

Joint Project of the European Social Partner
Organisations

Study on restructuring in new Member States

POLAND – COUNTRY DOSSIER



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

I. INTRODUCTION: THE DOSSIER – WHAT FOR?

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

It was discussed by the Polish Social Partners in the presence of the European Social Partners at a common Seminar that took place on 16 November 2005 in Warsaw.

The dossier does not aspire to build innovative insight about Poland's economic or social situation, and this 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 Polish economy, raise issues which can be treated in a constructive way, contribute to build trust and confidence among the stakeholders in view of mobilizing them for the future of Poland and the Polish social dialogue within the European Union.

In the first part, the dossier highlights the main economic drivers and trends, and the main concerns expressed by the stakeholders in terms of growth, employment and competitiveness. Then it focuses on restructuring as process and object of the public debate nourished by concrete cases of restructuring in Poland. It ends up presenting an overview of the social dialogue challenges and questions currently being discussed or that could possibly influence considerations on restructuring.

It is based upon interviews and the analysis of data and documentation. The list of persons interviewed, as well as sources is presented at Annex.

II. ECONOMIC TRENDS AND CHALLENGES

This section:

-  presents drivers of growth which contribute to push forward the Polish economy,
-  enumerates economic challenges and macroeconomic issues which will have to be addressed in order to maintain Poland's competitiveness, and
-  specifies employment and labour market challenges.

2.1. DRIVERS OF GROWTH

A complete conjunctural cycle took place in Poland in the years 1992-2000. There was a period of rapid economic growth in 1992-1994, a period of prosperity in the mid 1990s, a slowdown phase in 1999-2000, and an economic stagnation in 2001-2002. The year of 2003 in which the growth rate amounted to 3.7% was probably the first year of the next conjunctural cycle that should last until around 2010, provided there will not be negative internal and external shocks¹.

a) Steady GDP growth

The Polish economy, with GDP growth of 5.4% in 2004, is developing much faster than the Euro zone average (1.3%) and the EU-25 average (1.6%). Since 2002 Poland's economy has been showing signs of strengthening. In 2003 the GDP growth stood at approximately 3.8% (against 1.0% in 2001 and 1.4% in 2002) and reached 5.4% in 2004. According to the estimates, in the 1st quarter of 2005 the economic growth was to reach the level of 2.1%². Economists forecast that GDP should grow by at least 5.1% in 2005³.

Poland's growth has been driven to a significant extent by increases in domestic demand, export growth, industrial production and investments. The employment rate is also slowly increasing⁴ (see Table 1 and Graph 1 at Annex 1).

¹ Assumptions of the National Development Plan for 2007-2013, Warsaw, 30 April 2004

² *A study of Poland's economic performance in the 1st quarter of 2005*, Ministry Of Economic Affairs And Labour, Department Of Economic Analyses And Forecasting, June 2005

³ <http://paiz.gov.pl/index/?id=6364d3f0f495b6ab9dcf8d3b5c6e0b01>

⁴ <http://paiz.gov.pl/index/?id=6364d3f0f495b6ab9dcf8d3b5c6e0b01>

b) Declining inflation

In the years 1990-1998 inflation was continually declining from three-figure levels (1990) and two-figure levels (1997-1998) to as little as 0.8 % in 2003. In 2004 inflation reached 3,5% - it can be explained by inflationary pressures, mainly due to growing expectations after EU accession and pressure in global prices of fuels and raw materials. In May 2005 inflation reached 2.5%⁵. Inflation trends for 1991-2004 can be found at Annex 1 (Graph 2).

c) Increasing domestic consumption

Domestic consumption is rising faster in Poland than in much wealthier “old” EU-15 countries, since many households in Poland are continuously in need of basic goods that Western Europeans have already possessed for a long time. Moreover, domestic demand and consumption should be fostered by the inflow of Structural Funds, earmarked for Poland by the EU. However, despite the current economic upsurge, no rapid rise of domestic demand should be expected, due to the disappointing indicators concerning the labour market. The employment rate has not increased since the beginning of 2003 and real wage increases have been declining, from 2,4% in 2003 to 0,5% in 2004.

d) Growing foreign trade

The liberalisation of the economy and fast economic growth has led to a growing internal demand for products and services. In order to maintain its trade balance Poland faces the challenge of ensuring a greater market share for Polish goods and services on foreign markets. Graph 3 at Annex 1 illustrates the structure of Polish exports and imports in the last ten years, reflecting the very dynamic developments that have taken place in Poland’s foreign trade. In the decade 1994-2004, exports have almost tripled and imports have more than doubled. These are impressive figures, although still somewhat scarce in comparison to the per capita exports and imports of ‘old’ EU-15 member states.

In 2004, exports saw a spectacular growth, increasing by 37.7 % (in USD terms), with imports growing more slowly, though still very substantially, by 29.6 %.

e) Favourable investment conditions

In 2004 the World Bank singled out Poland among 9 other countries as the most successful investment climate reformers over the past year. The Polish Information and Foreign Investment Agency (PAIiZ) estimates that from the beginning of the market transformations in 1989 to the end of 2004, foreign businesses directly invested a total of over USD 84.5 billion in Poland (see Graph 4 at Annex 1).

⁵ <http://paiz.gov.pl/index/?id=6364d3f0f495b6ab9dcf8d3b5c6e0b01>

It has been stated that Poland has been regaining its reputation as the most attractive location for foreign investors in central Europe. Recently the system of financial support for investors has been changed. It is being underlined that Poland has learnt how to attractively tailor its offers to investors without giving away more than the country may afford (which may have happened with Slovakia's agreement with KIA, a Hyundai affiliate). Other factors influencing the rising attractiveness of Poland as a country to invest in include a new corporate tax of 19%, Poland's revived economic growth after two years of stagnation, as well as EU accession which made the country appear as a more stable and reliable partner. Last, but not least, the investors are looking favourably at the recently won parliamentary elections as well as the presidential elections as they are linked to the promise of reducing taxes and regulations⁶. Inflow of FDI concerns not only the production sector, but also banking and retail sectors.

Incentives for investors

- Corporate Income Tax exemption in Special Economic Zones

A Special Economic Zone (SEZ) is an administratively separate part of Polish territory, in which a more favourable business climate has been created. The zones are neither extraterritorial, nor fenced, nor isolated in any physical way. Each SEZ offers preferential tax conditions, as well as special premises on which entrepreneurs may conduct business activities without being subject to the payment of income taxes. Currently, there are 14 Special Economic Zones in Poland, each of them consisting of several sub-zones. The zone's management also issues permits for the conducting of business activities in SEZ, as well as provides assistance to investors by, among others, facilitating their contacts with local authorities or State administrative authorities in matters such as the purchase of land for investment.

- Investment grants for new investments

Direct support for investments may be obtained under the Sectoral Operational Programme (SOP) Increase of Enterprises' Competitiveness Measure (Measure 2.2.1), which is co-funded by the European Regional Development Fund (ERDF) and the Polish state funds. Investors may obtain investment grants covering up to 25% of the eligible costs or employment grants of up to € 4,000 for each job created. The total amount of support for 2005 is € 90 million.

- Local incentives and EU funding

These incentives include property tax exemptions and providing the required infrastructure. Separate programmes for SMEs, R&D and environmental protection financed or co-financed under relevant Structural Funds.

⁶ Financial Times, *Poland regains reputation as top central Europe investment zone*, September, 13, 2005, s.6

- Human resources support

Entrepreneurs may obtain support from local authorities for hiring and training the unemployed. The major forms of assistance are the reimbursements of the costs of creating new jobs, social security contributions, training programmes and financing of internships for unemployed graduates⁷.

f) Dynamic development of the SME sector

One of the characteristic traits of the socio-economic changes in Poland over the last years has been a dynamic development of the small and medium sized business sector (SME). This has reflected the freeing up of private enterprises and the involvement of citizens' private capital in the development of economic activity⁸. At present approximately 50% of GDP is generated by the SMEs. One of the employers' representatives observes that the most dynamic development takes place among micro- and small service enterprises in the new technologies field. The SMEs from the trade sector follow development trend.

Another factor supporting development of the SMEs sector has also been the reactivation of local governments interested in the economic development of local societies and the introduction of comprehensive solutions. By 1997, SMEs represented 99.76% of all registered companies in the entire economy. By 1999, the sector had a more than 48% share in GDP⁹. One of the social partners underlies that the SMEs are the most flexible and willing to adopt to the changing market conditions, however, their flexibility can be limited when their financial situation is poor (see Graphs 5 and 6 at Annex 1 on the structure of GDP and structure of active enterprises).

g) Low labour costs

In recent years Poland has become more competitive in labour cost terms than it used to be in the 90s. At present labour costs constitute a relatively small share of the overall costs of production, with the share of net wages being especially low. This results from the comparatively high tax burden on labour as well as mandatory social insurance contributions. According to the London-based Economist Intelligence Unit the average unit labour costs in Poland are now lower than in the Czech Republic and Hungary by 10 and 15% respectively. Unfortunately, comparative analysis indicates that the cost of employing an employee in Poland is between five and nine times lower than in the EU or the USA; the productivity of Polish workers, meanwhile, is approx. 48% of the EU average. Another explanation for low

⁷ http://paiz.gov.pl/files/index.php?id_plik=1050

⁸ *Labour costs analyzed*, EIRO, <http://www.eiro.eurofound.eu.int/2002/11/feature/pl0211107f.html>

⁹ <http://poland.gov.pl/?document=475>

labour cost is also linked to the fact that in Poland the salaries are relatively low and people work long hours without being paid for extra time.

h) Favourable location - a gate to the Eastern markets

The British historian Norman Davies entitled his history about Poland *The Heart of Europe*. This title perfectly describes Poland's location: it is a bridge between the West and the East as well as the North and the South of the continent. After 1 May 2004, Poland's Eastern borders have become a part of the EU's external border and now the country is a launch pad to the Eastern markets. Investing in Poland guarantees companies a direct access both to the markets of the European Union, as well as the remaining markets of CEE. Thanks to locating capital in Poland, investors gain easy access to a population of 500 million in Western Europe and 250 million in Eastern Europe. Undertaking business activity in Poland gives the opportunity of using Polish experience in commercial relations with the former Eastern block, as well as the Russian Federation states.

