Republic is consistently extremely low in spite of large and growing regional disparities of unemployment rates. Even high unemployment rate differences between the highest and lowest unemployment areas are not enough to initiate labour mobility in a small densely populated country. At the end of 2005 for example, the regional unemployment rate ranged from 3.2% in the Hl.m.Praha Region and 4.9% in the Plzeňský region and Královec Region to 13.2% in the Moravskoslezský Region and 15.1% in the Ústecký Region. (Source: [http://www.czso.cz/eng/cs11/s/innovace/azam070206.doc](http://www.czso.cz/eng/cs11/s/innovace/azam070206.doc))

Statistical data indicate 20 cases of internal migration per 1000 inhabitants, and this low migration rate has not substantially changed over the last thirty years. Professional mobility has been important during the past ten years, which is not the case for geographical mobility. So this could be an issue for collective bargaining and public employment policies.

Social partners underline that there is cross-border mobility: many Czech employees go abroad to work, in particular to Germany. In contrast, a weakness in the Czech economy’s ability to absorb change is its lack of internal geographical labour mobility.
II.2. LABOUR MARKET CHALLENGES

To improve the dynamics of the labour market

The labour market is not performing as well as it could and this is reflected in rising unemployment. The OECD Report 2004 sums up the targets for labour market as follows: "Labour market performance can be improved by increasing mobility and skills, addressing the poverty traps, reducing the tax burden on labour, and enhancing incentives to hire". Labour market inflexibilities generate poor performance in terms of productivity as well as poverty traps, particularly for unemployed families.

To implement a more innovative employment policy

Flexibility in work and employment is critical. Due to the communist era heritage, there is little flexibility in the forms of employment. The norm is full employment with standard working hours. For example, the rate of fixed term contracts is 8%, compared to 13% in the EU. Part time employment is not developed, neither are temporary work agencies. Instead, there is subcontracting with “self-employed” workers, which not only avoids dismissal regulation but entails lower tax and social security costs for both the employer and employee.

The National Action Plan on Employment 2004-2006 contains new measures:
- It enforces measures against the abuse of unemployment benefits,
- It enacts a differentiated period of unemployment benefits by age,
- It discourages using early retirement schemes to deal with redundancies and layoffs,
- It better aligns social contributions across the different types of contracts,
- It introduces "partial unemployment", in which the unemployed could earn up to a half of the minimum wage and still receive unemployment benefit,
- It promotes the modernisation and the improvement of the public employment service offices effectiveness and increases its resources.

Its efficiency will depend on the way it is implemented. According to some employment experts, in the Czech Republic the law is quite complex and therefore not very well enforced.

To rethink the incomes and wages policy

During the 1990s, with the exception of 1998, wages were growing faster than productivity. In 2000, the situation changed, the real wage increase was almost half of labour productivity growth. In 2001-2003, again the wages grew faster than labour productivity. In 2003, one could observe the highest real wage growth since 1996 (6.5%), which faced a productivity growth of 4.7%. Now productivity is growing faster than wages, even if in some sectors there is a rapid increase of minimum wages.
The high tax wedge - around 50% of wages of the average industrial worker -- remains an obstacle for the development of employment, in particular in low-skilled services. It dampens both demand and supply and leads to the development of self-employment and grey-sector activity. Measures to reduce the tax wedge on labour should go together with the planned reform of the health and pension systems.

To promote and facilitate mobility

Regional mobility is not developed at all, and changes in occupation are often linked with self-employment. Emphasis should be put on improving geographical as well as professional mobility. This requires the improvement of the transport infrastructure throughout the country, and especially in order to open up the regions most affected by unemployment. However, the low geographical mobility is also partly linked to problems in the rental market for housing.

To develop training and skills development

The shift from an industry-based economy to a services-oriented economy is a major challenge for the employment policies, as well as for the education system, because it requires substantial changes in the employees' skills and competencies as well as
new forms of work organisation and new methods of management. Furthermore, in a high value-added economy, employees' qualification and management skills are both critical factors of productivity.

So far, training and skills development schemes are not an important feature of companies’ human resources policies. Training schemes should be promoted as well as incentives to develop one’s own skills. Recent initiatives from the ALPM and the "Act for further Education" are being prepared by the Government.

