

# ARITAKE-WILD

Joint European Level Social Partners'  
Work Programme 2009 – 2010

Joint Study on Restructuring in the EU  
Final Phase

National Dossier

## Luxembourg

Luxembourg  
22 September 2009

Author of dossier: Anna Kwiatkiewicz

Edited by: Alan Wild

December 2009



**CONTENTS**

Introduction .....	3
Section one: a macroeconomic review and trends of restructuring in Luxembourg .....	4
Introduction and overview .....	4
1. Macro-economic review and indicators .....	4
1.1 Population .....	4
1.2 GDP development, wealth and social cohesion .....	5
1.3 Deterioration of the economic situation by the global economic crisis .....	7
1.4 The ranking of Luxembourg global and European indicators .....	8
1.5 The structure of the Luxembourgish economy .....	10
1.6 SMEs in the Luxembourgish economy .....	11
1.7 Foreign trade and foreign direct investment .....	11
1.8 Employment and unemployment .....	14
1.9 Labour productivity and labour costs .....	20
1.10 Educational attainment, skills and training .....	21
2. The nature and extent of restructuring in Luxembourg .....	23
2.1. Structural change in certain economic sectors .....	23
Section two: The role of the Luxembourgish social partners in restructuring .....	25
1. Social Partners and Social Partnership in Luxembourg .....	25
1.1. Introduction .....	25
1.2. Trade unions .....	26
1.3. Employers' Organisations .....	27
1.4. Professional chambers .....	28
1.5. Economic and Social Council .....	28
1.6. The Committee of Conjunction .....	29
1.7. The National Employment Commission .....	29
1.8. The Tripartite Co-ordination Committee .....	29
1.9. The Committee of the Female Work .....	29
1.10 The Permanent Employment Committee .....	30
1.11 Standing Committee on Labour and Employment .....	30
1.12 Observatory of Industrial Relations and Employment .....	31
2. Employee participation and co-determination at different levels .....	32
2.1 <a href="#">Workplace representation</a> .....	32
2.2 Collective bargaining .....	33
3. Micro- and macroeconomic restructuring as an issue of social dialogue and collective bargaining .....	36
3.1 The legal framework of employee involvement in company based restructuring operations .....	36
3.2 New labour market policy instruments in order to better react to restructuring at the enterprise level .....	38
3.3 The role of social dialogue in education, vocational training and skills development .....	40
3.4 Social partners opinions with regard to structural change and restructuring .....	41
4. Case studies .....	43
4.1 Husky Injection Molding System S.A .....	43
4.2 Montage Schweisstechnik Engineering GmbH .....	45
Bibliography .....	48

## Introduction: the Purpose of the National Report

This report on the role of the Luxembourgish social partners in restructuring was prepared following the discussion of an initial draft by the national social partners at a seminar held in Luxembourg on 22<sup>nd</sup> September 2009.

The Luxembourg national seminar was the 24<sup>th</sup> in a series of similar meetings to be held in the European Union member states in the framework of the Joint European Social Partners' Work Programme. The report was prepared by the selected external expert for Luxembourg, Anna Kwiatkiewicz working with the expert coordinator for the project, Mr Alan Wild.

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

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

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

- ✧ Section one – A macroeconomic review and trends of restructuring in Luxembourg;
- ✧ Section two – The role of the Luxembourgish social partners in restructuring;
- ✧ Section three – Case studies.

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

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

*Alan Wild*  
*Expert Coordinator of the Project*

## Section one: a macroeconomic review and trends of restructuring in Luxembourg

### Introduction and overview

Luxembourg, officially the Grand Duchy of Luxembourg, is a landlocked country bordering with Belgium, France and Germany and covers an area of approximately 2,586 sq km. It has more than 470,000 inhabitants, many of whom are immigrants (over 40%). The country is divided into two regions: L'Oesling in the north and Le Gutland or "Le Bon pays" in the south where the steel industry is located. For administrative purposes, Luxembourg is divided into three districts, 12 cantons, 118 communes and four electoral districts.

Given the history and geographical situation of the Grand Duchy of Luxembourg, it has always been a "cross-roads" and three different languages play a part in national life. Both French and Luxembourgish are widely used, and German is also recognized as an official language. In short, Luxembourg is known for its small size, flourishing economy based on steel, chemicals and banking. The banking sector has developed rapidly since the 1960s, making Luxembourg one of the most important financial centres of Europe.

This report describes the Luxembourg economy and its recent evolution. It describes the country's labour market and institutions, which provide the framework within which restructuring processes take place. It also examines the social partners' role in restructuring and attempts to illustrate some trends and future challenges linked to restructuring and economic change.

## 1. Macro-economic review and indicators

### 1.1 Population

On 1 January 2009 the total population of Luxembourg was estimated at 493,500<sup>1</sup> (of which 43.7% were foreigners)<sup>2</sup>, which makes Luxembourg the second smallest member of the EU (after Malta). The largest number of people live in Luxembourg City (over 76,000 inhabitants) followed by Esch-sur-Alzette (over 27,000 inhabitants). According to estimates, the Luxembourgish population is expected to increase by slightly over 0.1% per year until 2020.

Although small, Luxembourg is one of the most significant EU countries with respect to inward migration. A substantial inflow of immigrants has been a characteristic of Luxembourg since the beginning of 20<sup>th</sup> century when immigrants came mainly from Belgium, France, Germany, Italy and Portugal. In 2001 there were almost 60,000 inhabitants of Portuguese nationality. After the beginning of the Balkan wars, Luxembourg became home for immigrants from Bosnia and Herzegovina, Montenegro, and Serbia.

#### Net migration (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Luxembourg	3815	4461	3431	3319	2649	5419	4396	6106	5353	6001

Source: Eurostat 2009

About 13% of foreigners come from non EU countries. In 1999 some 5,000 immigrants were classified as illegal migrants, including asylum seekers.

<sup>1</sup> <http://www.statistiques.public.lu/fr/communiqués/population/population/2009/05/20090504/index.htm>

<sup>2</sup> *L'économie luxembourgeoise en 2008 et évolution conjoncturelle récente, 1-9 note de conjoncture*, STATEC, Luxembourg, mai 2009, p.99.

**Population of Luxembourg, 1981 to 2006 (in million)**

Year	1981	1991	2001	2003	2004	2005	2006
Total population	364,600	384,400	439,500	448,300	451,600	455,000	459,500
Total number of women	186,700	196,100	223,000	227,300	228,600	230,300	232,700
Luxembourgers	268,800	271,400	277,200	277,600	277,400	277,600	277,700
<b>Foreigners by country of origin</b>							
Portugal	29,300	39,100	58,700	61,400	63,800	65,700	67,800
Italy	22,300	19,500	19,000	19,000	18,900	18,800	18,800
France	11,900	13,000	20,000	21,600	21,900	22,400	22,900
Belgium	7,900	10,100	14,800	15,900	16,000	16,100	16,100
Germany	8,900	8,800	10,100	10,200	10,300	10,400	10,400
United Kingdom	2,000	3,200	4,300	4,700	4,600	4,500	4,500
The Netherlands	2,900	3,500	3,700	3,600	3,600	3,600	3,500
Other EU countries	10,600	6,600	9,200	9,700	9,600	9,600	9,800
Non EU countries	n/a	9,200	22,500	24,600	25,500	26,300	28,000
Total number of foreigners	95,800	113,000	162,300	170,700	174,200	177,400	181,800
Foreigners as a percentage of total population	26.3	29.4	36.9	38.1	38.6	38.9	39.6

Source: Statec 2006

Immigrants have been attracted to Luxembourg by its excellent economic performance and the last quarter of the 20<sup>th</sup> century was a period of almost full employment, with intensive job creation in a variety of sectors. Tightness in the labour market has been influenced by a relatively low birth rate among the native born population and a low employment rate for women.

**1.2 GDP development, wealth and social cohesion**

A central location at the heart of the EU, a skilled and multilingual labour force and a long tradition of social dialogue, stability and consensus are the main advantages of Luxembourg. The national Luxembourgish motto "We wish to remain what we are" (*Mir wölle bleiwe wat mir sin*), which traditionally referred to remaining separate and independent from any external influence, can easily be applied to its economic performance.

Despite its small size, Luxembourg is the richest country in the EU in terms of GDP per capita. Prior to the economic and financial crisis it had outdistanced other EU countries in GDP per capita terms with the gap increasing from year to year.