i) Well developed banking sector

Poland's banking system is the most developed in Central and Eastern Europe, and continues to modernize at a very high speed. However, huge investments in IT are increasing the costs of their operations significantly; and increasing the quality of consumer service and introducing new banking products are even more costly activities, most often linked with redundancies. In 2004 the principal changes seen in the ownership structure of banks were the result of mergers and of foreign investors' involvement in the sector, as well as privatisation (i.e. PKO Bank Polski S.A.). In 2004, foreign shareholders controlled 41 out of 54 commercial banks operating in Poland. This number includes 22 joint-stock companies with 100 % foreign ownership, 13 with a majority of foreign capital, and 6 banks controlled indirectly. Moreover, foreign shareholders had minority stakes in a further 6 banks. One of the social partners stresses that further restructuring will take place in the banking sector.

j) Promising tourism sector

Poland's tourism industry has grown significantly over the 1990s, faster than in the traditional tourist giants such as Greece and Switzerland. In 2004, Poland registered 61.9 million foreign arrivals (18.8% more than in 2003), including both tourists and same-day visitors. Rapid development of tourism in Poland has accelerated development of infrastructure and accommodations. Today, the sector is fully privatized and the number of hotels has almost doubled over the 1990s to 966 hotels in 2001. The same trend has been seen in the

restaurant business. However, when measured by Western standards, tourism and hotel infrastructure is still underdeveloped. There is a serious shortage of relatively inexpensive two or three star facilities in Poland, and especially rural destinations desperately need further development of infrastructure¹⁰. See Graph 7 for numbers of foreign arrivals between 1991-2004.

2.2. MACROECONOMIC CHALLENGES

Poland is still facing important macroeconomic challenges, among them the following have to be enumerated:

a) To continue or not to continue privatization?

Although the government has completed the privatization of 8,500 state-owned enterprises, 1,800 firms remain in state hands. Privatization is almost complete in some sectors, such as consumer goods and services. In others—especially large, politically sensitive sectors such as public utilities and some segments of heavy industry—it has barely started. These companies account for almost 30% of economic activity. The pace of privatization has been slowed as many of the more attractive companies in the state-owned sector have already been sold, while those remaining are, to a significant extent, in financial difficulties and in need of restructuring¹¹ (see Graph 8 on comparative privatization progress in selected transition economies).

b) To improve competitiveness

Factors underlying the Polish economy's competitiveness are mainly enterprises' ability to quickly absorb technological, managerial and organizational solutions than can contribute to the commercial success of each company.

c) To focus on infrastructure and transport

The quality of transport infrastructure is one of the most important factors stimulating economic development and competitiveness. Because of the geographical position and market size of Poland, the poor condition of its transport network hampers international trade with EU and other neighbouring countries. For the enlarged Single Market, effective connections between Poland, the EU and new member states through Trans-European

¹⁰ http://www.balticdata.info/poland/p_frameset.htm

¹¹ <http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/fr/gr121321f.html>

Networks is of great importance. The list of main priorities in regard to the Polish infrastructure can be found at Table 2 in Annex 1.

d) To overcome a widening fiscal deficit

Since 2001, widening of the fiscal deficit can be observed. Whilst the general government deficit as a percentage of GDP remained at the level of between 2,5% - 3,5 % until 2000, it reached 5 % in 2001 and more than 6,5 % in 2002-2003. This entails a rise of public debt, albeit at a level still below the Maastricht criteria (52 %) ¹².

e) To fight corruption and promote transparency

Poland, still being in a transitional phase, faces a number of threats. One of the more significant of these is the alienation of authority. The lack of effective mechanisms for societal control over those in power fosters a corruption of the system on the one hand and a growing feeling of helplessness among ever-greater circles of the citizenry on the other. Combating corruption, at all levels of society and social and economic life, remains a crucial need in order to become a strong and robust economy.

f) To modernize industry

Under central planning, the Polish economy suffered from an excessive focus on industry (especially heavy industry), and from the underdevelopment of the service sector. Poland was known in that period as a producer of coal, copper and sulphur. There was no consumer-oriented manufacturing that could compete internationally, little useful innovation, and the economy was enormously wasteful and polluting. In this respect, Poland has adapted quickly to the pattern of activity found in developed market economies.

Industrial output decreased by approximately one third during the first two years of the transition process, i.e. 1990 and 1991, but since 1992 growth has been relatively fast, averaging 7,2% annually between 1992-2000. However, in 2001, the growth of industrial output dropped drastically to 0%, but grew again by 1.5% in 2002. In 2001, the most pronounced declines in production were recorded in the manufacture of basic metals and motor vehicles. In addition, a decline in production was noted in mining and quarrying, which is not surprising considering the generally difficult situation in that sector. The greatest decline was in manufacturing of petroleum products. Development of this sector is always difficult to predict, as it is the least stable. Graph 9 at Annex illustrates the production sold of Polish industry from 1990-2002.

¹² http://www.asmp.fr/fiches_academiciens/textacad/larosiere/polandavril03.pdf

The competitive position of Polish industry improved in 2003. Positive changes are being observed in the structure of industry, both in regards to *ownership patterns and the type of a structure*. The private sector holds a still bigger and bigger share in the industrial output sold. The units of this sector also achieve much *better financial results and effectiveness* indices. The section of industry which has the biggest impact on the sector is manufacturing and its share is increasing steadily. Moreover, the share of the group of branches regarded as carriers of technological progress is also growing in the economy. Favorable changes are taking place in the *structure of exports*. Along with the drop in the share of primary and semi-processed products, there is a clear increase in the volume of exported, relatively highly processed goods, regarded as carriers of technological progress and meeting the requirements of consumers from markets of developed countries.

A strategic objective of industry is to achieve a steady growth of the level of effective management and competitiveness. The means of realising the strategic objective are the following indirect goals:

- privatizing and revitalizing economic units and entire sectors of industry and also consolidating of units in order to increase their economic power;
- investing in R&D – at present R&D spending accounts approx. for only 1 -1,5% of GDP;
- ensuring inflow of foreign direct investments;
- ensuring the most effective distribution of state aid;
- lifting barriers hindering the development of entrepreneurship.

2.3. LABOUR MARKET & EMPLOYMENT CHALLENGES

Transition to the free market economy always seriously influences the labour market of a given country, both in quantitative and qualitative terms. One of the employers' representatives points out that the most acute problem of the Polish labour market at the moment is a very high rate of unemployment (almost 18%) accompanied by a low employment rate (52%). The problem is especially serious and should be treated with the utmost care when it concerns young people, especially those long- term unemployed who are starting to slip from the track of a regular professional and social life as well as graduates who fail to enter the labour market, which to a great extent influences their future career prospects. Another challenge for the Polish labour market is the high rate of unemployment of older people (55+) who very often resign from professional life too early and enlarge the number of those "too early retired". Table 3 at Annex 1 presents general labour market statistics.

a) The highest rate of unemployment among EU countries

The phenomenon of unemployment was unknown in Poland before 1990, but the consequences of introducing a free-market economy have soon become visible on the labour market. Unemployment appeared in 1990 and soon reached 1.1 million people (6.3 % of labour force). It peaked and remained stable in 1993-1994, and started to decline from then on. However, since 1998, it has been growing again, mainly as a result of industrial restructuring and structural changes in companies aimed at increasing productivity and competitiveness. At the end of 2003 unemployment reached 3.2 million, which represents 20 % of the labour force¹³. Furthermore, unemployment rose to 20.6% in February 2004, falling to 18.9% in October 2004, according to the Polish Official Statistics (GUS)¹⁴. At present the unemployment rate is at 17.6% (June 2005)¹⁵ and slowly, but gradually, declining.

One of the employers' representatives stresses that combating unemployment is the biggest challenge for the Polish economy. It is an even bigger challenge, if one takes into consideration that the Polish labour force to a great extent still reflects the former structure of the economy, and in many cases lacks proactive attitudes in shaping its professional life. Graph 10 at Annex 1 provides data on unemployment.

b) High level of unemployment among young people and graduates¹⁶

Since 1999, when young people constituted 31% of all registered unemployed, this ratio has been decreasing systematically every year. In 2002, this proportion amounted to 28.4%, and dropped to 26.6% in 2003. During the same period (2002-2003), the share of school-leavers in the structure of registered unemployed went down – from 4.7% in 2002 to 4.5% in 2003. The growing number of unemployed graduates with university diplomas is very characteristic. In 2002, university graduates accounted for 17.7% of all registered unemployed school leavers, and in 2003 the share rose to 21.2%. One of the employers' organizations stresses that young people with low qualifications living in the rural areas are in the most acute situation.

c) The deteriorating labour market situation of persons aged 55+

The number of unemployed persons in this age group has been rising steadily since 1998. The percentage share of people aged 55 and older in the total number of unemployed rose from 2.3% in 2002 to 2.8% in 2003.

¹³ *How to do business in Poland*, Prepared by the Investment and Technology Promotion Office of the United Nations Industrial Development Organization in Warsaw, under the auspices of the Ministry of the Economy and Labour, July 2004

¹⁴ <http://paiz.gov.pl/index/?id=6364d3f0f495b6ab9dcf8d3b5c6e0b01>

¹⁵ <http://www.evropska-unie.cz/eng/article.asp?id=3795>

¹⁶ A 15-24 year old age bracket.

d) Female unemployment

Women predominate in the structure of the unemployed; this is particularly true in cases of women seeking their first job or returning to the labour market after a break. As they face more difficulties in finding a job, women are more often threatened with long-term unemployment. According to the data of the labour office, at the end of 2003, the structure of registered long-term unemployed (more than 12 months) was 58.6% of women and 46.0% of men.

The intensity of female unemployment depends on the size of the place of residence. The smaller town or place of residence the higher is unemployment rate. In the rural areas the main factor that influences the unemployment rate relates to agricultural farm ownership. Female unemployment rate in the households owning a farm is more than three times lower than that for women from the households that do not own a farm.

The level of acquired education does not seem to protect women from unemployment. Most often the unemployed women are better educated than unemployed men. Over 50% of the unemployed women have secondary, post-secondary or tertiary education, while the respective percentage among men amounts to approx. 32%¹⁷.

e) Growing poverty level

During the period of intensive growth from 1994-1998, a general decrease in the poverty level could be observed. After 1998, when the economic slowdown started, the poverty level started quickly increasing despite the positive, although significantly lower, growth rate.