The development of a highly skilled workforce also requires to further adapt the education system to the labour market’s needs beyond basic levels.
III. SOCIAL DIALOGUE IN THE CZECH REPUBLIC

III.1. TRIPARTITE SYSTEM AT NATIONAL LEVEL

Parallel with economic deregulation and transformation of the legal system the choice of the new Czech Republic was to initiate tripartite dialogue.

The reform strategy needed a specific political and institutional background, which would prevent, minimize and ultimately solve possible disputes. Both the federal and two national governments (Czechoslovakia was a federal state at that time) adopted a similar system as some other countries of Central and Eastern Europe. An institution was established with a view to reconcile existing interests and to enable feedback.

The government, in co-operation with trade unions and the newly established associations of employers and entrepreneurs, decided to create a tripartite forum. This body was first called the Council of Social agreement. However, when employers and trade unions started to discuss economic policy, the name of the organization was changed to the Council of Economic and Social agreement: RHSD. Today the Council is a joint voluntary negotiating body of the government, trade unions and employers for achieving consensus on essential issues of economic and social development.

At present the social partners are:

- The Czech-Moravian Confederation of Trade Unions (CMKOS) which is a voluntary, open, independent, democratic confederation of trade unions established in April 1990 with at present over 600 000 members,

- The Association of Autonomous Trade Unions,

- The Confederation of Industry of the Czech Republic (from the employers’ side),

- The Confederation of Employers and Entrepreneurs Unions of the Czech Republic (also from the employers’ side).

Social partners together with the representatives of the government took an active share in formulating a number of legal norms and strengthening social dialogue as one of the priorities of the National Programme during the preparation period for the Czech Republic’s Membership to the EU.

As the scale of subjects dealt with in the Czech Council of the Economic and Social Agreement, is growing, the importance of its expert bodies – Working Teams and Groups – is also increasing.

Social dialogue at national level has also taken new forms in the past few years. After the social democrats came to power the government started to make use of some new forms of dialogue at national level in order to involve the broadest possible
public, particularly non-government organisations, civic initiatives and independent experts in the preparation of strategy and legislation on employment, social security, labour protection, etc. In the last three years, the social conference has become an important government platform. Its activity is guaranteed by the Ministry of Labour and Social affairs. The mission of the social conferences is currently to discuss prepared decisions of government and parliament on institutional reform of social financing with the broadest possible participation of the concerned players. Examples are the 1999 social conference on reform of the social aid system or the 2000 social conference on pension reform.

The Plenary Session of the Council of the Economic and Social Agreement of the Czech Republic as the top organ of this tripartite body consists of 7 representatives of the government, 7 representatives of trade unions and 7 representatives of employers.

III.2. THE ROLE OF THE BIPARTITE SYSTEM

In November 2004, The Confederation of Industry of the Czech Republic, the Confederation of Employers and Entrepreneurs Unions of the Czech Republic, the Association of the Trade and Tourism (on the employers side) and the Czech-Moravian Confederation of Trade Unions together with the Association of Autonomous Trade Unions (on the trade unions side) signed an agreement of cooperation to strengthen bipartite dialogue at both the National and European levels. The main aim of this agreement is to prepare proposals of common solutions for the government concerning:

- Implementation of EU directives and Social Partners’ agreements at the European level into national legislation,
- Social policy (employment, working relations, conditions for enterprise etc.),
- Support of FDI,
- Preparation, process and results of the collective agreements,
- Information of the social dialogue at the company level.

From the point of view of social partners, both employees and employers, the Czech legislation and system does not provide enough space for bipartite dialogue. This is very problematic when change is needed and some of them think that there is not much to negotiate, for example about working hours, wages, training in order to adapt employment and work to every enterprise or sector specificities.

For the time being, management has the right to decide about internal regulation on labour relations only if no trade unions operate within the company. Currently, a new Labour Code is under preparation. This Code should be based on a formula "what is not forbidden is allowed". This could open the scope for sector or company level agreements.
"High Level Collective Agreements"

The general reason for concluding HLCA(s) is the need to constitute minimum standards for working conditions in a sector.

The following table shows developments in a number of higher-level collective agreements together with the number of employers covered by HLCA(s) over the last 4 years. The figures for HLCA(s) in individual years are only available in this scope for some trade unions associated under Czech-Moravian Confederation of trade unions (CMKOS).