**GDP per capita in Purchasing Power Standards (EU27 = 100)<sup>3</sup>**

	2004	2005	2006	2007	2008
EU (25 countries)	104.2	104.1	103.9	103.7	103.6
<b>Luxembourg</b>	253.4	254.0	266.8	267.2	252.7

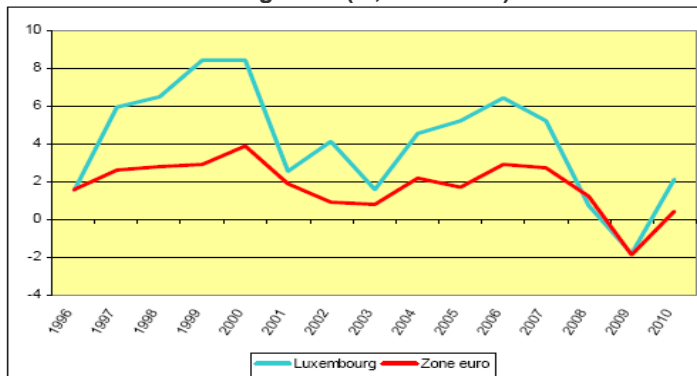
Source: Eurostat 2009

The growth trend in GDP continued unchecked from the mid 1980s until 2007, and the average annual real growth rate was more than 5%, exceeding all countries in the EU15 except Ireland. One of the reasons for the good economic outlook of the country has been its transformation from a heavy industry-based economy (mainly steel) into a high value-added service-oriented one. This transition

<sup>3</sup> According to the STATEC data, Luxembourgish GDP per capita in 1995 was 223% of EU 15 average, in 2000 it was 231% and in 2007 266% (EU 25); the Luxembourgish indicators are slightly biased by the big number of foreigners (*frontaliers*), who work in Luxembourg and are mainly from Germany, France and Belgium; they contribute to Luxembourgish GDP growth, but Eurostat does not take them into account in its calculations as GDP per capita is calculated in relation to the total number of inhabitants, not workers.

started in the 1970s. Relatively low tax rates on personal income - progressive from 0% to 38%<sup>4</sup> with a series of possible tax reductions - and favorable legislation on banking and investment funds contributed to the Luxembourg success story. Since 2008, and in common with most of the world's advanced economies, the economy has faced a sharp decline in GDP. As a result of the onset of the global financial and economic crisis, GDP fell by 4.5% quarter-on quarter in the fourth quarter of 2008 and by 0,9% on the full year.

**Evolution of the GDP growth (% , 1996-2010)**

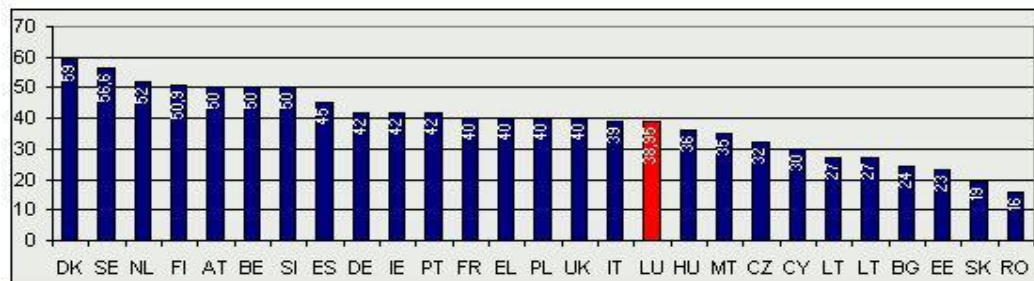


\* The Luxembourgish calculation till 2007; Eurostat forecast 2008-2010.

Source: Eurostat, STATEC 2009

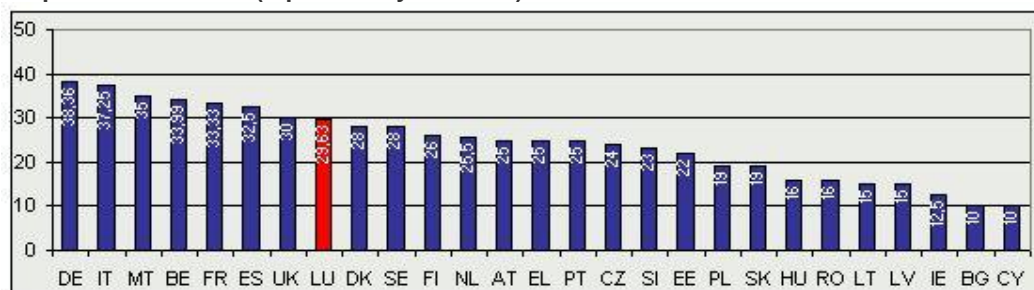
To date, the public finances of Luxembourg have remained consistently sound, including during the economic slowdown of 2001-2003. This is a result of high fiscal revenue collection through personal, corporate and indirect tax rates that are more attractive than those in many other EU and OECD countries.

**Personal income tax (highest marginal rate in %)**



Source: European Commission Services, quoted after: Board of Economic Development website ([http://www.bed.public.lu/business\\_location/business\\_environment/index.html](http://www.bed.public.lu/business_location/business_environment/index.html))

**Corporate income tax (top statutory rate in %)**



Source: KPMG Corporate Tax Rate Survey 2007.

<sup>4</sup> Since a 2.5 surcharge for unemployment fund applies, the marginal income tax rate amounts to 38.95%; *Luxembourg income taxes 2008: guide for individuals*, PriceWaterhouseCoopers, [http://www.pwc.com/lu/eng/insol/publ/pwc\\_luxembourgintaxes.pdf](http://www.pwc.com/lu/eng/insol/publ/pwc_luxembourgintaxes.pdf)

Despite the fact that tax rates are low by international standards, public receipts are comparable as a share of GDP to those in neighboring countries. This is due to the concentration of economic activity in sectors with above-average productivity, high wage rates and that generate significant profits. A good example is the financial services sector (contribution of 27% of central government receipts and 17% of the total employment). Additionally, a significant contribution to the state budget comes from tax receipts from the purchase of petrol and tobacco by non-residents. This has resulted in the state being able to generate a series of budgetary surpluses despite growing total expenditure. The key macroeconomic success factors of the Luxembourgish economy can be described as low tax rates, buoyant revenues and large budget surpluses<sup>5</sup>.

#### Government deficit and debt, as percentage of GDP (1997-2007)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public deficit	3.7	3.3	3.4	6.0	6.1	2.1	0.5	-1.2	-0.1	1.3	3.2
Public debt	10.2	11.1	10.0	9.3	8.2	8.5	7.9	8.5	7.6	10.4	9.9

Source: OECD Luxembourg Country Profile 2009.

Luxembourg experienced a serious economic slowdown in the years 2001-2003, which resulted in decreasing fiscal revenues from the financial sector. At the same time public expenses accelerated and this caused the deficit that emerged in 2004. The situation started to improve after 2004 and 2006 marked a return to surplus. Economists have for some time suggested that this combination of high income and high expenses could render the country liable to budgetary problems in times of economic difficulty. The current crisis has illustrated this point.

#### 1.3 Deterioration of the economic situation by the global economic crisis

According to the EU Commission's forecast, Luxembourgish GDP is expected to fall by 3% in 2009, slightly below the expected downturn for the EU average and the Euro area (-4.0% each). The economy might begin to recuperate around the end of 2009 following the expected timid recovery in the world economy. However, the future growth projections are described by the OECD and EU Commission as of mild or modest character:

*"a mild recovery will emerge on the back of fiscal stimulus, easier monetary conditions and a pick-up in world trade"<sup>6</sup> [...] "with the exception of public expenditure, which is projected to remain extremely dynamic, most demand components will only post very modest positive growth rates (or even in some cases still negative ones due to the carry-over from this year) and real GDP is likely to grow only marginally in yearly average in 2010"<sup>7</sup>.*

#### Real GDP growth rate (2005-2009)

	2005	2006	2007	2008	2009*	2010*
EU (27 countries)	2.0	3.1	2.9	0.9	-4.0	-0.1
EU (25 countries)	2.0	3.1	2.9	0.8	-4.0	-0.1
Luxembourg	5.2	6.4	5.2	-0.9	-3.0	0.1
Belgium	1.8	3.0	2.8	1.1	-3.5	-0.2
Germany	0.8	3.0	2.5	1.3	-5.4	0.3
Netherlands	2.0	3.4	3.5	2.1	-3.5	-0.4

\*Year 2009, 2010 - forecast

Source: Eurostat 2009

At the outset of the current economic crisis, the financial sector was seriously affected as nearly all Luxembourgish financial institutions belong to foreign groups and are of an international character. Its export-dependent manufacturing sector was also hit by the general collapse in world trade. Industrial production, heavily concentrated on steel products (40% of total production), car parts and glass dependant on the fortunes of the heavily hit automotive and construction industries, fell by 15.8% from

<sup>5</sup> Economic [http://www.oecd.org/document/49/0,3343,en\\_2649\\_34569\\_37022129\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/49/0,3343,en_2649_34569_37022129_1_1_1_1,00.html)

<sup>6</sup> OECD Economic Outlook, 85 database (<http://www.oecd.org/dataoecd/6/37/20213235.pdf>)

<sup>7</sup> European Commission Spring Economic Forecast, 2009, p. 82

Q3 to Q4 of 2008. This was the biggest fall in the whole EU-27<sup>8</sup>. In 2008, 15 sectors of the Luxembourgish economy out of 18 experienced a production decrease; the most affected sectors being plastic, wood, rubber, textiles, steel and metal industries which are the most dependent on external demand. This trend may continue as there has been a serious decrease in investment which may result in a further decrease of production.