It has to be stated that there is a strong correlation between the decrease in employment opportunities and the increase of poverty – in the course of the last 10 years an important increase of the number of households without earnings as well as households with a high percentage of adults without employment could be observed. Graph 11 at Annex 1 presents the relationship between employment and poverty.

Trade unions believe that the growing poverty level can be explained by a growing number of “working-poor” - people employed full-time, but not being capable of supporting themselves and their families without social assistance. Such a situation is a result of a too low minimum pay. Moreover, the relation between the minimum pay and the average pay is continually declining.

f) High level of long-term unemployment

The share of long-term unemployed in the total number of unemployed rose from 50.4% in 2002 to 52.8% in 2003. In March 2005 this share was at 51,8%¹⁸.

¹⁷ http://www.stat.gov.pl/english/dane_spolgosp/praca_ludnosc/kob_mez_praca/index.htm

¹⁸ http://www.stat.gov.pl/opracowania_zbiorcze/syt_spol_gosp_woj/2005/I_05/tendencje.doc

g) Low level of education and qualifications among the unemployed

In the recent years, the number of those having been in higher education rose among the total number of unemployed. It is a sign that either there is not enough job creation or the education curriculum is obsolete or not of good quality. One of the social partners indicates that the education system does not correspond to the requirements of the modern labour market.

“The market needs skills and qualifications that can be acquired in vocational training, but vocational training is expensive. Another factor is that the education curricula are never prepared in answer to the labour market analysis, actually, no one prepares them regularly”.

Despite the above observation, it can be stated that the problem of unemployment mainly affects people with a low education or skills level. In 2002 some 2.4 million people (74.8% of registered unemployment) with lower vocational skills and unskilled workers – i.e. those from secondary school level, graduates of vocational schools and people with incomplete secondary education – were unemployed. While people with university degrees accounted for approx. 4% of all the unemployed, those with post-secondary and secondary vocational education represented more than 21%.¹⁹ That indicator is evolving slowly, because according to recent statistical data in 2005 low-skilled workers have constituted about 67% of all unemployed (about 2 million people), while those with general and vocational secondary education accounted for 31,5% and university leavers for 4.7% of all unemployed.²⁰ One of the employers' representatives underlines that the unemployed are not mobile, they are very attached to the place where they live and work, and very often cannot even afford the costs associated with looking for a job, i.e. commuting and/or moving to a new location. The same organization adds that very often, ignoring poor economic conditions of the enterprise, the employees who are to be made redundant demand guarantees of employment at the same enterprise and at the same location, which is evidence of their rigid attitudes.

h) Grey sector employment

The 'shadow economy' and undeclared work are persistent phenomena in Poland, particularly in sectors such as commerce and repairs, hotels and restaurants, construction and real estate services, beauty and cleaning services as well as childcare and elderly care. According to the GUS estimates, the shadow economy accounted for 14.6% of GDP in 2000, 14.3% in 2001 and 13.4% in 2002.²¹ However, according to data from other sources the shadow economy and proportion of undeclared labour in Poland is estimated at a higher level – for example

¹⁹ <http://www.eiro.eurofound.eu.int/2003/07/feature/pl0307107f.html>

²⁰ http://www.stat.gov.pl/dane_spol-gosp/praca_ludnosc/bezrobocie_rejestrowane/2005-lkw/tab11.xls

²¹ <http://www.eiro.eurofound.eu.int/2004/06/tfeature/pl0406107t.html>

according to OECD research the shadow economy's contribution to Polish GDP in 2000 was 27.4%.²²

The number of clandestine workers was assessed to be 805,000 in 1995; 885,000 in 2000; 895,000 in 2001 and at 910,000 in 2002, which would account for some 7% of all employed persons.

A major reason for such a high occurrence of undeclared work in Poland is the high level of aggregate labour costs (remuneration plus all payroll taxes and other extras), which is seen as dragging down the creation of new jobs and prompting companies, particularly SMEs, to hire workers without registering their recruitment. There is also a marked tendency to prolong the working time of existing employees, a way of obtaining labour that is considerably less expensive than creating a new position and hiring to fill it²³. There are also other factors such as the habit of "somehow coping with" life and not linking the fact that working in the "shadow economy" is not an honest behaviour. Graph 12 at Annex illustrates employment in the "grey economy" sector for 2000-2002.

i) Rising level of education ...

The Polish labour force is generally well educated and highly qualified, and an important advantage of Polish human resources is a relatively large number of young people with high skills levels. The number of young people seeking and acquiring better and/or higher education has been constantly increasing since the beginning of the economic transformation.

- In the period of 14 years from 1988 to 2002, the percentage of people with post-primary education has increased from 55% to approx. 67%. The number of people with primary, incomplete primary or without any education has significantly decreased²⁴.
- At the same time the number of people with higher education has increased by 1.5 times. In 2002 approx. 10.2% of persons aged 20 years or more acquired higher education diplomas, while in 1988 the respective number amounted to 6.5%. In the 2002/2003 academic year, there were over 1.7 million students, attending lectures at over 370 universities, polytechnics, academies and other higher education institutions. The proportion of students and pupils in the age bracket of 16 – 18 has reached 91 %, and in the age bracket of 19 - 24 it has reached almost 51 %²⁵.

²² *The size and development of shadow economies in 22 OECD countries and 21 transition countries*, F. Schneider, IZA Discussion Paper, No. 514

²³ <http://www.eurofound.eu.int/2004/06/tfeature/pl0406107t.html>

²⁴ *Assumptions of the National Development Plan for 2007-2013*, Warsaw, 30 April 2004

²⁵ *How to do business in Poland*, op.cit.

- A relatively high increase in the level of education of women was observed. In 1988 only half had post-primary education, and in 2002 this figure grew to 65% (amongst men respectively: 59% in 1988 and 70% in 2002).

Women more often finish at least secondary school in comparison to men, and almost 11% are university graduates. By contrast, men often finish their education at a basic vocational level (more than 31%) and only approx. 10% of them have acquired higher education diplomas²⁶. This, however, is not reflected in the structure of unemployment as there are more unemployed women with higher education than men.

I) ...should be better tailored to the labour market needs

One of the employers' representatives points out that the content of the education curricula is hardly related to the labour market needs, therefore sometimes qualifications acquired in the course of the formal education system do not answer employer's needs.

"Despite the fact that the level of education in Poland is increasing, it is very often hard to find someone with required skills. And it does not have to concern people with the highest skills, i.e. we had the problem with welders".

The same organisation characterises the Polish education system as "too general" and "not producing a qualified labour force"; as a consequence the employer has to bear the cost of "training the employee for work".

j) ...and be followed by higher education standards

One of the main challenges the Polish education system faces at the moment is an urgent need to upgrade the quality of education. The average results of traditional, school-based and vocational education are relatively low. The difference between the attainments of pupils and students as well as disparities in conditions of teaching are most pronounced when compared with different OECD countries (i.e. the results of PISA²⁷). It should also be taken into consideration that despite relatively good scholarisation indicators, a large number of graduates have problems with finding a job. It is caused by the disparities between demand for knowledge and skills and their supply. In order to change this situation it is necessary to upgrade the quality of education in many schools, and at the same time ensure that schools are able to make more flexible adjustments in their education curricula in order to better attune them to the needs of the labour market. It should be made with a view to ensure that the

²⁶ *Assumptions of the National Development Plan for 2007-2013*, Warsaw, 30 April 2004

²⁷ OECD Programme For International Student Assessment, www.pisa.oecd.org/

development of education and training systems provide students with qualifications sought for on the labour market²⁸.

k) Improving the dynamics of the labour market

In general employers' representatives agree that, from the perspective of an enterprise, employing a person is an investment. They also believe that in order to be able to generate satisfactory Return On Investment on this type of investment, the costs linked to employing a person (taxes and social security contributions) should be reduced. If the costs associated with employing a new person remain as high as they are now, the majority of investments will not result in job creation.

Employers' representatives stress the need to make the labour market more flexible: they would like to see the Labour Code being just a general framework for labour market regulation. At the same time more detailed regulations could be concluded at the collective agreement level. Employers are also in favour of more flexible regulations concerning employment contracts. They see proposed changes as the ones of a long-term perspective and requiring an in-depth analysis in the social dialogue process. Another proposal from the employers' side for improving the situation at the labour market is introducing new, more flexible forms of work organization. One of the employers stated: "We are torn between the European model where it is very hard to fire an employee in times of recession therefore we do not employ; and the American model where there is less guarantee of employment and people are used to changing their jobs and the unemployment periods are much shorter".

Trade unions stand in the position that the liberalization of the labour law has gone relatively far, however, growth of collective agreements' importance declared by the employers has not taken place. On the contrary, private employers attempt to limit the significance of the collective bargaining process, taking part in it only under trade unions' pressure. Moreover, trade unions believe that flexible employment cannot lead to the creation of poorer quality jobs. According to the trade unions representatives, the growing share of the fixed-term employment and temporary employment contracts is opposite to the need to develop a highly-skilled labour force capable of facing competitive challenges. This situation especially concerns the vocational training system – temporary and fixed-term contract workers are seldom participating in the continuing vocational training initiatives.

Border migrations

After EU accession the arts and crafts sector intensified the import of its products. One of the examples can be production in Poland of metal elements and wooden stairs that are later

²⁸ ibidem

assembled in Germany at the premises of the German clients. The sectors that are especially profiting from cross-border business are the automotive industry, hairdressers and beauticians, food processing and the construction sector, mainly at the Polish – German border. It is worth mentioning that some “exotic” arts and crafts activities are very well received abroad, i.e. bell or pipe-producers. However, these cases are successes of individual enterprises and cannot be treated as a general trend.

As far as official migration to other countries is concerned – i.e. to the UK, Ireland – the majority of workers are from the construction sector (approx. 60%), and the rest are representatives of different professions, i.e. opticians or people employed in the food-processing sector. One of the Polish social partners stresses that migration of the construction sector workers can turn out to be very dangerous in the long-run as they may not be enough people to work in the country. A trade union representative adds that most often the ones that are leaving the country are the “cream of the cream” – people who are entrepreneurial, well qualified and ready to learn. Trade unions also feel uneasy about the scale of the skilled workers’ migration outflows and perceive it as a result of blocking the growth of wages at national level. They fear that in some sectors this trend can significantly disturb the supply of labour and limit its competitiveness– they give an example of outflow of highly qualified welders from the shipbuilding industry.