<table>
<thead>
<tr>
<th>Total Scope of higher-level collective agreements for CMKOS, 2000 -2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
</tr>
<tr>
<td>Number of HLCAs concluded</td>
</tr>
<tr>
<td>Number of employers to which HLCAs were extended</td>
</tr>
<tr>
<td>Number of employees covered by HLCAs after extension</td>
</tr>
</tbody>
</table>

Source: CMKOS

In 2004, 22 new HLCA(s) were concluded. They cover roughly 15% of employees.

III.3. SOCIAL DIALOGUE AT COMPANY LEVEL

Enterprise-level collective agreements (ELCA) represent the most important form of social dialogue, in terms of both their scope in the current conditions in the Czech Republic and, most notably, their actual influence on the quality of working conditions.

Only the biggest trade union confederation, CMKOS, has data on collective bargaining at company level. These figures indicate that the number of employers at whose enterprises a basic trade union organisation operates and the number of ELCA(s) have been concluded, has decreased in recent years. The exception was 1995, when the number of such employers slightly increased and the number of ELCA(s) signed significantly increased. A small increase in the number of ELCA(s) signed was also registered in 2002. In 2004, the collective agreements concluded by the CMKOS affiliates covered around 29% of employees.

It could be said that all the possibilities offered by social dialogue have not yet been used. Social dialogue at Company level could be enhanced.

The difficult economic situation of certain employers coupled with the decline in the number of enterprise trade unions makes it more difficult to conclude collective agreements. Negotiations are often more complicated and there are cases that end without agreement.

From the trade unions’ point of view, social dialogue and social benefits exist only in such companies where trade unions operate. But the number of companies where they operate is decreasing.
III.4. TRADE UNION STRUCTURES FOR TRIPARTITE SOCIAL DIALOGUE IN THE REGIONS

Regional councils of trade unions coming under CMKOS have been established in 14 regions (practically all RROS were established by the end of 1999, so they have more then four years of experience by now. They are authorized to negotiate with the relevant regional bodies and self-governing bodies, as well as with regional employers, organizations and other regional representative bodies, including political parties. They may conclude binding agreements with social partners. This regional council (RROS) is entitled to represent Confederation members in state bodies and self-governing bodies at the regional level (which is the precondition for establishing a regional tripartite system). At the regional level, they are also entitled to represent Confederation members in international negotiations, or to conclude agreements at this level: this mostly concerns cross-border co-operation between neighbouring regions. In 7 from a total of 14 regions, regional tripartite bodies were established.

The CMKOS statutes define the activities of regional trade union representations. Their activities should be focused on the preparation and implementation of employment policy programs, development of public services (mainly public transport availability) and on the support of CMKOS activities and trade union training programs.

In fact, trade union representations in individual regions have far larger aspirations. They would like to participate in tackling all the social and economic issues of their respective regions in the long run. This is true especially in the case of those regions where Economic and Social Councils have been established. Firstly, social dialogue at the regional level, as has been mentioned before, has certain traditions and results and, secondly, there is a real possibility of obtaining financial support from a number of sources (e.g. national and regional entities, EU programs), which makes the implementation of individual adopted projects more feasible. Trade unionists from regional centres become in some cases initiators of all-regional activities, which are supported also by international co-operation based on the Euro regions program. A special attention will be devoted to Human Resources programs, which are widely supported by EU Structural Funds.
IV. RESTRUCTURING ISSUES

Since 1990, a wide restructuring movement took place in the country, companies were privatised, plants were closed, with a big number of layoffs and early retirements.

According to various Czech Social Partners and representatives of employees, there are several factors which influence the restructuring process:

- A change of ownership from public to private: privatisation process,
- Bankruptcy,
- Low effectiveness of the company/financial problems,
- Over-dimension in industrial sectors,
- Technological changes,
- FDI,
- New position on the market, respond to demand and market signals.