#### Industry investment (2007-2009)

Branch	2007/2006	2008/2007*	2009/2008**
	<b>Change in %</b>		
<b>Industry sector in general</b>	<b>29.0</b>	<b>- 2.8</b>	<b>-9.8</b>
Energy and water	17.8	-2.4	14.2
Intermediary goods	30.1	-3,6	-29.6
Automotive industry	-11.5	557.7	20.4
Equipment	8.5	-1.3	-36.5
Sustainable consumption goods (except for automotive industry)	-16,5	40.2	16.0
Agriculture and food processing	62.5	-30.06	85.3
Consumption goods	39.3	58.7	-32.0

Source: STATEC 2009

\*estimation

\*\*forecast

The transport sector has also seen a significant decline in activity. For other service sectors (trade, hotels and restaurants, communication, real estate and services to enterprises) 2008 was a relatively good year; however it is expected that the situation may worsen as the crisis deepens and, as a spillover effect, touch more and more spheres of the economy. The same concerns apply to the construction sector. Although 2008 was a relatively good year, in 2009 the number of non-residential constructions may remain stable, but residential construction is set to fall (based on the number of issued construction permits). Luxembourg has experienced a slight decrease in real estate prices, but remains significantly more stable than the dramatic falls experienced in the UK, Ireland and Spain. The crisis has also affected exports of goods and services, which is forecasted by European Commission to contract by almost 10%.

#### Economy decrease by sectors in 2008

Branch of economic activity	Production per working day in volume	Volume of work	Volume of trade	Number of workers
Industry in general	-4.3	-1.2	2.8	0.2
Industry total (except for steel)	-4.4	-0.6	-2.4	0.5
Extraction	-0.6	-0.7	8.0	-0.4
Food processing	-1.4	11.8	12.7	2.0
Alcohol and tobacco production	-5.1	-5.4	-2.9	-5.0
Textiles	-7.0	-6.6	-6.8	-0.8
Wood processing	-18.5	-0.8	-13.4	5.1
Paper/printing	-4.7	-6.1	4.7	-6.4
Chemical production	10.5	-2.9	-4.7	2.7
Caoutchouc production	-7.1	-5.0	-1.9	2.0
Plastic industry	-19.1	-6.4	-14.9	-1.4
Glass and ceramics production	-1.2	-1.9	-6.3	1.0
Building materials production	-0.9	4.0	3.4	0.3
Steel and tube production	-3.9	-5.5	23.2	-2.8
Metal industry	-6.4	-0.6	-8.2	1.2
Metal processing	1.1	2.0	-6.5	4.8
Machinery and equipment production	-1.7	2.7	-1.9	2.5
Electric and electronic equipment	-4.2	-9.7	-10.9	-2.3
Transport material production	-5.4	-7.8	-2.2	-3.5
Production and distribution of electricity and gas	1.0	ns	8.2	0.7

Source: STATEC 2009

Without ignoring the difficulties to be faced, an objective analysis of the current situation does not produce universally pessimistic forecasts, at least for the financial services sector. According to government officials, the country has proved able to withstand the crisis better than other EU member

<sup>8</sup> Ibid



states due to the small size of the country, its ability to adapt to change, its sound public finances, high degree of social cohesion and effective tripartite cooperation as well as the existence of appropriate institutions and mechanisms<sup>9</sup>. Some analysts believe that the current crisis represents an opportunity for Luxembourg.

### 1.4 The ranking of Luxembourg global and European indicators

The World Economic Forum’s global competitiveness index ranking 2008/2009 places Luxembourg in 25<sup>th</sup> position out of 134 countries. Compared to the previous period, Luxembourg’s position remained unchanged from the previous year.

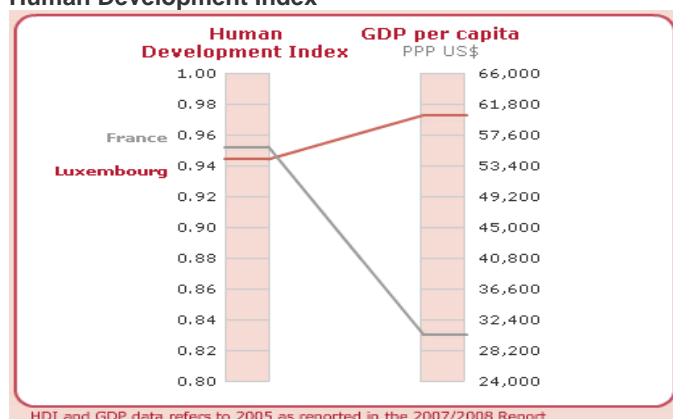
#### Global competitiveness index rankings and 2008-2007 comparisons

Country/Economy	GCI 2008-2009 rank	GCI 2008-2009 score	GCI 2007-2008 rank	Changes 2007-2008	Changes in rank
United States	1	5,74	1	→	0
Switzerland	2	5,61	2	→	0
Denmark	3	5,58	3	→	0
Sweden	4	5,53	4	→	0
Singapore	5	5,53	7	↗	+2
New Zealand	24	4,93	24	→	0
<b>Luxembourg</b>	<b>25</b>	<b>4,85</b>	<b>25</b>	<b>→</b>	<b>0</b>
Quatar	26	4,83	26	→	0
India	50	4,33	48	↘	-2
Chad	134	2,85	131	↘	-3

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

The Human Development Index (HDI), calculated since 1990, is a comparative measure of life expectancy, literacy, education and standards of living for countries worldwide. Constructed in such a way the indicator is designed to measure the well-being of the population looking beyond the economic figures as well as to assess impact of economic policies on quality of life. The HDI for Luxembourg in 2005 (latest available data) was 0.944, which gives the country a rank of 18th out of the total 177 countries ranked. Luxembourg’s high score is generated by performance of the financial indicator rather than the other parameters (like France – see below).

#### Human Development Index



Source: UNDP 2008

When we take the implementation of the Lisbon strategy into account, Luxembourg ranks in 7<sup>th</sup> position, scoring 5.22, which is above the EU15 average (5.07) and the EU27 average (4.73). With

<sup>9</sup> *Mix of confidence and skepticism face of economic crisis*, EIRO 2009, p.1. <http://www.eurofound.europa.eu/eiro/2009/02/articles/lu0902029i.htm>

regard to the implementation of the Lisbon targets in 2007, a slight decrease in the position from 2006 review (rank 8<sup>th</sup>) was noted.

### Progress on Lisbon Indicators 2008

Country	Final Index		Sub-indexes							
			Information Society	Innovation and R&D	Liberalization	Network Industries	Financial Services	Enterprise Environment	Social Inclusion	Sustainable Development
Country/economy	Rank	Score	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Sweden	1	5,71	1	2	3	4	1	7	3	2
Denmark	2	5,64	3	3	4	2	2	6	1	4
Finland	3	5,64	7	1	6	6	4	1	2	1
Austria	5	5,34	6	8	2	5	5	11	6	6
Germany	6	5,34	9	4	5	1	9	15	9	5
<b>Luxembourg</b>	<b>7</b>	<b>5,22</b>	<b>8</b>	<b>13</b>	<b>9</b>	<b>8</b>	<b>7</b>	<b>3</b>	<b>7</b>	<b>3</b>
France	8	5,12	10	9	10	3	10	13	14	11
United Kingdom	9	5,12	5	7	11	9	11	8	15	12
Poland	26	3,76	26	22	25	26	25	25	26	24
Bulgaria	27	3,68	25	27	27	25	27	22	27	27

Source: World Economic Forum: Lisbon Review 2008.

It is worth drawing attention to the fact that Luxembourg ranks very highly in the sub-categories as enterprise environment (3) and sustainable development (3), which confirms that it is a business-friendly economy based on principles of the social-economic model.

### 1.5 The structure of the Luxembourgish economy

The last 20 years have witnessed a profound change in the structure of the Luxembourgish economy. From an economy based on heavy industry, Luxembourg has transformed itself into a high value-added service-based economy. In its present shape as the country is an example of a very effective modern economy.

The industrial sector, albeit on a much smaller scale, remains important to the country (accounting for some 13.6% of GDP<sup>10</sup>). The sector has also become more diversified: besides steel, it includes chemical, metal and rubber production. Moreover, Luxembourg is also a country of modern industries such as IT, telecommunications, transport and logistics as well as advanced food processing. Services account for some 86% of GDP, of which 28% is generated by the financial sector. Most of the banks operating in Luxembourg (approx. 70%) are foreign owned. Another significant contributor to GDP generation is business services (B2B). Agriculture is a minor contributor to the Luxembourgish economic performance, accounting for just 0.4% of GDP and based on small, family owned-farms.

In summary the Luxembourg economy can be described as “bipolar” (industry-services) with a strong domination of the service sector.

### Structure of gross value added in 2000

	Agriculture	Manufacturing	Construction	Commerce, transport and communications	Financial & business services	Other services (public services, etc.)
	<b>Gross value added (as % of total economy)</b>					
EU-15	2.2	22.9	5.3	21.0	27.2	21.4
<b>Luxembourg</b>	<b>0.7</b>	<b>12.1</b>	<b>5.7</b>	<b>22.2</b>	<b>43.8</b>	<b>15.5</b>
Belgium	1.5	20.8	5.0	20.4	28.7	23.6
France	2.8	20.9	4.5	18.6	29.6	23.5
Germany	1.2	25.2	4.9	17.2	30.4	21.1
Netherlands	2.8	20.7	5.7	21.8	26.6	22.5

Source: EUROSTAT, STATEC

Not surprisingly, the biggest share of employment is found in the service sector, accounting for over 75% of total employment (with 27% in commerce, transport and communications; 26% in financial and businesses services and 20% in other services).