III. RESTRUCTURING CHALLENGES

This section:

-  describes characteristics of restructuring processes in Poland,
-  presents social partners' views on restructuring, and
-  describes further developments and challenges of restructuring as perceived by the social partners.

a) Characteristics of the restructuring process in Poland

Several interrelated features characterize the restructuring process in Poland:

- Restructuring evolves around the state: plans to restructure the country's industry lie within the ambition of the Ministry of Economy and Labour, i.e. a crucial role of the Polish state has been obvious in the restructuring process of its mining industry.
- State-managed restructuring takes place mainly at a sectoral rather than at a company level.
- Restructuring activities in Poland are strongly regulated by legislation, including acts regulating hard coal mining, metallurgy, the defense industry, national railways (Polskie Koleje Państwowe – PKP), banks, agriculture, and public aid for enterprises. In its endeavour to secure efficiency and profitability of various industrial operations, the government aims to bring employment in line with production needs via legislation.
- Foreign direct investment – on which job creation relies significantly – appears to be targeted mainly at the manufacturing sector. The service sector, although it is the fastest growing branch of the economy, does not attract similar attention from investors²⁹.

Many large, socially sensitive or politically powerful state-owned enterprises (in coal, steel or chemicals sectors) or financial firms (the rural bank, the housing and savings bank and the national insurance company) have avoided major restructuring. As a consequence their losses continue to be a drag on the growth potential of the economy. Privatization, while persistent, has been slow, particularly in the industrial sector and the financial sector. Without increasing the pace of privatization, state-owned firms and banks may find it increasingly difficult to compete in European markets, therefore this situation can potentially create future fiscal and unemployment setbacks. The EU competition regulations limit the amount of permitted state

²⁹ European Restructuring Monitor Quarterly, Issue 3, Autumn 2004, Country focus: spotlight on Poland, <http://www.emcc.eurofound.eu.int/erm/templates/displaydoc.php?docID=10>

aid, so restructuring and privatization of these institutions will eventually become an implicit EU requirement anyway³⁰.

b) Restructuring process as perceived by the social partners

The Polish social partners' definition

One of the Polish employers' organizations states that the "change of the political system and introducing free market economy put entrepreneurs in a very difficult position. In order to face the challenges of the free market economy, enterprises had to adapt to the new rules of operation. This is how the first restructuring processes started". The same organization explains that entrepreneurs were forced to lower their production costs, which resulted in reducing the labour force and from then onwards the term "restructuring" is very often associated with "redundancies" and "strikes". According to this organization "Restructuring is a process of an enterprise adapting to the current and the future market conditions. Therefore any type of restructuring changes is a natural feature of an enterprise's operation. This is a continuous, expensive, necessary and dynamic process".

Another employers' organization states that there are two types of restructuring: economic restructuring and restructuring for growth. *Economic restructuring* is linked with changes in the property rights. *Restructuring for growth* most often has a form of privatization and restructuring of formerly state-owned enterprises that are threatened by bankruptcy (i.e. coal mining, shipyards, steel industry and health care services). The same organization also describes some restructuring processes as *forced restructuring*. Restructuring can be induced by technological progress, changing legal regulations, clients' demands or competition. A significant wave of such forced restructuring is linked to the Poland's accession to the EU and requirements in the fields of environment protection, safety and quality (EU label, HACCP, ISO).

The third employers' organization states that "Restructuring is a natural and inevitable feature of the economy and results from changes in the economy and customer preferences. Small changes are an on-going process at the enterprise level and should not be treated as restructuring processes, even if they are linked to firing some employees". According to this organization the need for massive restructuring was caused by the irrational decisions taken up during the centrally planned economy time. During a restructuring process, redundancies are sometimes inevitable.

³⁰ <http://www.worldbank.org/transitionnewsletter/marapr98/pgs9-11.htm>

Sanitec Koło - in the search for right skills and attitudes

Sanitec Koło, a producer of sanitary installations, decided to make 90% of its employees redundant. The firm believes that what counts today are not only qualifications, but also the right attitude to jobs - entrepreneurship and responsibility for the job - and meeting certain standards, i.e. hygienic in the food processing sector.

Trade unions' representatives call for analyzing economic and social factors of the restructured sectors, regions and enterprises in order to secure the situation of all the stakeholders. There is no single position paper of the interviewed trade union in the field of restructuring, however its position concerning important issues related to the restructuring process can be found in various National Committee documents. Most often these are reactions to same concrete cases, i.e. privatization of Poczta Polska (postal services) or TP S.A. (telecommunication).

Nature of the restructuring process

The Polish social partners agree that restructuring is a complex process encompassing different types of change. One of them proposed the following classification of different types of restructuring and offered its description:

- *Privatization*: in the 90s there was a lack of in-depth analysis of the environment in which the enterprise functions, potential investors lacked the necessary capital, there was a lack of personnel with management skills, of financial institutions and a stock exchange market. Now there are approx. 1,300 state-owned enterprises left and their privatization will not influence the economy in such a significant way as the previous processes; some of the privatization processes have taken place too late and they brought some losses to the State Treasury.
- *Financial restructuring*: this restructuring took place mainly in the years 1995-2000. It was taken up mainly to adapt to the new rules at the market. This type of restructuring concerns tangible resources and financial management practices and its ultimate goal is to limit the debts of the company.
- *Introducing new technologies and new investments*: it is usually done with the view to limit costs and to increase enterprises' competitiveness. Adverse effects of these changes are often redundancies and salary reductions. This type of restructuring caused numerous reductions in the labour force in the beginning of the 90s, and in 1998 approx. 29% of enterprises believed they had an optimum level of employment, at present this is the case of approx. 60% firms.

- *New management methods and new company structure*: there were too many levels of hierarchy, with fragmented management methods; therefore it was necessary to decentralize management functions.

One of the employers' organizations observes that the goal of restructuring processes is always to make savings, and the realisation of this goal has its consequences often in the form of a decline in personnel. For example, for the arts and crafts sector this results in bringing a threat of a reduced number of clients as well as competition from the fired workers, especially those who start providing services at lower prices in the grey economy sector.

Trade unions stress that despite the fact that restructuring processes in such sectors as coal mining, steel and armament industry have been regulated by law, the basis for such a regulation has been social pacts negotiated beforehand by the government with trade unions. Such social pacts enabled a significant reduction of employment without generating conflicts and assured a wide variety of supporting measures (early retirement scheme, re-qualification, outplacement and assistance in job search).

All interviewed social partners agree that the process of the biggest transformation is over: at present the majority of changes concern transformation from industrial production to an individualized client-oriented service.

Role of the social partners in the restructuring process

In the arts and crafts sector social partners perceive their role as an *external observer* or as a *subject of the restructuring process*. They can also play the role of a business support institution by monitoring the business environment, providing education and training, conducting analysis as well as dissemination of information and best practices. Another role of this type of organizations is lobbying for favourable legal regulations in the process of social dialogue.

Trade unions' representatives stress the importance of their presence in the *social package negotiations*. They stand at the position that the social packages should be individually negotiated for each enterprise in order to take into account its economic standing. They are against "a universal social package" and opt for a tailored solution.

Two of the employers' organizations stress that "very often costly social packages were negatively influencing competitiveness of the restructured entities". Another problem signaled by the employers' representatives is that the cost of the restructuring process (mainly sectoral restructuring) is transferred to other parties, i.e. SMEs are paying the cost of restructuring in the energy sector and increasing energy costs.

Coal mining sector and social partners' assistance

As a non-competitive sector, the coal mining sector has been receiving financial assistance from the state budget. The intensive restructuring process of the coal sector was aimed at transforming the sector from a coal-based to a gas-based economy. In 2001 for the first time the sector was profitable, however it still has many debts. One of the employers' organizations tried to soften the adverse impact of the restructuring process. The Chamber of Arts and Crafts and of SMEs in Katowice has tried to attract redundant workers from the restructuring enterprises to the arts and crafts sector. The problem was their attitude, passiveness and the lack of ability and/or willingness to take up risks associated with the start-up activity. The involved social partner organization believes that it is the role of the government to guarantee proper conditions for re-qualification and professional re-conversion as well as designing an effective incentives system for employers to recruit new people.

Evaluation of the restructuring process effectiveness

Some of the Polish social partners believe that some of the adopted restructuring solutions were not optimal as they were forced by different interest groups, i.e. the result of it is declining of the "textile city" Łódź or approving social packages that accompanied restructuring processes in the Silesia region without designing effective re-qualification programmes or business start-up support measures.

Another negatively evaluated decision has been guaranteeing benefits (early retirement package) for chosen interest groups (recently in the coal mining sector) that slow down the restructuring process and make its costs higher. One of the employers' representatives states that the whole country pays for the coal mining sector restructuring and agrees that "the restructuring process of the coal mining sector was inevitable, but its cost was excessive".

Future restructuring processes

All social partners agree that there are going to be further restructuring processes. According to them they will take place in the following sectors:

- Coal mining sector: there will be further reductions, despite a temporary improvement of this sector position;
- Energy sector: further redundancies are inevitable;
- Banking sector: introducing ICTs, increasing the speed of offered service – and as a result reducing the number of employed persons;
- Textile sector: a disappearing sector, especially in the view of a growing import from China;
- Shipyards and related production;

- Automotive industry: especially in cases of relocating production plants, i.e. Lower Silesia region;
- Railways: the restructuring process started in the 90s and will be continued, further reductions of employment are necessary;
- Privatization at the local level (the “gmina” level”);
- “Network sectors”: also facing significant redundancies.

Challenges linked to the restructuring process

One of the employers’ organizations is afraid that entrepreneurs may be forced to bear the restructuring costs of the public sector - i.e. in the form of the contribution for the social security system in order to finance an additional early retirement - and stresses that the restructuring costs should be borne by the respective sectors and not by the private sector. The same organization believes that improving the general level of the economic education and awareness of the society would enable to take up better decisions that may now appear too costly or controversial for the less well educated people.