Restructuring sectors and reasons for the process

Sectors undergoing the heaviest restructuring are the following:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Reasons for restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel industry</td>
<td>Privatisation, reform, strengthening position on the market, EU regulation (cf. case study)</td>
</tr>
<tr>
<td>Textile</td>
<td>Privatisation, strengthening position on the market, raising productivity of labour</td>
</tr>
<tr>
<td>Machinery industry</td>
<td>Privatisation, productivity of labour, lost of some markets (mainly former Soviet Republics)</td>
</tr>
<tr>
<td>Agriculture and forestry</td>
<td>Poor conditions of work, old technology and machinery equipment, legal regulation,</td>
</tr>
<tr>
<td>Chemical sector</td>
<td>Privatisation, neglected research and development</td>
</tr>
<tr>
<td>Gas manufacture</td>
<td>Privatisation (Integration into RWE syndicate), new organisational structure, get ready for internal market</td>
</tr>
<tr>
<td>Food processing</td>
<td>Changes in supply and demand, competition, better effectiveness of the work, needs for new technologies and fulfilment of EU standards</td>
</tr>
<tr>
<td>Bank sector</td>
<td>Privatisation, reform, new technologies</td>
</tr>
</tbody>
</table>
The legal framework on restructuring

The restructuring process is mainly regulated by the Labour Code and the Bankruptcy Law.

According to the regulation included in the Labour Code and European directives, an employer is obliged to provide information and consultation to employees in cases of restructuring. The employer shall inform his employees and discuss matters with them directly, unless there is a trade union organisation or a work council. Consultations mean discussion between the employer and his employees, or between the employer and employees representatives, and are sometimes aimed at reaching an agreement.

But, this is rather formal, and from the trade unions’ points of view, the quality of concertation and informations given to employees’ representatives depends on the good will of the general manager.

The Bankruptcy law contains several regulations which can influence the process of restructuring; however, this law was under strong criticism from the Chamber of Commerce, Trade Unions, lawyers and entrepreneurs. All discussions stressed the fact the productivity growth is held back by weaknesses in bankruptcy legislation. Solutions to the problems in the bankruptcy legislation have been sought through an amendment to the Bankruptcy and Composition Act. At the time of drafting this report, a draft Bankruptcy Act addressing the key problems of the current legislation was being finalised and its presentation for parliamentary approval is expected shortly.

Supporting tools for economic development but not for helping employees

In the Czech Republic, restructuring of export-oriented firms in foreign ownership has been much deeper and faster than restructuring of domestic firms. Companies under foreign control generally benefit from favourable financing conditions and work under better corporate governance, they tend to be more competitive on world markets. This has strengthened the financial performance of the corporate sector as a whole. However, a number of domestic owned firms have remained highly indebted and unprofitable. For example, some steel companies have yet to go through restructuring processes before they can become competitive market players.

Restructuring of major players in the gas market and the attempt to restructure electricity utilities is also ongoing to prepare the gas and electricity sectors for the internal energy market.

The Czech Government has an ongoing policy of assisting the restructuring process in companies, which leads to a reduction in the still high proportion of loss-making companies. It does this through viable undertakings or by dissolving non-viable businesses with the participation from the Czech Consolidation Agency (CKA). The CKA has been constituted as institution not entitled to provide loans or accept deposits. It aims to reduce the volume of losses in the shortest possible time and at
the lowest possible cost. It has been vital in ensuring that the privatisation of a number of formally state-owned companies (e.g. Tatra Koprivnice and Zetor Brno). Recently the Czech Minister of Finance stated that the Czech Consolidation Agency should be closed in 2008, three years earlier than originally forecasted.

There are also several programmes of assistance to restructuring and revitalisation of the companies:

- Start (programme supporting business activities), and
- Balance (this programme is based on the creation of individual restructuring projects and the implementation of restructuring plans).

Some of the trade Union representatives underline the fact that social issues are not taken into account when restructuring occurs: “all the process is in the Finance Ministry hands”. So employees who are laid off are only supported by small financial packages (about three or four months of redundancy payment), or pre-pensions: they are to be found now among the “multiple job holding” persons; or in the best case among the self employed persons (20% of the men between 50 – 59 years of age).