<sup>10</sup> All estimates were done in 2007.

**Luxembourg - employment by sectors (number of persons employed)**

	2001	2002	2003	2004	2005	2006
Mining and quarrying	288	292	322	321	335	325
Manufacturing	34316	34364	37215	37822	37075	37020
Electricity, gas and water supply	1555	944	1038	1187	1029	1060
Construction	26692	27678	32164	33023	34022	35727
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	38462	38206	41281	41503	42142	43198
Hotels and restaurants	12643	13094	14086	14586	14666	15491
Transport, storage and Communications	22381	22720	22855	22946	23416	24429
Total credit institutions	:	:	:	:	:	:
Real estate, renting and business activities	42680	44681	49930	52143	52533	52501

Source: Eurostat 2009 ([http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=ebd\\_all&lang=en](http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=ebd_all&lang=en))  
(Industry trade and services – SBS – Annual enterprise statistics – European Business)

The prime factors for Luxembourg's success are:

- ✓ Advantageous location in the heart of Europe;
- ✓ Skilled and multilingual labour force;
- ✓ Tradition of social dialogue and consensus building;
- ✓ Favourable fiscal and regulatory framework;
- ✓ Favourable attitude for cross-border and migrant workers which makes Luxembourgish labour market very attractive/fosters inflow of these categories of workers into the Luxembourgish labour market.

**1.6 SMEs in the Luxembourgish economy**

According to Eurostat, there are 47 SMEs per 1,000 inhabitants in Luxembourg, exceeding the EU-27 average of around 40. Moreover, SMEs in Luxembourg play an important role in the economy both in their number and generated value-added, accounting for almost 70% of the country's overall value-added<sup>11</sup>. SMEs in Luxembourg account for 99.6% of all enterprises, employ 66.8% of workers and generate 69.7% of value added.

**SMEs in Luxembourg**

	Number of enterprises			Number of persons employed			Value added (MEUR)		
	Value	%	EU-26 average	Value	%	EU-24 average	Value	%	EU-26 average
Micro	18.903	87,6%	91,8%	37.137	20,6%	29,6%	2.745	26,6%	21,1%
Small	2.170	10,1%	6,9%	42.759	23,7%	20,6%	2.364	22,9%	19,0%
Medium	412	1,9%	1,1%	40.840	22,6%	16,8%	2.084	20,2%	17,8%
<b>SMEs</b>	<b>21.485</b>	<b>99,6%</b>	<b>99,8%</b>	<b>120.736</b>	<b>66,8%</b>	<b>67,1%</b>	<b>7.193</b>	<b>69,7%</b>	<b>57,9%</b>
Large	87	0,4%	0,2%	59.978	33,2%	32,9%	3.124	30,3%	42,1%

Source: Eurostat SBS data base, 2004 and 2005 data.

The most prevalent form of SME is the microenterprise. In 2005 over 87% of total SMEs were businesses employing up to 9 people; they also contributed the biggest share of value added (26,6% being €2.745m. The share of employment is almost equally distributed among micro, small and medium-size enterprises (20,6%, 23,7% and 22,6% respectively). The share of generating value added is also balanced among micro-, small and medium-size enterprises.

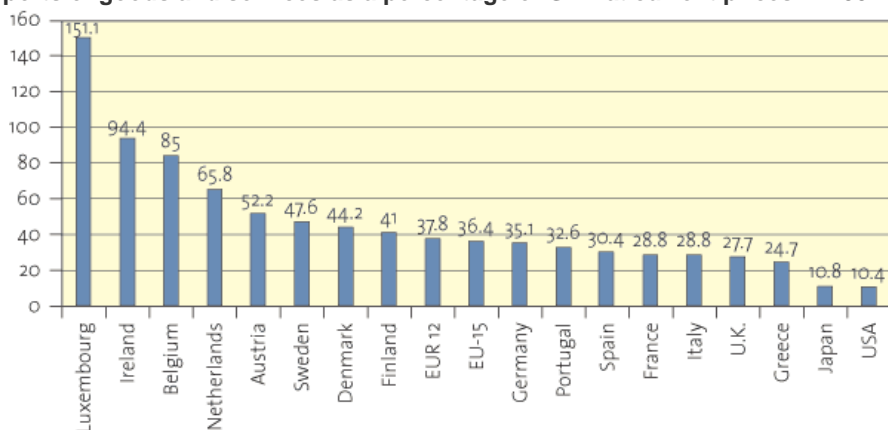
Luxembourg is an economy dominated by high productivity small businesses and the creation of a favourable environment for SMEs also strengthens the competitiveness of the Luxembourgish economy.

**1.7 Foreign trade and foreign direct investment**

<sup>11</sup> European Commission/DG Enterprise and Industry: SBA Factsheet Luxembourg, [http://ec.europa.eu/enterprise/entrepreneurship/craft/sme\\_perf\\_review/doc\\_08/spr08\\_fact\\_sheet\\_lu.pdf](http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/doc_08/spr08_fact_sheet_lu.pdf)

The Luxembourg economy, due to its small scale, has been very open from the beginning of its industrial development. The country is one of the most open economies of all the EU Member States in terms of importing large volumes of goods and services and exporting substantial part of its production. Exports of goods and services, heavily influenced by financial transactions, represented more than 150% of the Luxembourg GDP in 2001. At the same time the average rate for EU15 was 36%.

**Exports of goods and services as a percentage of GDP at current prices in 2001**



Source: European Commission 2001.

Luxembourg is strongly integrated into the European market. The next biggest trading partner for Luxembourg, a long way behind European countries, is the US.

**Luxembourg - Export and Import Characteristics**

Export	2007	Import	2007
Share in world total exports	0.16	Share in world total imports	0.19
<b>Breakdown in economy's total exports by main commodity group (ITS)</b>		<b>Breakdown in economy's total imports by main commodity group (ITS)</b>	
Agricultural products	5.4	Agricultural products	8.9
Fuels and mining products	5.9	Fuels and mining products	17.0
Manufactures	87.6	Manufactures	74.0
<b>By main destination</b>		<b>By main origin</b>	
1. European Union (27)	84.4	1. European Union (27)	86.8
2. United States	2.5	2. United States	3.8
3. China	1.6	3. Canada	0.9
4. Russian Federation	1.2	4. Hongkong, China	0.7
5. Switzerland	1.2	5. Switzerland	0.6

Source: World Trade Organisation: Trade Profiles 2007

Foreign trade has been seriously affected by the current crisis with a very significant decrease in exports being noted in the financial sector (services) and the industry sector (goods). The reduction totaled at 25% in the case of financial sector services (comparison 3Q2007 and 3Q2008) and 11% in case of industry sector (the same reference period). At the same time exports of other services seems not to be affected by the crisis. There was a reduction of €1.6m of trade balance surplus in 2008 (the surplus totaled at € 2m)<sup>12</sup>.

<sup>12</sup> L'économie luxembourgeoise en 2008.... , STATEC 2009.p.79.

**Export and import of goods and services (2006 - 4Q2008)**

	Year			2007				2008			
	2006	2007	2008	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Export</b>											
Goods & services	53 563	61 321	61 572	14 693	15 111	15 291	16 226	15 773	15 893	15 310	14 596
- goods	13 042	13 337	14 552	3 540	3 429	3 120	3 248	3 625	3 788	3 612	3 527
- services	40 521	47 984	47 020	11 153	11 682	12 171	12 978	12 147	12 105	11 698	11 069
- financial services	26 531	32 227	29 340	7 500	7 965	8 235	8 528	7 875	7 850	7 198	6 418
<b>Import</b>											
Goods & services	40 550	44 621	46 507	10 416	10 994	11 432	11 779	11 283	11 737	12 052	11 435
Goods	16 515	16 840	18 857	4 220	4 267	4 034	4 319	4 371	4 730	5 015	4 740
Services	24 035	27 782	27 651	6 196	6 727	7 398	7 461	6 911	7 007	7 037	6 696
Financial services	13 676	16 083	14 917	3 730	3 929	4 065	4 359	3 909	3 938	3 611	3 459
<b>Net</b>											
Goods & services	13 013	16 700	15 065	4 277	4 117	3 859	4 447	4 490	4 156	3 258	3 161
Goods	-3 473	-3 503	-4 304	-680	-838	-914	-1 071	-746	-942	-1 403	-1 213
Services	16 486	20 202	19 369	4 957	4 955	4 773	5 517	5 236	5 098	4 661	4 373
Financial services	12 854	16 144	14 423	3 770	4 035	4 170	4 169	3 966	3 912	3 587	2 958

Source: STATEC 2009.

From the above data the serious slump in the export performance of the financial services in the second half of 2008 can be seen. The biggest decrease in exports of industrial production also took place in 4Q 2008 and resulted in a trade deficit of €4.3m (compared with €3.5m in the preceding year). This phenomenon can be explained by two main factors: an increase of the price of petrol products prices and by an export decrease of 11% in 4Q 2008<sup>13</sup>.