Social partners generally agree that more effective restructuring plans should be designed in cases of sectoral restructuring in order to avoid social transfers and to guarantee support for employees made redundant. Moreover, implementing effective standards allows to comply with the Corporate Social Responsibility (CSR) assumptions.

Another challenge linked to the restructuring process is limiting the number of monopolistic organizations (i.e. in the telecommunication sector) as they can halt the restructuring process that is most often linked to reducing employment numbers.

One of the employers’ representatives believes that more networks will be created in the private sector, i.e. the shops will be growing in the terms of their shopping area size. As a result it is necessary to take the new form of a “network” enterprise into account as the restructuring process has both a direct and an indirect impact. *Direct impact* of the restructuring process will affect on sub-contractors, suppliers, and clients. For example, for arts and crafts sector restructuring of the coal-mining sector and the car manufacturer Fabryka Samochodów Osobowych (FSO) has had a significant impact. *Indirect impact* of the restructuring process can be observed using the example of the local infrastructure of restructured enterprises, i.e. small locals shops or service vendors (hairdressers) located in the vicinity of the restructured enterprises lose their clients.

Social partners believe that as a consequence of technological progress, products and their prices are changing. As a consequence some products will never be repaired again, i.e. pantyhose, tights. This is especially a challenge for the arts and crafts sector where “mass production” is replaced by the individualized production that better answers customers’ needs.

Finally, the Polish social partners agree that a big challenge for the restructuring process and anticipating change is increasing the mobility of workers in order to improve their flexibility on the labour market. At present approx. 60% of people work at the same location where they were born. One of the employers' representatives is in favour of "mobile labour markets" as their organization believes that small, secluded markets are not able to survive in the times of globalization.

It is worth noting that in September 2005 the European Economic and Social Committee adopted an opinion on "Social dialogue and employee participation, essential for anticipating and managing industrial change (own-initiative opinion). NSZZ "Solidarność" was a initiator of an amendment to this opinion on the need to conclude social pacts in the new Member States. The paragraph is as follows:

"4.3.6.1. However, it does welcome all efforts to promote social dialogue, particularly in the new Member States, where there is still significant ground to make up. The Committee notes that in relation to training, for example, a great deal of work still needs to be done to strengthen infrastructure and provide technical support, particularly in terms of funding. Hence, the Commission's proposal to allocate a part of the resources in the Structural Funds for this purpose seems both logical and coherent.

In the new Member States, restructuring processes result in considerable job losses and largely involve privatisation. Effective social dialogue is needed to negotiate appropriate and legally enforceable social packages before these processes begin³¹."

³¹ *Opinion of the European Economic and Social Committee on social dialogue and employee participation, essential for anticipating and managing industrial change (own-initiative opinion)*, EESC, Brussels, 29 September 2005; <http://www.toad.esc.eu.int/eescviewdoc.aspx>.

IV. SOCIAL DIALOGUE

This section:

-  describes the nature of the Polish social dialogue,
-  signals how the role of the trade union changes,
-  describes the functioning of the Tripartite Commission, and
-  presents the legal framework for concluding collective agreements.

a) Nature of the Polish social dialogue

One of the employers' representatives states that "the social dialogue is the one of the most important institutions of the public life, which is regulated by the Polish constitution". According to observers of the social dialogue process it started as "a rocky relationship characterized by conflict and gradually transformed into cooperation and working together in the direction of working out a mutually satisfying way of operation". There are some controversial descriptions of the social dialogue: according to a sociological research piece, Polish social dialogue can be described as a "talk show", because it does not seek solutions to negotiation problems, but instead focuses on playing blame games and in essence does not involve conflicts of interests, but conflicts of values³². The notion of "empty social dialogue" appears.

One of the interviewed employers' organizations agreed with this statement pointing out that the weaknesses of the Polish social dialogue are the following:

- Often the government is asking questions, but it is not listening to the social partners' answers;
- There is a lack of implementation of the agreed solutions; this observation especially concerns the voievodship level, i.e. Wojewódzkie Komisje Dialogu Społecznego, WKDS (regional social dialogue commissions) are not operational as they could be.
- Recently, the "civic dialogue", which is a wider term, has replaced the notion of "social dialogue" and it weakens the importance of the social dialogue as a forum of exchanging positions and opinions by officially recognized social partners;
- The quality of the social dialogue is still to be improved; the government, seeking to push forward its solutions, sometimes uses the weakness of the process. There is still

³² http://www.rzeczpospolita.pl/gazeta/wydanie_020409/publicystyka/publicystyka_a_3.html

a long way to go to ensure that the social dialogue is deeply rooted and perceived as an effective means of working out solutions in the collective mentality of Polish society.

One of the Polish employers' organizations states that sometimes cooperation between employers can be a challenge where there are different opinions: "It is easier to make decisions when there is just one organization representing interests of the employers" and "in the Tripartite Group for the Chemical Industry where there were more employers' representatives the consensus has not been reached, there were too many controversies".

In terms of the future development of industrial relations in Poland, there are two major pressures. On the one hand, labour relations are becoming more decentralized and deregulated, especially in the private sector. On the other hand, there is a tendency to retain a certain degree of centralization, especially in establishing permanent rules and procedures for tripartite consultation³³. In recent months, social dialogue in Poland has increasingly become a political issue and one of the main reasons for this increased interest is the parliamentary and presidential elections, which always encourage political leaders to seek allies among the social partners.

b) Changing role of trade unions

Trade unions in Poland have a special place among social organisations and associations, mainly due to the role played by the "Solidarność" trade union during the social and political changes after 1980. Currently, the two largest trade union organisations are OPZZ (the Polish Alliance of Trade Unions) with headquarters in Warsaw (www.opzz.org.pl) and NSZZ "Solidarność" (the Solidarity Independent and Self-Governing Trade Union), with a national committee in Gdańsk (www.solidarnosc.org.pl). Only "Solidarność" is affiliated at the European level being the member of ETUC.

The tensions between NSZZ Solidarność and OPZZ led to the emergence in the early 1990s of a specific model of Polish trade unionism, with "conflicting pluralism" as its most conspicuous feature. A key element of this model was the existence within most companies of at least two competing trade unions, neither of which was most often able to prevail over the other or genuinely represent the workforce as a whole. This instigated a process that further weakened the Polish trade union movement - unions gradually lost the right and opportunity to represent the interests of the whole company workforce, as they had to focus on their own

³³ <http://www.ilo.org/public/english/dialogue/ifpdial/downloads/poland.pdf>

“clientele”³⁴. It should be highlighted that nowadays the level of unionization is approx. 18% of the workforce, one of the lowest unionisation rates in Central and Eastern Europe³⁵.

The reasons behind this state of affairs are related to:

- Global trends and a new individualistic ideology requiring that trade unions operate in a very different way;
- A specific “identity crisis” affecting the majority of trade unions in the former authoritarian socialist countries of Central and Eastern Europe; these unions have participated actively in the creation of the new political system in these countries, and this is regarded as a principal cause for the conflict of loyalties: on the one hand, the unions have sought to retain their role as a “defender” of the working class; while on the other, they have become the “co-authors” of democracy and of capitalist and market-based relations;
- Specific Polish trends, including:
 - The existence of two influential and ideologically divided trade union organisations (OPZZ and NSZZ Solidarność) with a roughly equal number of members;
 - Direct involvement of the trade unions in politics³⁶;
 - Institutionalisation of divided and competing trade union organisations and their confinement to specific companies, where their leaders hold a regular post and the unions have their base and “clientele”³⁷;
 - “Unfriendly” legal regulations concerning establishing trade unions in the enterprises.

Trade unions believe that economic and social policy should be accepted by society in the course of the social dialogue. Trade unions also stress that a low level of unionism is caused by the hostility of the private employers, notably in the case of the newly created enterprises, and in Multinational Companies. Employees are additionally threatened with the high level of unemployment and informally discouraged from setting up trade unions. In the case of a positive attitude of an employer towards organizing employees and setting up representation bodies, the level of unionization is quickly growing, e.g. in some supermarkets.

³⁴ *Problems facing the trade union movement analyzed*,
<http://www.eiro.eurofound.eu.int/2003/08/feature/pl0308106f.html>.

³⁵ *Ibidem*.

³⁶ The Solidarność representatives pointed out that in the union statute there is a clear stipulation of separation between the trade union and political functions.

³⁷ *Problems facing the trade union movement analyzed*, op.cit.

c) Strengthening role of the Tripartite Commission

The Polish Tripartite Commission for Social and Economic Issues was established as a forum for national social dialogue in 1994, under a “State Enterprise Pact”, involving the government, employers’ representatives and trade unions in the process.

In 2001, the Parliament passed the new Act on the Tripartite Commission and regional (voivodeship) social dialogue commissions. This act, apart from institutionalising local dialogue, solved the problem of representation of the social partners. This raises hopes for a strengthening of the Commission’s position.³⁸

Despite many drawbacks of the Tripartite Commission operation and the fact that it has a status of a consultative body, it is one of the crucial institutions supporting social dialogue through negotiation and one of the basic mechanisms of involving society in decision-making process in the field of social issues.

On the basis of the so-called “social contract” Tripartite Sector Working Groups were created. At present there are 9 of them. As far as the issues related to the restructuring process are concerned, their role is to work out the best restructuring programmes and so-called “social packages”. Their work is organized independently from that of the Tripartite Commission and the chambers of commerce from different sectors are involved. The Polish social partners positively evaluate the effectiveness of these working groups and complain of the government’s unwillingness to implement proposed solutions.

There is also an autonomous social dialogue at the enterprise level. It is worth mentioning that at present Polish employees participate in more than 100 European Works Councils.

c) Collective agreements

Collective agreements have existed in the Polish law since 1937, but since 1974 the right to collective agreement has been written into labour law. However, it is important to note that during communist times government-driven sectoral collective agreements were nothing else but the realization of the government politics toward certain sectors and this has nothing to do with the collective bargaining process as understood today.

The Labour Code passed in 1974 introduced the collective agreement as an institution determining the mutual relationships between employers and employees within a branch of the economy or an occupation. In particular, collective agreements were supposed to establish, in specific branches of the economy, the conditions of remuneration and to guarantee other benefits, as well as the working conditions - including employee privileges, workplace safety and hygiene, and the satisfaction of employees’ social and cultural needs. An important feature of this regulation was the possibility to introduce more favourable

³⁸ *The development of the national Tripartite Commission,*
<http://www.eiro.eurofound.eu.int/2002/10/feature/pl0210106f.html>

conditions for employees through collective agreements than those specified in the national regulations. The 1994 amendments to the Labour Code focused almost entirely on collective agreements, making them the basic instrument of labour law.