Trade unions’ view is that the social dimension is not taken in account: there are few incentives and coaching measures to find new jobs and people being laid off feel helpless. For example, in the food sector, trade unions reported a problem of bad management of the restructuring process and lack of cooperation with Employment Services. Another example could be given: in the Sokolov region, the impact of restructuring was less painful because there has been good cooperation between all actors at the local level, including trade unions, in order to develop the tourism sector.
### Examples of restructuring cases in the Czech Republic:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Plzeňský Prazdroj, a.s., SAB (South African Breweries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>SAB (South African Breweries)</td>
</tr>
<tr>
<td>Geographic location</td>
<td>Czech republic</td>
</tr>
<tr>
<td>Sector</td>
<td>Brewery</td>
</tr>
<tr>
<td>Number Employed</td>
<td>2850</td>
</tr>
<tr>
<td>Employment effect start</td>
<td>2000, finished by 2003</td>
</tr>
<tr>
<td>Number of Employees after restructuring</td>
<td>2650</td>
</tr>
<tr>
<td>Type of Restructuring</td>
<td>Synergic effects, increasing competitiveness, creation of effective market system, increasing of profits</td>
</tr>
<tr>
<td>Additional Information: Restructuring process was divided into three years to keep continuation of the production, distribution and accounts and to keep impact as lower as possible. As the result of sequence restructuring was: - Preservation of traditional production, - Investments into new technology - all together 4 milliard of CZK had been spent, - Increasing of healthy and working conditions. The changes in personal constitution were mainly inside administration and subsidiary functions, which were concentrated into one centre in Plzen (excerpt distribution, which is managed by team of 8 people provided with IT technology and special computer programme Plan-Tour). The Trade Union representatives were involved during the whole restructuring process and employees who had to leave received financial compensation.</td>
<td></td>
</tr>
<tr>
<td>Source</td>
<td>Plzeňský Prazdroj a.s</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organization</th>
<th>Jitex,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic location</td>
<td>Czech republic, Milevsko, South-West</td>
</tr>
<tr>
<td>Sector</td>
<td>Textiles and leather - Manufacture of knitted and crocheted articles</td>
</tr>
<tr>
<td>Number Employed</td>
<td>600</td>
</tr>
<tr>
<td>Employment effect start</td>
<td>June 2005</td>
</tr>
<tr>
<td>Planned job reduction</td>
<td>Min. 100</td>
</tr>
<tr>
<td>Type of Restructuring</td>
<td>Relocation</td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------</td>
</tr>
<tr>
<td>Additional Information: Jitex, the leading Czech cotton yarn and knitwear producer, is going to close during summer 2005 its last and largest plant in Milevsko, where more than 200 people (especially women) are employed. The manufacturing technology and about a half of the workforce are to be moved to the manufacturing centre in Písek. The main reason of restructuring plan is a recent liberalisation of soft goods being imported at lower prices from China. Five manufacturing sites have been already closed and consequently about 500 people – almost one third of the initial staff – will remain in the company.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organization</th>
<th>Philips Morris</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic location</td>
<td>Czech republic</td>
</tr>
<tr>
<td>Company</td>
<td>Altria Group</td>
</tr>
<tr>
<td>Sector</td>
<td>Food, beverage and tobacco - Manufacture of tobacco products</td>
</tr>
<tr>
<td>Number Employed</td>
<td>1,300</td>
</tr>
<tr>
<td>Employment effect start</td>
<td>July 2005</td>
</tr>
<tr>
<td>Planned job reduction</td>
<td>250</td>
</tr>
<tr>
<td>Type of Restructuring</td>
<td>Bankruptcy/Closure of one plant</td>
</tr>
<tr>
<td>Additional Information: Philip Morris ČR, a leading tobacco company, announced it will close its plant in Hodonín by the end of July 2005. The decision to close the plant will cause about 250 dismissals. The aim of restructuring plan is to increase competitiveness of the company, employing about 1,300 workers in the Czech Republic. The present factory in Kutná Hora would be the only one where the whole company cigarettes production is to be located in. Employees will be given redundancy payments amounting to 2 annual salaries. Estimated restructuring costs will reach 480 million CZK. Last year, the company net profit was 4.41 billion CZK.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organization</th>
<th>Český Telecom a.s.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic location</td>
<td>Czech republic</td>
</tr>
<tr>
<td>Sector</td>
<td>Post and telecommunications - Telecommunications</td>
</tr>
</tbody>
</table>
**Number Employed**: 8800  
**Employment effect start**: The end of year 2005  
**Planned job reduction**: 1800  
**Type of Restructuring**: Internal restructuring  
**Additional Information**:  
Česky Telecom a.s., the largest provider of telecommunication services in the Czech Republic and one of the prominent telecommunication companies in Central Europe, has been undergoing a large restructuring process since the end of 2003. In 2004 the company reduced the personnel by 2,100 employees and considers to cut gradually the current staff from 8,800 to 7,000 before the end of 2005, involving mainly low-skilled workers. Redundancy payments are much higher than the statutory ones and amount to 6 – 10 monthly salaries depending on the length of employment.