Luxembourg is an important recipient of FDI. UNCTAD data reveal that in 2002 the country was the largest recipient of FDI and the largest outward investor in 2003. The country was accountable for more than one third of the EU combined inflows and outflows, while generating just 0,2% of the EU's GDP<sup>14</sup>. Luxembourg is one of the largest investors in countries outside the EU27. In 2008 it was the largest one, with outflows of € 83bn, a 23% share of the EU27 total, followed by France (€ 58bn or 16%) and the United Kingdom (€ 52bn or 15%). Luxembourg (€ 76bn or 44% of the EU27 total), was also the main recipient of FDI inflows from outside the EU27, ahead of the United Kingdom (€ 45bn or 26%) and France (€ 25bn or 15%). The role of Luxembourg in EU FDI is almost totally explained by the importance of its financial intermediation activity: Special Purpose Entities (SPEs), account for approximately 85-90% of Luxembourg's FDI inflows and outflows<sup>15</sup>.

**Inflows of foreign direct investment (in million US dollars)**

	2002	2003	2004	2005	2006	2007
FDI inflow	115 242	89 287	78 687	115 955	124 972	118 820

Source: OECD 2009

**Foreign direct investment (in million US dollars)**

	1995	2000	2003	2004	2005	2006
Outward direct investment stocks	4 703	7 927	21 355	27 883	33 410	n/a
Inward direct investment stock	18 503	23 492	41 730	49 733	43 721	66 685

Source: OECD 2009

<sup>13</sup> Ibid, p.81.

<sup>14</sup> *Luxembourg boasts biggest FDI flows worldwide*, FDI Magazine, [http://www.fdimagazine.com/news/fullstory.php/aid/430/Luxembourg\\_boasts\\_biggest\\_FDI\\_flows\\_worldwide.html](http://www.fdimagazine.com/news/fullstory.php/aid/430/Luxembourg_boasts_biggest_FDI_flows_worldwide.html) (23 July 2009)

<sup>15</sup> Data come from the first FDI results for 2008 (Eurostat), *European Commission press release, EU27 Foreign Direct Investment* (14.05.2009), <http://europa.eu/rapid/pressReleasesAction.do?reference=STAT/09/68&format=HTML&aged=0&language=EN&guiLanguage=en>

**FDI penetration - Market Integration - Foreign Direct Investment (FDI) intensity (2002-2006)<sup>16</sup>**

	2002	2003	2004	2005	2006
EU (27 countries)	:	:	0.9	1.6	1.8
Czech Republic	5.8	1.3	2.7	4.7	2.4
Bulgaria	2.0	5.3	6.5	7.8	12.2
Portugal	0.6	4.4	2.6	1.6	4.7
<b>Luxemburg</b>	<b>533.7</b>	<b>325.0</b>	<b>238.7</b>	<b>320.2</b>	<b>277.2</b>
France	3.4	2.7	2.2	4.7	4.4
United States	1.0	0.8	1.7	0.3	1.5

Source: Eurostat 2009.

The high share of FDI in Luxembourg economy is influenced by so-called "trans-shipped" FDI, or the transfer of funds between affiliates within the same group located in different countries or acquiring companies in different countries via a holding company established in Luxembourg. This is due to the favorable conditions for businesses such as tax exemptions for holding companies and corporate headquarters. It is also worth noting that almost 50% of the total employed population work in the affiliates under foreign control, which also proves importance of the FDI in the Luxembourg economy.

**Employment in affiliates under foreign control, share of employment in manufacturing**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
% of total employment	41,3%	41,6%	42,2%	44,7%	39,3%	41,4%	41,7%	42,4%	42,8%	45%	44,3%

Source: OECD 2009

**EU27 FDI flows: 2008 preliminary results by main partner, billion euros**

	Inward flows from:											
	Intra-EU27	Extra-EU27	of which:									
			USA	Canada	Switzerland	Russia	Japan	China	Hong Kong	India	Brazil	OFC
<b>EU27*</b>	321.2	172.7	44.6	18.0	5.0	-0.4	3.5	0.1	0.7	2.4	6.9	45.0
<b>Germany</b>	8.0	9.1	6.7	-0.1	0.5	0.4	1.2	-	0.1	-	-0.1	0.7
<b>Spain</b>	40.4	4.4	-	0.1	0.3	0.5	0.1	-	0.1	-	0.1	1.3
<b>France</b>	54.8	25.4	12.1	0.6	5.6	0.1	1.3	-0.1	0.2	-	0.1	1.9
<b>Luxembourg</b>	-20.8	75.8	3.8	3.5	0.8	-2.1	-	-	0.3	-	0.2	29.7
<b>Poland</b>	10.1	0.9	0.9	0.1	-0.4	-	0.1	0.1	-0.1	-	-	0.2
<b>United Kingdom</b>	21.4	45.3	21.0	7.3	-8.0	:	1.3	:	:	:	-	26.7

Source: EUROSTAT 2009

Note: "OFC" – Offshore Financial Centres; ":" – Data is confidential or not available; "-" – Less than 50 million euro

**1.8 Employment and unemployment**

After a period of employment stagnation and decline during the transformation period in the 1970s, employment growth picked up in parallel with the improvement in the Luxembourg economy. At the same time profound changes in the employment structure took place. In industry, the decline of the steel sector led to a distinct fall in employment, which slid from some 68,000 in 1975 to less than 55,000 in 1999. The revival observed since then has been mainly in the construction industry<sup>17</sup>. The biggest growth was observed in the number of workers in the service industry. At present employment in services constitutes 75% of total employment.

<sup>16</sup> Average value of inward and outward FDI flows divided by GDP, multiplied by 100. Data are expressed as percentage of GDP to remove the effect of differences in the size of the economies of the reporting countries

<sup>17</sup> *Economic and social portrait of Luxembourg*, STATEC website:

([http://www.portrait.public.lu/en/economic\\_structures/population/employment/index.html](http://www.portrait.public.lu/en/economic_structures/population/employment/index.html))

**Luxembourg - employment by sectors (number of persons employed)**

	2001	2002	2003	2004	2005	2006
Mining and quarrying	288	292	322	321	335	325
Manufacturing	34 316	34 364	37 215	37 822	37 075	37 020
Electricity, gas and water supply	1 555	944	1 038	1 187	1 029	1 060
Construction	26 692	27 678	32 164	33 023	34 022	35 727
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	38 462	38 206	41 281	41 503	42 142	43 198
Hotels and restaurants	12 643	13 094	14 086	14 586	14 666	15 491
Transport, storage and communications	22 381	22 720	22 855	22 946	23 416	24 429
Real estate, renting and business activities	42 680	44 681	49 930	52 143	52 533	52 501

Source: Eurostat 2009 ([http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=ebd\\_all&lang=en](http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=ebd_all&lang=en))  
(Industry trade and services – SBS – Annual enterprise statistics – European Business)

**Structure of employment in 2000 by activity (as % of total employment)**

	Agriculture	Manufacturing	Construction	Commerce, transport and communication	Financial & business services	Other services (public services, etc.)
EU-15	4.4	19.7	7.2	25.4	13.9	29.3
<b>Luxembourg</b>	<b>1.6</b>	<b>13.3</b>	<b>9.9</b>	<b>27.1</b>	<b>26.6</b>	<b>21.6</b>
Belgium	2.1	17.5	6.0	22.9	15.3	36.2
France	4.4	17.1	6.4	23.6	16.1	32.4
Germany	2.5	22.2	7.1	25.1	14.6	28.4
Netherlands	3.4	13.9	6.1	26.0	19.8	30.9

Source: EUROSTAT, STATEC 2009.

The average annual rate of increase between 1986 and 2007 was of 3.4%. In 2008 employment growth was still observed (by almost 5%), but a slowdown in the pace of employment growth was noted in 2007 and continued into 2008. The beginning of 2009 was characterized by a 3% growth (it was 5.5% in the same period of the preceding year). According to forecasts of the Luxembourgish Statistical Office, the situation may further worsen over the course of 2009 and especially pessimistic forecasts come from the industry, construction and banking sectors<sup>18</sup>.

According to STATEC the employment rate in Luxembourg in 2008 reached 63.8%, which is slightly below the EU average of 65.9% and below the Lisbon target of 70%. In fact there was decrease in the employment rate between 2007 and 2008. According to the OECD in 2007, the female employment rate was 50%, below the Lisbon target of 60%, and the employment rate of older workers (55-64) 34.3% against the Lisbon target of 50%. It seems that reaching the Lisbon targets for female employment will be a major challenge as the relatively low female employment rate frequently seems to be a result of individual choice as the “one-earner family” can ensure a decent standard of life. Paradoxically, the economic crisis may stimulate more female employment in the years to come. An increasing trend of female employment is currently discernable but it has to be noted that the female employment rate in Luxembourg is growing from a lower base than the EU15 average. One of the factors stimulating the growth of female employment rate is the country’s increasing divorce rate. At the same time the number of opportunities for part-time female work is limited and this significantly reduces opportunities for women to balance work with other responsibilities.