The parties involved in the collective bargaining process are representative trade unions and employers or employers' organizations. Until 2008 it is possible to conclude intra-enterprise agreements in the public sector, where the relevant minister or ministry acts as an employer.

At the moment there are 13 intra-enterprise collective agreements, mainly in the government-owned sectors.

Trade unions stress that a relatively limited number of collective agreements at the sector level is, among other things caused by the negative attitude of the private employers' organization, which avoid participating in the negotiations due to "not having the mandate from their members" or low representativeness in a given sector. Trade unions point out that in the Labour Code there is an *erga omnes* clause which enables to enlarge collective agreements, but it is not used, also due to the negative attitude of the government.

The specification of the employment relationship became the object of collective agreements. At the same occasion issues which could not be covered by agreements were enumerated - these included special protection for employees against termination of the employment contract; employees' rights in cases of unjustified or illegal termination of the employment contract, responsibility in respect to order and discipline, maternity as well as childcare leave and the protection of remuneration for work.

The most recent amendments to the Labour Code of 2002 introduced a very important change regarding collective agreements. This alteration has made possible to suspend - for up to three years - a collective agreement in force, through a joint declaration of the parties, when this is justified by an employer's financial difficulties.

The Polish collective agreements tend to address questions related to work organization only on a limited basis. Generally, they do not take into consideration drastic changes in organization and performance models of the companies - collective agreements do not provide any direct reduction of hierarchical structures. In some cases they only include general provisions concerning reorganisation of business structures. Occasional agreements refer to employment on a part-time basis or by way of a contract for completion of a specific task. There are not any known collective agreements addressing telework or long-distance work. The vast majority of collective agreements also make no mention of new forms of consultation,

employee participation in decision-making, fostering social partnership in the workplace or increasing employee commitment and encouraging “proactive” attitudes³⁹.

Collective agreements may be concluded for a definite or an indefinite period, and may be amended by additional protocols. However, certain occupational groups are by law excluded from concluding collective agreements. Such exclusions concern persons employed on a basis different from a contract of employment – i.e. elected, appointed or nominated employees. This means that state administration officials - those belonging to the civil service as well as elected and nominated officials - local administration officials, judges and prosecutors may not enter into collective agreements.

At the end of 2001, about 9,000 collective agreements were in force in Poland. In almost all cases these are single-establishment agreements whilst multi-establishment agreements are rare, and the conclusion of agreements is much more common in the public sector than in the private sector. According to the trade unions representative at present there are approx. 10,000 collective agreements in force. These are mainly collective agreements at the enterprise level; very few agreements were concluded at the sectoral level. The problem to be solved in the coming years is the small number of multi-establishment collective agreements, of which the influence on labour relations is currently limited, especially in the private sector – where the majority of the workforce is employed⁴⁰.

³⁹ *Thematic feature - collective agreements on changes in work organisation*, <http://www.eiro.eurofound.eu.int/2004/09/tfeature/pl0409110t.html>)

⁴⁰ *Collective agreements in focus*, <http://www.eiro.eurofound.eu.int/2002/10/feature/pl0210108f.html>

Annex 1

Restructuring case: Dalkia Poznań ZEC

Organization	<i>Dalkia Poznań ZEC</i>
Established	1929 (1 st plant) and 1975 (2 nd plant)
Ownership	Dalkia Int.
Sector	Energy producer
Structure	Today: 2 plants and 6 daughter companies
Employment	Before restructuring process: 900 employees; today: 707 employees; 2006: below 600 employees
Unionisation	4 trade unions

Reasons for restructuring

Company had to be restructured for several reasons:

- Low profitability and efficiency;
- Not ready to face liberalisation of the energy market and become competitive;
- Lack of cost allocation awareness (poor application of advanced financial tools and methods);
- Over-employment and skills mismatch;
- Not effective motivation system (wages and bonuses);
- Some of the company activities/functions were out of the “core business” (e.g. maintenance, security and cleaning services);
- Lack of innovative managerial competences.

Restructuring process

The process started in 2001 when the Polish Ministry of Treasury decided to sell the company. One strategic investor was chosen and negotiations of the social package started (October and November 2003), but they were halted. The Ministry of Treasury have made the decision to sell the company without negotiating a social package. It was the first such a case in the energy sector in Poland, and the second decision at the scale of Poland.

On 1 March 2004, 85% of the company shares were bought by the consortium Dalkia Termika S.A. (French investor Dalkia Intl.) and PEC Poznań S.A. (also controlled by Dalkia Intl.), in the following proportion: Dalkia Termika held 50% of the shares + 1, while PEC Poznań S.A. had

35% of the shares – 1). The remaining 15% of shares were distributed among the employees, as stipulated in the Polish law. The total value of the transaction amounted to 350 million PLN. Moreover, the investor committed himself to further investments of 150 million PLN. Negotiations with trade unions over the social guarantees were restored and on 23 April 2004 the social package was signed⁴¹.

A new Board of Directors was appointed in June 2004. It started with “unfreezing” of the company, in other words mobilizing people and initializing the process of change (June-September 2004). The main objective at this stage was to change the organisation’s structure. In October 2004 functional strategies for the major fields of the company’s activity were developed and accepted. In the following two months the strategies were cascaded down and transformed into Contracts for Objectives. At the same time Management by Objectives systems, MBO, were introduced in the company.

In November 2004 the process of voluntary redundancies was initiated. The first round attracted 100 persons (2004) and the second round 50 people (2005).

At the same time, outsourcing took place and encompassed some collateral services to the external entities. As a result, in November 2004, security services were outsourced to the already existing branch. Maintenance services were outsourced in September 2005 to an external company, not linked with Dalkia ZEC Poznań. As a result of outsourcing approximately 80 people are now employed by a different company.

In total, the employment was reduced from original 900 people to 707 people (September 2005) and the final target is below 600 employed in 2006.

Communicating the restructuring process

Tools:

- Involving the whole managerial staff in the process of change – first top and middle level managers (approx. 50 people), and in the second phase also lower level managers (approx. 100 managers);
- Involving trade unions in the process of change by inviting them to the strategic seminars, as equal participants and important opinion-makers;
- Intensive company-wide written communication on the process, its stages and results of strategic seminars to all employees by means of company newsletter and internal radio;

⁴¹ During the seminar held in Warsaw in November 2005 NSZZ “Solidarność” representative pointed out that there were trade union protests during the restructuring process in Dalkia which forced the employer to sign the social pact.

- Regular non-formal meetings between the President of Dalkia Poznań ZEC with the trade unions' representatives as well as strategic discussions between the Board of Directors and trade unions;
- Messages from the trade unions by means of the trade union newsletter.

Results of the restructuring process

In the first year of a new structure functioning:

- Profitability increase of approx. 10 percentage points;
- Significant improvement of identification of managers with the company;
- Cost-allocation awareness growth (especially among managers);
- Improvement of the team work in the production unit;
- Cooperation with energy distribution company improvement;
- Employment reduced by approx. 200 people;
- Introduction of the "Management By Objectives" (MBO) system.

Lessons learnt

- The pace of the process was well designed.
- The key success factors were:
 - quite an early involvement of the trade unions in the restructuring process and their positive attitude thanks to a well planned process of information and consultation;
 - involvement of the management staff;
 - rewarding "change agents" - people who got involved in the process and worked for the most effective implementation of the planned stages - by offering them further career development prospects;
 - support of an external consultant who objectively analysed the process and on the basis of this analyses made recommendations.
- Success of outsourcing is determined by an in-depth analysis of the company's situation, carried out with the participation of all parties concerned.

Annex 2

List of tables and graphs

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	Graph 4 FDI (\$) 1993-2004
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Table 1

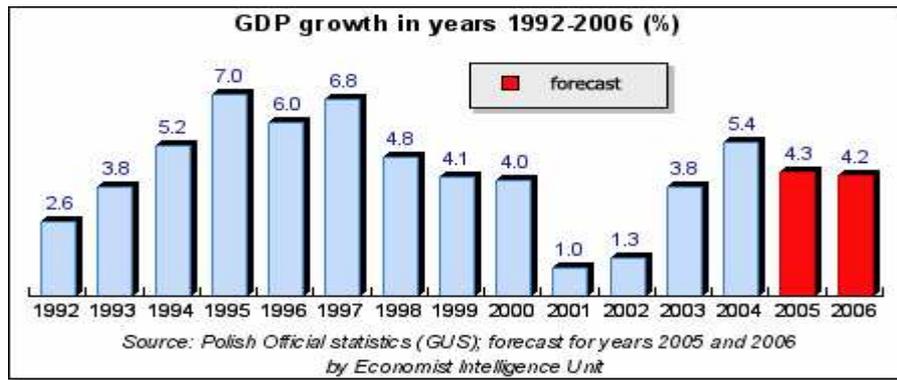
Gross Domestic Product

Gross Domestic Product	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP at current prices (PLN bn)	371.1	469.4	550.4	615.6	685.0	721.6	763.4	816.1	885.3
GDP per capita (USD)	3,484	3,702	4,095	4,014	4,077	4,567	4,896	5,495	6,347
GDP annual growth (%)	6.0	6.8	4.8	4.1	4.0	1.0	1.4	3.8	5.4

Source: Central Statistical Office, NBP, 2005

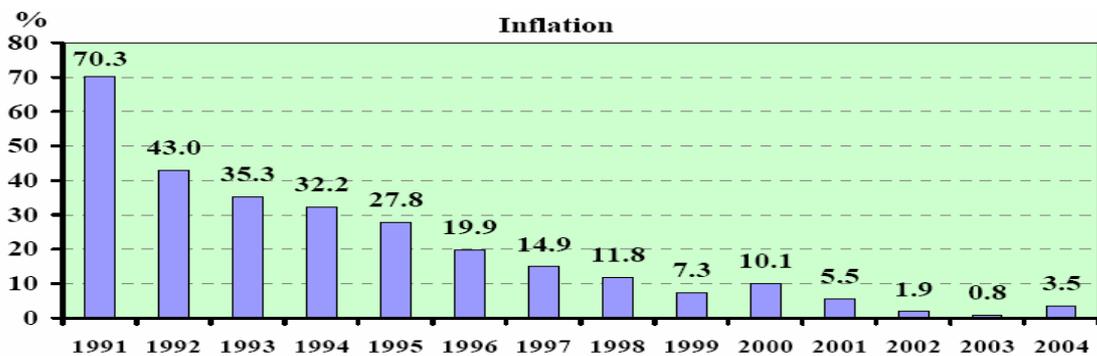
Source: *How to do business in Poland*, Prepared by the Investment and Technology Promotion Office of the United Nations Industrial Development Organization in Warsaw, under the auspices of the Ministry of the Economy and Labour, July 2005