**Source**  
Hospodářské noviny, [http://www.novinky.cz](http://www.novinky.cz)  
Patria, [www.patria.cz](http://www.patria.cz)  
Eurofound, European Monitoring of Restructuring,

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**Other restructuring cases in the Czech Republic:**

- **Daewoo Avia** is going through a restructuring process, between 180-200 employees will lose their job. Reason for restructuring: low demand. The Trade Union representatives are involved in the negotiation process.

- **Steel Industry**. The main reasons for restructuring: competitiveness improvements, reduced demand on the market. Between 2001 and 2004 more than 13,000 people were dismissed. Good communication with the trade union representatives (see more details in Case Study).

- **The Czech Academy of Sciences**, the successor of the Czechoslovak Academy of Sciences, founded in 1953, is going to undergo restructuring. Its almost 7,000 employees, more than half of them scientists, currently work in 57 research institutes. The number of research centres is to be reduced.

- **Nestlé Česko**, in 2002-2003 went through a restructuring process in order to improve its competitive advantage on European markets.

- **Zetor,a.s**, reason for restructuring: privatisation, market and lack of competitiveness, more than 600 people dismissed. Restructuring in railway: The European Commission has approved the Czech Republic's plans to financially compensate those who will be hit the hardest by the restructuring of the national railway operator Ceske Drahy. The Czech government expects to spend a total of 1.86 billion Czech crowns (USD 77.5 million) to compensate Ceske Drahy employees who will have to be laid off.

- **Thrall Car (Vagonka) Studénka**, reason for restructuring: sectoral crisis, privatisation, 3000 employees dismissed.
## ANNEX 1 – LIST OF INTERVIEWED PERSONS

### Interviewed persons

<table>
<thead>
<tr>
<th>Name</th>
<th>Organization and affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mrs. Hana Málková</td>
<td>ETUC, Czech-Moravian Confederation of Trade Unions</td>
</tr>
<tr>
<td>Mr. Josef Středula</td>
<td>Metalworkers´ Federation, Czech Republic</td>
</tr>
<tr>
<td>Mrs. Vladimíra Drbalová</td>
<td>UNICE, Confederation of Industry of the Czech Republic</td>
</tr>
<tr>
<td>Mrs. Jitka Hejduková</td>
<td>Confederation of Industry of the Czech Republic</td>
</tr>
<tr>
<td>Mr. Oldřich Körner</td>
<td>Confederation of Industry of the Czech Republic</td>
</tr>
<tr>
<td>Mr. Vladimír Lánský</td>
<td>CEEP, Union of Employers´ Associations of the Czech Republic</td>
</tr>
<tr>
<td>Mr. František Kaštyl</td>
<td>Regional Development Agency for Central Moravia</td>
</tr>
<tr>
<td>Mrs. Jitka Palková</td>
<td>Regional Chamber of Commerce, Olomouc County</td>
</tr>
<tr>
<td>Mr. Alexej Bachtin</td>
<td>Plzeňský Prazdroj, a.s.</td>
</tr>
<tr>
<td>Mr. Jiří Harenčák</td>
<td>Solné Mlýny a.s.</td>
</tr>
<tr>
<td>Mr. Dušan Kulka</td>
<td>Berman Group a.s.</td>
</tr>
<tr>
<td>Mr. Roman Navrátil</td>
<td>Labour Office, Olomouc</td>
</tr>
</tbody>
</table>
ANNEX 2 – Sources

Czech-Moravian Confederation of Trade Unions (CMKOS), http://www.cmkos.cz


Union of Employers’ Associations of the Czech Republic, Rumunska 12, Praha 2

Metalworkers’ Federation, www.oskovo.cz

Social dialogue and EMU in the Czech Republic - Jaroslav Hála, Aleš Kroupa, Jaroslav Kux, Zdeňka Mansfeldová, Petra Rakušanová, Research Institute for labour and Social Affairs, Prague, 2003


The Ministry of Labour and Social Affairs, www.mpsv.cz


Chamber of Commerce, www.hk.cz

Chamber of Commerce in Přerov


Regional Development Agency for Central Moravia, Horní náměstí 5, 772 00 Olomouc

Structural Funds, www.strukturalni-fondy.cz

Hospodářské noviny (Economic newspaper)

Eurofound, http://www.eurofound.eu.int/