It is worth noting that Luxembourgish labour market has very distinctive features including a high rate of cross-border workers (*frontaliers*), a significant share of migrant workers and a relatively high share of full-time “traditional” employment contracts. Luxembourg seems to be the only country in the EU with such a large share of “commuting” workers - both foreigners coming to Luxembourg to work and Luxembourgish workers working abroad – in the total employment. Not surprisingly, the biggest number of cross-border workers come from France, Belgium and Germany attracted to Luxembourg by high salaries, good conditions of work and one of the lowest in the EU tax on labour income. The difference is striking when compared with tax regimes in neighboring countries (Germany, Belgium or France).

<sup>18</sup> *L'économie luxembourgeoise en 2008...*, STATEC 2009, p.104.

**Labour cost in Luxembourg\* (2006)**

	BE	FR	LU	UK	DE
Total costs for the employer	135	149	111	112	111
Tax / soc. security contributions	35	49	11	12	11
<b>Gross salary</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Tax / soc. security contributions	48	29	28	32	36
Net salary for the employee	52	71	72	68	64

\* For an annual gross salary of 100,000 EUR for a married person with two children

Source: PWC, 2007.

The participation of *frontaliers* in the Luxembourgish labour market is important to the economy as it facilitates the offsetting of labour market shortages, the filling of posts requiring particular skills and external flexibility during economic downturns. In this sense they fill in skills shortage on the Luxembourgish labour market as well as fulfill demand for specific skills of multinational companies (MNCs). At the same time they offer flexibility in a labour market, where national participants tend to value job security and lifetime employment with one organization very highly. Some believe that HR managers in the multinational companies tend to prefer *frontaliers* and this also increases the share of cross-border workers among the employed.

Characteristics of Luxembourg's cross-border workers are the following:

- ✓ They are employed mainly in the private sector making up 51% of the employed in the sector;
- ✓ The majority of cross-border workers are aged 30-39 years old and therefore younger than Luxembourgish workers: only 24% of cross-border workers are aged over 45 years - the oldest being German workers - in comparison with 38% of Luxembourgish workers;
- ✓ They work shorter periods for one employer compared to their Luxembourgish colleagues – usually between 1-5 years; only 17% work for one employer longer than 10 years – it is 50% in the case of Luxembourgish workers;
- ✓ Most often they have a secondary education level;
- ✓ 53% of cross-border workers are manual workers in comparison to 37% in case of Luxembourgish workers;
- ✓ They work primarily in services for businesses, industry and financial sectors – 58% of cross-border workers found employment in these three sectors;
- ✓ They work mainly for medium-size and large companies;
- ✓ Cross-border workers often work as temporary agency workers. 82% of the cross-border workers were contracted out in 2006 - the largest number being French<sup>19</sup>.

In 2008 *les frontaliers* took two thirds of newly created jobs (50% of these jobs were taken by French cross-border workers), while the Luxembourgers accounted for only 7%. The crisis has hit this group especially hard and *les frontaliers* were also the most numerous group to have lost jobs.

**Employment – Luxembourgish and cross-border workers (in million persons)**

	1985	1990	1995	2000	2005	2007	2008
Internal employment	160.2	187.1	213.8	264.8	310.4	336.4	352.7
- employed	142.0	170.4	197.5	245.4	290.4	316.5	332.2
- not-employed	18.2	16.7	16.3	19.4	20.0	20.0	20.5
Cross-border workers	8.7	25.2	47.0	70.4	98.8	115.8	125.2
- cross-border foreign workers working in Luxembourg	16.1	33.7	55.5	78.9	108.6	126.0	135.6
- Luxembourgish cross-border workers working abroad	0.6	0.7	0.7	0.7	0.7	0.7	0.7
- employees of institutions <sup>20</sup>	6.8	7.8	7.8	7.8	9.0	9.6	9.7
Total employment	151.5	161.9	166.8	194.4	211.6	220.7	227.5

Source: EUROSTAT, STATEC 2009.

<sup>19</sup> *L'économie luxembourgeoise en 2008...*, STATEC 2009, p.112-113.

<sup>20</sup> In original: *fonctionnaires et agents des organismes*.



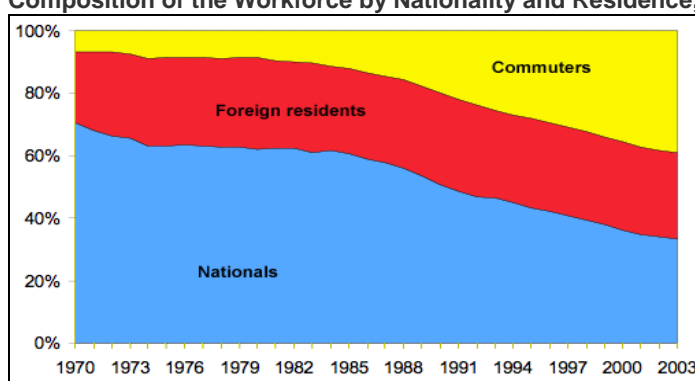
**Employment – Luxembourgish and cross-border workers (% of change)**

	1985-1990	1990-1995	1995-2000	2005	2007	2008
Internal employment	3.2	2.7	4.4	3.0	4.4	4.8
- employed	3.7	3.0	4.4	3.2	4.6	5.0
- not-employed	-1.7	-0.5	3.5	0.2	0.6	2.4
Cross-border workers	23.7	13.3	8.4	5.3	8.4	8.1
- cross-border foreign workers working in Luxembourg	15.8	10.5	7.3	5.6	8.2	7.6
- Luxembourgish cross-border workers working abroad	3.1	0.0	0.0	0.0	0.0	0.0
- employees of institutions <sup>21</sup>	2.6	0.1	0.0	8.9	6.0	1.9
Total employment	1.3	0.6	3.1	2.0	2.4	3.1

Source: EUROSTAT, STATEC 2009.

For many years, there was insufficient local labour to meet the market demand. This, combined with structural change and the national preference for employment security means that Luxembourgers, who make up one-third of the country's labour force, work mainly in the civil service, leaving most of the production and innovation sector work to immigrants and commuters from border areas. The biggest number of migrants comes from Portugal, closely followed by French and German nationals. They tend to settle down in the Grande Region. In 2008 there was a further increase of migrant workers, which accounted for 80% of the total residents' population growth. Net migration grew to 15.8% per 1,000 inhabitants; 60% of the foreign resident population are economically active people (aged 20-64 years). Foreigners have made a major contribution to increasing the Luxembourg activity rate. In 2001 the rates reached respectively 63.9% for foreigners compared to 55.4% for nationals.

**Composition of the Workforce by Nationality and Residence, 1970 to 2003**



Source: STATEC 2009.

In common with some other EU Member States, Luxembourg decided to initially restrict labour migration from eight of the ten countries that acceded to the EU in 2004, the exceptions being Malta and Cyprus. However, in May 2006, the government opened selected economic sectors to nationals from these countries. It continues to temporarily restrict labour market access to nationals from Bulgaria and Romania.

**Employment indicators 1997- 2007**

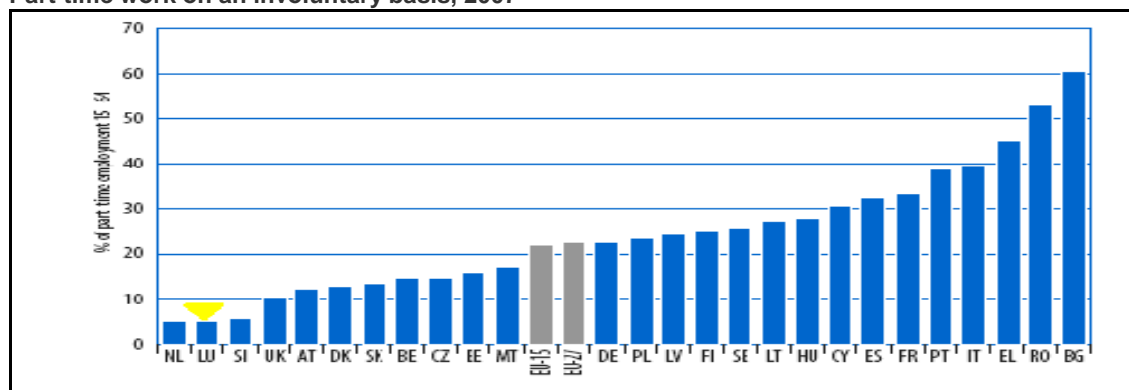
Country	Employment rate			Full-time employment rate			Part-time employment		
	1997	2000	2007	1997	2000	2007	1997	2000	2007
EU 27	60.7	62.2	65.4	---	---	59.9	15.9	16.2	18.2
EU 15	60.7	63.4	66.9	---	58.0	60.2	16.7	17.7	20.9
<b>Luxembourg</b>	59.9	62.7	63.6	---	60.4	59.4	8.2	10.4	18.0
France	59.6	62.1	64.6	---	58.7	59.4	17.0	16.7	17.2
Spain	---	56.3	65.6	---	53.9	61.9	7.9	7.9	11.8

Source: EU Commission: Employment in Europe 2008.

<sup>21</sup> Op cit.

Luxembourg is characterized by a relatively high share of full-time employment contracts, however, during the last decade, part-time employment rose significantly: from 8.2% in 1997 to 18% in 2007, almost reaching the EU average (18.2%). Increased usage of part-time work arrangements can allow a better synchronisation of employees' and employers' working requirements and a better balancing of work and private life, but in some circumstances may pose a risk of driving employees involuntarily into such arrangements. This seems not to be the case of Luxembourg where only about 5% work part-time say they do so on an involuntary basis.