Graph 1



Source: Polish Official Statistics, forecast by Economist Intelligence Unit, <http://paiz.gov.pl/index/?id=6364d3f0f495b6ab9dcf8d3b5c6e0b01>

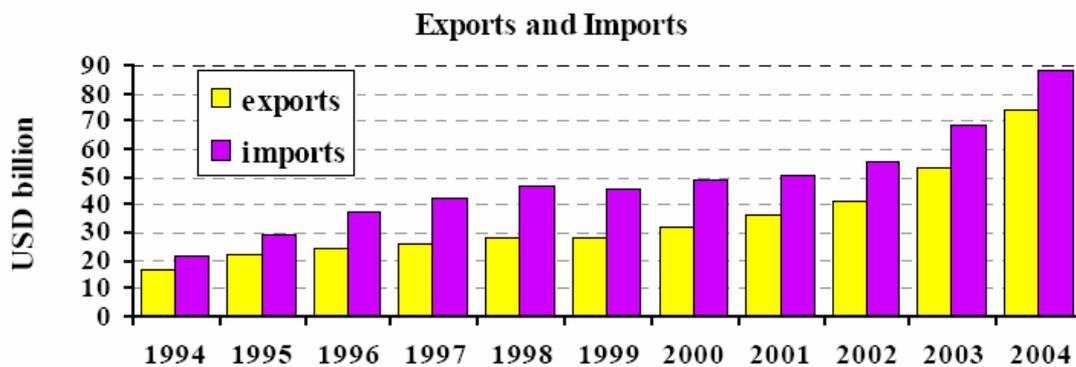
Graph 2



Source: Central Statistical Office, 2005

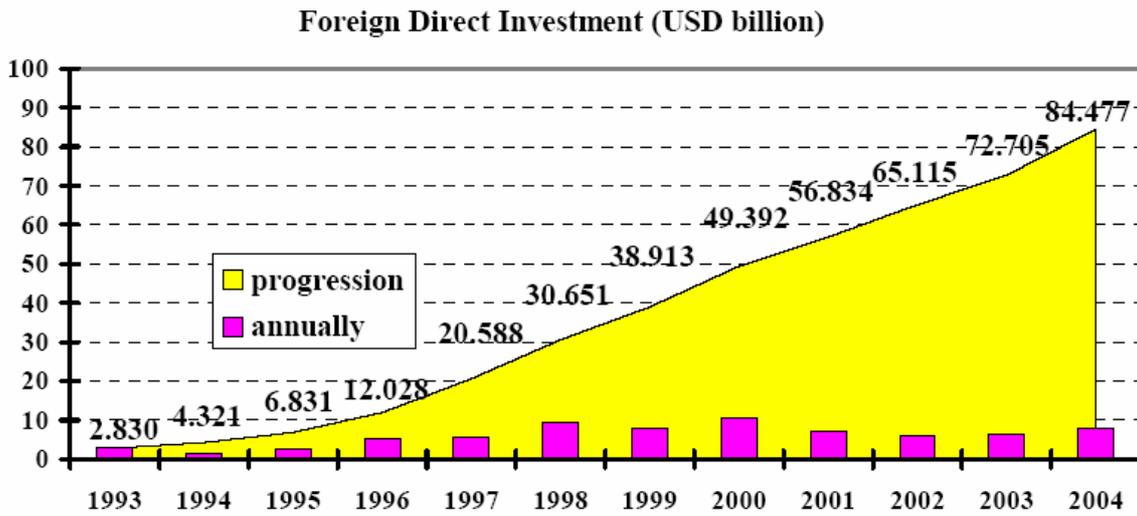
Source: *How to do business in Poland*, prepared by the Investment and Technology Promotion Office of the United Nations Industrial Development Organization in Warsaw, under the auspices of the Ministry of the Economy and Labour, July 2005

Graph 3



Source: *How to do business in Poland*, Prepared by the Investment and Technology Promotion Office of the United Nations Industrial Development Organization in Warsaw, under the auspices of the Ministry of the Economy and Labour, July 2005

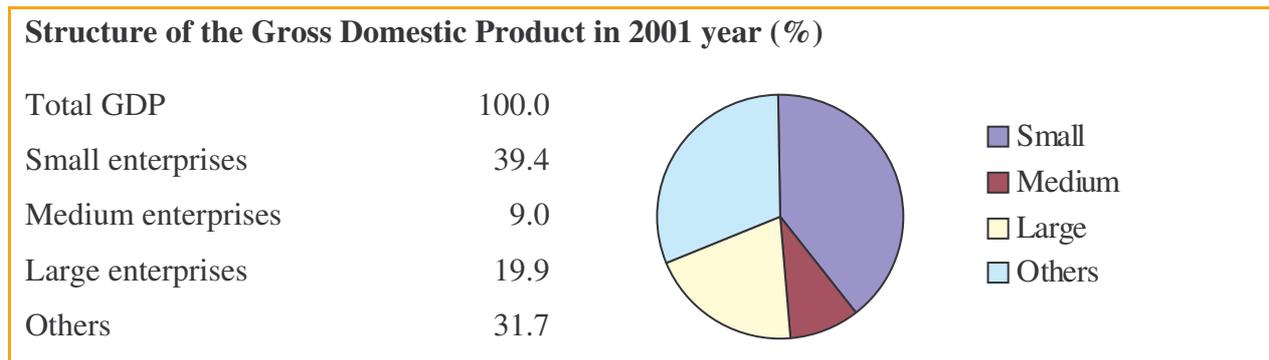
Graph 4



Source: PAIIZ FDI Report, 2005

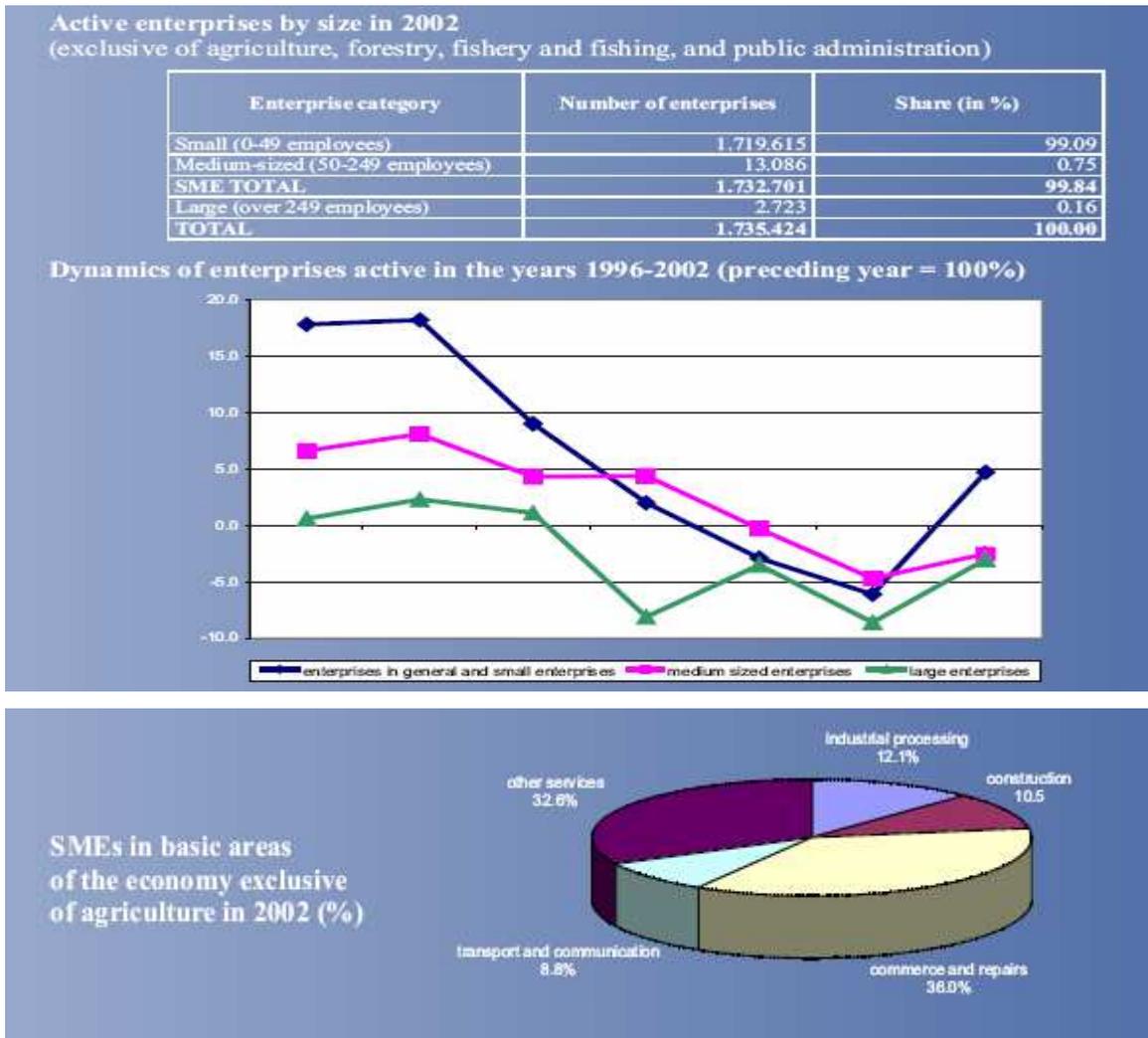
Source: *How to do business in Poland*, Prepared by the Investment and Technology Promotion Office of the United Nations Industrial Development Organization in Warsaw, under the auspices of the Ministry of the Economy and Labour, July 2005