**Part-time work on an involuntary basis, 2007**



Source: Eurostat, EU Labour Force Survey, annual averages.

While analyzing the growth in the use of part-time workers between 2004-2008, it can be seen that the share of part-time workers increased until the crisis struck when it decreased for a short period before picking up again very quickly. According to the data of IGSS, over 43,000 persons worked part-time in Luxembourg in 2008 and in that year part-time work increased by 4.6%. The recent increase in part-time employment applies particularly to cross-border workers – an increase of 6.3% in comparison with increase of 3.7% in case of resident workers. This trend can be explained by the fact that some enterprises have decided to change full-time contracts into part-time contracts before introducing other anti-crisis measures such as for example partial unemployment.

**Evolution of part-time employment (2004-2008)**

	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
	Number of persons					Annual change in %				
Total salaried employment	281 294	290 419	302 418	316 460	332 191	2.6	3.2	4.1	4.6	5.0
Part-time workers	37 359	39 633	41 816	41 402	43 306	4.3	6.1	5.5	-1.0	4.6
Share in %	13.3	13.6	13.8	13.1	13.0					
Total salaried employees residents	169 438	172 094	176 197	180 202	186 164	1.3	1.6	2.4	2.3	3.3
Part-time resident workers	26 071	27 231	28 304	27 426	28 451	3.0	4.4	3.9	-3.1	3.7
Share in %	15.4	15.8	16.1	15.2	15.3					
Total Salaried cross-border workers	111 855	118 325	126 221	136 258	146 027	4.7	5.8	6.7	8.0	7.2
Part-time non-resident workers	11 289	12 402	13 513	13 975	14 854	7.5	9.9	9.0	3.4	6.3
Share in %	10.1	10.5	10.7	10.3	10.2					

Source: IGGS, cited after STATEC 2009.

Another group with so called atypical work contracts are agency workers. Their number has also significantly increased in the last decade, tripling between 1995 and 2007.

**Temporary agency workers (end of the month)**

	Years					2008			
	1995	2000	2005	2007	2008	1Q	2Q	3Q	4Q
Temporary agency workers	2 483	4 473	6 145	7 782	7 922	8 139	8 560	8 488	6 499
Number of hours worked (in thousand)	342	618	872	1 125	1 150	1 147	1 261	1 219	974
Number of contracts	3 065	11 202	18 954	23 898	25 019	23 370	25 979	25 709	22 537
Enterprises-users	560	1 131	1 555	1 900	1 931	1 782	1 964	2 046	1 873
	<b>1995 - 2000</b>	<b>2000 - 2005</b>							
Temporary agency workers	12.5	6.6	12.0	11.5	1.8	11.1	3.9	3.2	-11.4
Number of hours worked	12.6	7.1	15.6	12.4	2.2	12.0	4.8	3.8	-11.5
Number of contracts	29.6	11.1	14.1	12.9	6.2	10.0	5.4	3.9	-9.7
Enterprises-users	15.1	6.6	14.7	9.1	2.2	0.9	1.5	4.2	-3.3

Source: IGSS, Ministère du Travail 2009.

Temporary agency workers, which are good barometers of the general economic situation, were also a category hit by the crisis. A significant decrease in the number of temporary agency workers was observed at the end of 2008 (it reached the level of +17,5% in 4Q2006, +7,6% in 4Q2007 and -11,4% in 4Q2008). The biggest slump in the number of contracted agency workers was observed in the financial, transport and communications sectors.

The unemployment rate in Luxembourg has remained low over the last decade (2.7% in 1997, 4.2% in 2007), far below the EU-15 average (9.8% and 7.0% respectively). It increased during the economic slowdown of 2001-2004 and reached an average level of 3.3%. The unemployment rate decreased until the moment the economic crisis broke in 2008 but nonetheless remains one of the lowest in Europe.

**Unemployment rates in Luxembourg and EU15 - 1997 – 2007 (% of the labour force)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<i>Total unemployment</i>											
EU 15	9.8	9.3	8.5	7.7	7.2	7.6	7.9	8.1	8.1	7.7	7.0
Luxembourg	2.7	2.7	2.4	2.2	1.9	2.6	3.8	5.0	4.6	4.6	4.2
<i>Female unemployment</i>											
EU 15	11.2	10.7	9.9	8.9	8.3	8.5	8.7	8.9	8.9	8.5	7.8
Luxembourg	3.9	4.0	3.3	2.9	2.4	3.5	4.9	6.8	6.0	6.0	5.1
<i>Youth unemployment (15-24)</i>											
EU 15	19.6	18.1	16.4	14.8	14.1	14.6	15.3	15.9	16.3	15.7	14.7
Luxembourg	7.9	6.9	6.9	7.1	7.1	7.7	11.0	16.8	13.7	16.2	17.5
<i>Long term unemployment</i>											
EU 15	4.8	4.4	3.9	3.4	3.1	3.1	3.3	3.4	3.4	3.2	2.8
Luxembourg	0.9	0.9	0.7	0.6	0.6	0.7	0.9	1.1	1.2	1.4	1.3

Source: EU Commission: Employment in Europe 2008.

Another feature of unemployment in Luxembourg is the relatively high unemployment rate of young people even in prosperous times. It was over 7% during the times of economic slowdown of 2001-2004 and exceeded 17% in 2007. This may be explained by the tendency for young Luxembourgers not to become active on the job market immediately after completing their formal education when they prefer to take a break. The quicker integration of school and university leavers into the labour market is a priority for government and the social partners and measures are shortly to be introduced. Female unemployment rate is higher than the total unemployment rate but it remains below the EU15 average.

Luxembourg has a relatively low long term unemployment rate at around 1%. It is worth noting that in the Luxembourgish statistical system there are two "unemployment rate" indicators: a "slim"

unemployment rate of those who have registered with l'administration de l'emploi (l'ADEM (*le taux de chômage au sens strict*)) and a "official expanded" unemployment rate, including both people registered with l'ADEM and job-seekers benefiting from a remunerated work programme (*le taux de chômage au sens large*). For example, in March 2009 STATEC reported "slim" unemployment as 5.3%, while the "official extended" one reached the level of 6.6%.

The European Commission and l'ADEM have different views of the future. According to the European Commission, a decrease in the unemployment rate in 2010 is possible. At the same time l'ADEM reports a significant rise in the unemployment rate accompanied by a dramatic decrease in job offers. As a result they predict a further unemployment rate increase.

**1.9 Labour productivity and labour costs**

Since 2001 labour productivity has been at the level of the EU average, falling below it in 2008-2009. The annual average increase in labour productivity in the EU15 between 1997 and 2007 was 1.38%, Luxembourg showed an average increase rate of 1.46%<sup>22</sup>.

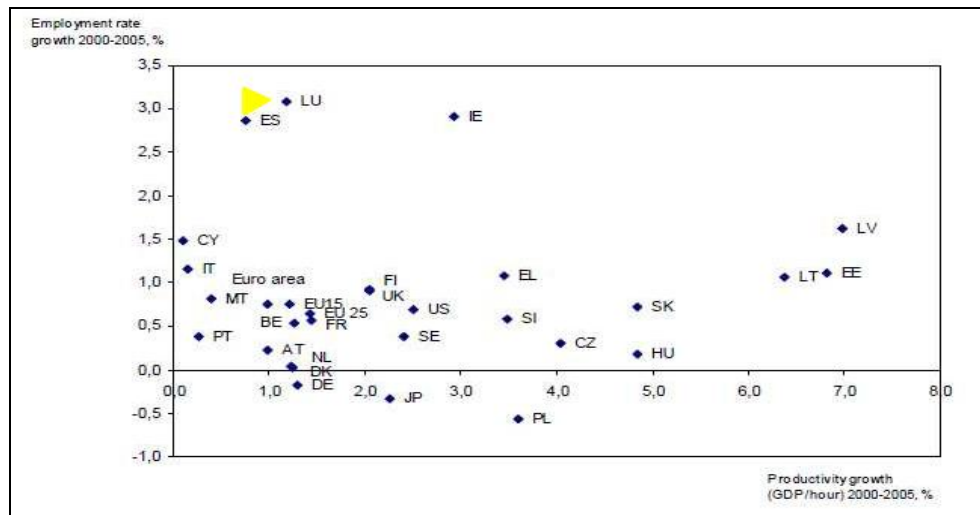
**Annual change of labour productivity (2000-2008)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU-15	1,9	0,7	0,7	1,1	1,9	1,1	1,6	1,1	1,0
EU-25	2,1	0,8	0,8	1,3	2,1	1,2	1,7	1,3	1,2
Luxembourg	2.7	-2.9	0.8	0.3	2.6	2.1	2.3	0.2	-0.4
USA	1,6	0,5	2,7	2,7	2,7	1,7	0,8	1,0	1,1
Spain	0,0	0,4	0,4	0,7	0,6	0,4	0,7	0,8	0,9

Source: EU Commission, *Employment in Europe 2008* p.207

The illustration below compares EU countries in terms of their average progression in labour productivity growth per hour and growth in employment for the 2000-2005 period. In the case of Luxembourg increasing employment was combined with almost average productivity growth.