Graph 5



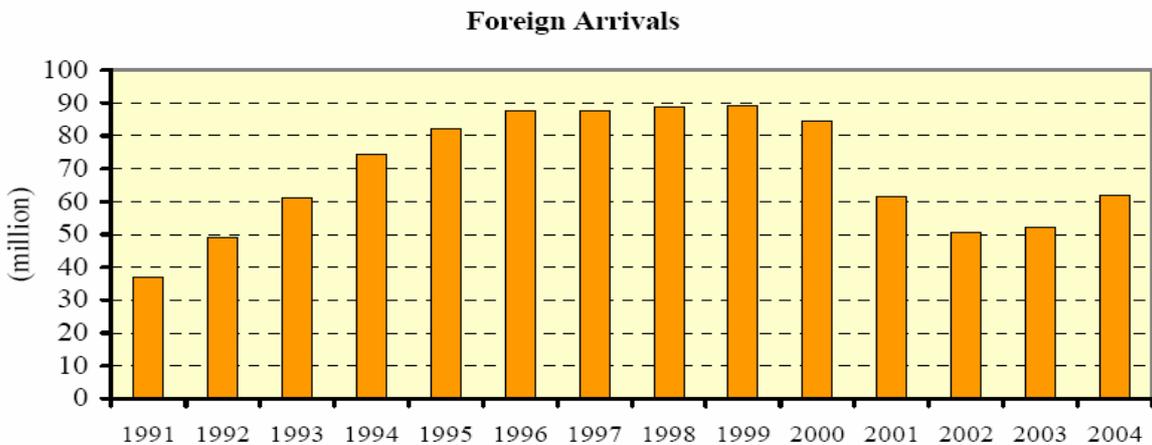
Small and Medium Size Enterprises in context of Large Enterprises. Economic and Financial Relations, Ministry of Economy, Warsaw, March 2004

Graph 6



Source: *Small and Medium-Sized Enterprise Sector in Poland*, http://www.parp.gov.pl/dotacjedoc/ulotki/stan_sektora_ang.pdf

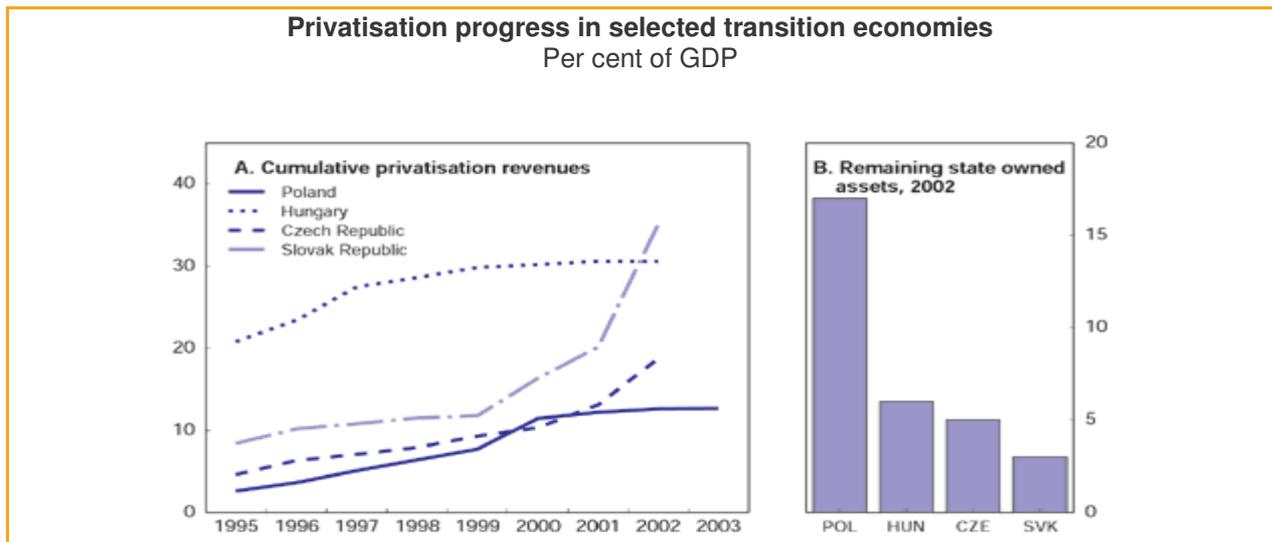
Graph 7



Source: *Central Statistical Office, 2005*

Source: *How to do business in Poland, op.cit.*

Graph 8



Source: EBRD, *Transition Report 2003* and OECD.
http://www.oecd.org/document/37/0,2340,en_33873108_33873739_32265381_1_1_1_1,00.html

Table 2

- The main priorities regarding state of the Polish transport infrastructure are:
- improvement of connections of Warsaw with European capitals to 2006 and with main country regions to 2013,
 - effective transport system for intensified trade turnover within the Single Market and with the Eastern Europe,
 - improvement of accessibility of main urban areas in Poland,
 - support of the regional development,
 - improvement of road traffic safety
 - environmental protection and reduction of costs,
 - development of the inter-modal systems.

Source: <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN013150.pdf>

Graph 9



Source: *Industrial development*, http://www.balticdata.info/poland/p_frameset.htm

Table 3

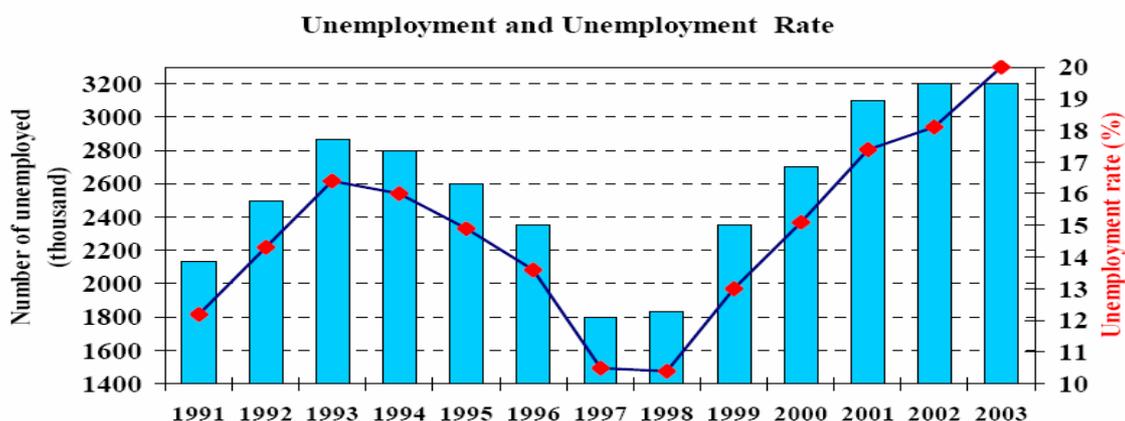
Table 4. Primary LFS' score in 2003-2004

	1 st q of 2003	2 nd q of 2003	3 rd q of 2003	4 th q of 2003	1 st q of 2004	2 nd q of 2004	3 rd q of 2004
Economic activity rate	54.4%	54.7%	55.1%	54.8%	54.7%	54.4%	54.8%
Employment rate	43.3%	44.1%	44.4%	44.2%	43.4%	44.0%	44.9%
Unemployment rate	20.6%	19.4%	19.4%	19.3%	20.7%	19.1%	18.2%
Labour's number (thous.)	1 3348	13 657	13 744	13 718	13 465	13 682	13 974
Unemployment's number (thous.)	3 453	3 288	3 300	3 273	3 509	3 225	3 106
Number of economically inactive people (thous.)	14 059	14 058	13 897	14 016	14 080	14 189	14 065

Source: Statistical Bulletins, CSO, 2000-2004

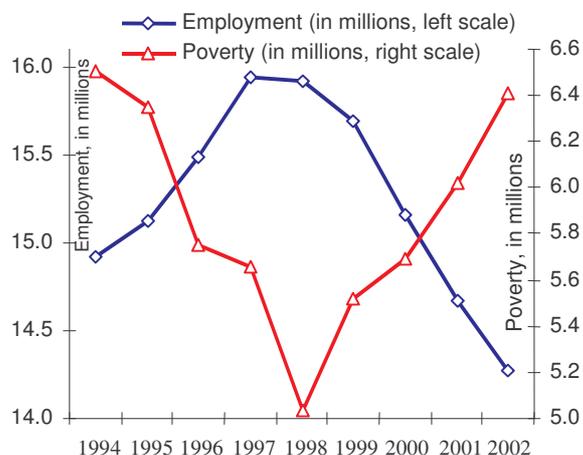
Source: A study of Poland's economic performance in 2004, Ministry Of Economic Affairs And Labour, Department Of Economic Analyses And Forecasting, February 2005

Graph 10



Source: Central Statistical Office, 2004

Graph 11



Source: World Bank, Growth, Employment, Standards of Life in Poland at the threshold of accession, 2004

Graph 12

Employed in grey economy in the years 2000-2002					
Listing	Thousands of persons			Preceding year = 100%	
	2000	2001	2002	2001	2002
Total	389	399	429	102.6	107.5
Industrial processing	58	60	61	103.4	101.7
Construction	92	93	95	101.1	102.2
Commerce and repairs	201	209	237	104.0	113.4
Hotels and restaurants	6	7	7	116.7	100.0
Transport, storage and communications	14	14	14	100.0	100.0
Real estate and business services; education	10	10	9	100.0	90.0
Health service	4	4	4	100.0	100.0
Other services	4	2	2	50.0	100.0

Source: Small and Medium-Sized Enterprise Sector in Poland, http://www.parp.gov.pl/dotacjedoc/ulotki/stan_sektora_ang.pdf

Annex 3

Interviewed persons

Name	Organization and affiliation
Edyta Doboszyńska Elżbieta Znosko-Łapczyńska Katarzyna Czubryńska Maciej Prószyński Elżbieta Lutow Halina Matejek- Caban Wiesław Sinkiewicz	UEAMPME Związek Rzemiosła Polskiego (ZRP)
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dr Magorzata Starczewska- Krzysztozek Jeremi Mordasewicz Łukasz Matras dr Grażyna Spytek-Bandurska	UNICE Polska Konfederacja Pracodawców Prywatnych (PKPP)
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Annex 4

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