**Employment and Productivity Developments in EU Member States 2000 - 2007**



Source: Council of the European Union: *Joint Employment Report 2006, Brussels 2007, p. 8.*

In the years 2000-2005 Luxembourgish economy was characterized by the highest employment rate growth (over 3%) out of all EU25 countries. At the same time productivity growth remained rather modest and oscillated slightly above 1%.

<sup>22</sup> Data from EU-Commission: *Employment in Europe Report 2008*, p. 207 and 212.

**Unit Labour Cost – Annual Growth Rate (2000-2006)**

	2000	2001	2002	2003	2004	2005	2006
Finland	0,4	3,3	1,5	2,0	0,3	2,4	-0,3
France	1,6	2,3	2,9	1,9	0,9	1,8	2,0
<b>Luxembourg</b>	<b>3.4</b>	<b>5.7</b>	<b>2.3</b>	<b>1.5</b>	<b>1.9</b>	<b>1.2</b>	<b>-0.2</b>
Japan	-2,4	-1,3	-3,8	-3,1	-3,1	-2,1	-0,7
United Kingdom	2,9	3,6	2,5	2,9	2,3	3,0	2,3
United States	3,9	1,8	1,1	1,5	1,7	2,2	2,5
European Union	2,6	3,3	2,6	2,5	0,9	2,0	1,4
OECD – Europe	3,4	5,5	3,8	3,1	1,2	1,6	1,5
OECD – Total	2,9	3,3	1,8	1,8	1,0	1,4	1,7

Source: OECD 2008

Luxembourg is not a country associated with a low wage labour force. The country's productivity growth is based on a combination of existing high absolute productivity (much higher than the EU average) and a dominance of modern technology and services in the economy.

**1.10 Educational attainment, skills and training**

In Luxembourg compulsory education covers a total of eleven years. There are two years of preprimary education, six years of primary education, and three years of secondary education. Public education in Luxembourg is free and is paid from the public budget and education spending is one of the states biggest categories of expense (approx. 8.5%). However, public expenditure on education and training in terms of GDP in Luxembourg remains at a moderate level.

**Public expenditure on education and training in terms of GDP**

Luxembourg*	4.1
Belgium	6.0
France	5.6
Germany	4.3
Netherlands	4.5
Italy	4.9
Finland	5.7
Austria	5.6

\*Excluding post-secondary education.

Source: OECD as reproduced in *Les chiffres clés de l'éducation nationale 2003-2004*.

There are three important distinctive features of the Luxembourg education system:

- ✓ A strong link between education and training;
- ✓ Multilingualism: Luxembourgish, German and French are the languages of the Luxembourg education; this influences education curricula;
- ✓ Vocational education is based on a German-style dual system, where general education and technical and vocational theoretical education are provided at schools, while practical instruction takes place in enterprises<sup>23</sup>.

In analysing the average number of years in formal education, Luxembourg is placed well above the OECD country average for men and women in education in all age categories.

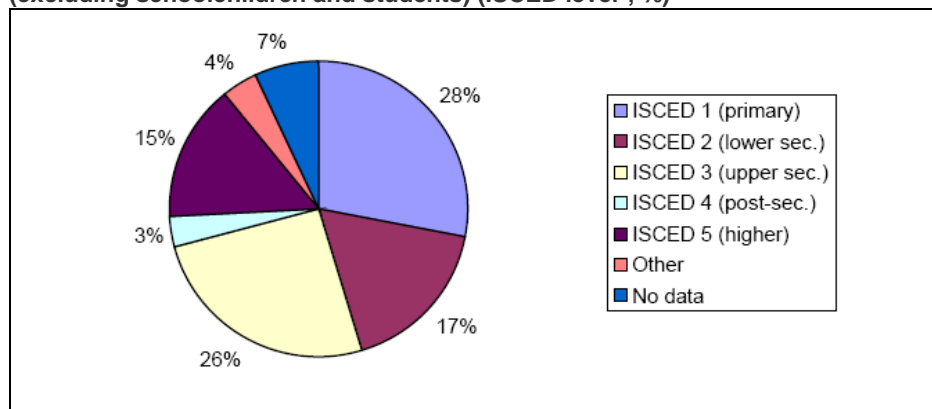
<sup>23</sup> Jos Noesen, *Vocational education and training in Luxembourg*, CEDEFOP Panorama series 108, Luxembourg: Office for Official Publications of the European Communities, 2005, p.5.

**Educational attainment expressed in average number of years in formal education (2006)**

Country	Total	Males	Females	Males (age brackets)				Females (age brackets)			
				25-34	35-44	45-54	55-64	25-34	35-44	45-54	55-64
Luxembourg	13,3	13,6	13,0	14,2	13,5	13,5	13,1	14,1	13,3	12,6	11,6
United States	13,3	13,2	13,4	13,1	13,2	13,4	13,2	13,4	13,4	13,5	13,1
Japan*	12,4	12,6	12,1	13,3	13,3	12,4	11,2	13,2	12,9	11,9	10,5
OECD average	11,9	11,9	11,8	12,5	12,2	11,7	11,0	12,8	12,1	11,4	10,3

\* Year of reference 2003. Source: OECD 2007.

**Breakdown of the population aged over 15 by level of education achieved (excluding schoolchildren and students) (ISCED level\*, %)**

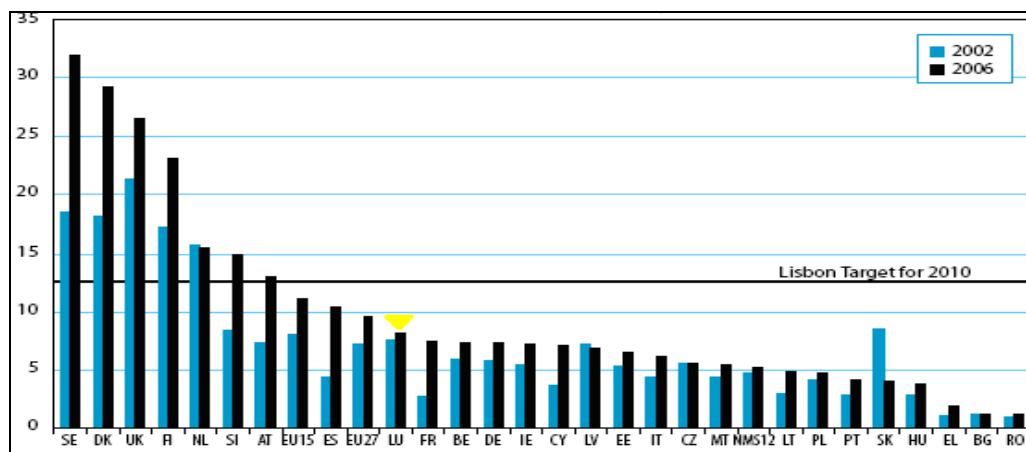


\* ISCED: International Standard Classification of Education  
Source: General census of the population on 15 February 2001, Statec.

Interestingly a significant share of Luxembourgish residents have a fairly low level of education. In 2001, 28% of the population aged over 15 graduated from primary school and it was followed closely (26%) by those who graduated from upper secondary level of education. Only 15% of the sample population had undertaken higher education. This result combines both Luxembourgers and resident immigrants who tend to have lower levels of educational attainment. The “real stock of education” in the labour market is much higher as it incorporates cross-border workers, who usually have secondary (approx. 45%) or higher education (approx. 28%).

Despite a practice-oriented vocational education system, the challenge remains to make it even more responsive to changes in the business environment and more learner-centered. Analysis of the trends in economically active adult participation in lifelong learning reveal that the situation between year 2002 and 2006 changed only slightly and Luxembourg’s results are far away from the Lisbon targets with just 8% of the active population taking part in lifelong learning initiatives.

**Trends in adult participation (aged 25-64) in lifelong learning (2002 - 2006)**



Source: EU Commission: Industrial Relations in Europe Report 2008.

The Luxembourg government and social partners recognise the need to improve lifelong learning performance. Continuing vocational training is currently based on two basic laws: the law of 4 September 1990 reforming technical secondary education and continuing vocational training (CVT); and the amended law of 22 June 1999 to support and develop CVT. The aim of the first law is to enable people to update their vocational qualifications with a view to responding to changes on the labour market as well as to enable the unemployed to acquire vocational qualifications and to have them certified. This law also defines which organizations can provide training programs, i.e. the Chamber of Labour and Trade and the social partners. The aim of the second law focuses on enterprises and its purpose is to encourage enterprise investment in employee training. Another important law for CVT is the law of 4 October 1973 on individual training leave. This law guarantees an individual employee up to 60 days of paid leave during their working life. It is suggested that the law as it stands is too rigid to reflect the continued up-skilling required by modern economies. It is worthwhile to note that in Luxembourg a series of different training programs are used as active labour market policy instruments, i.e. SIE (*Stage d'Insertion en Entreprise*), SRP (*Stage de Reinsertion Professionnelle*), FORMA (measures for the job seekers to ensure their better integration on the labour market) or CIE (*Contrat d'initiation-emploi*).

## The nature and extent of restructuring in Luxembourg

Since the 1950s/60s Luxembourg has undergone profound economic and structural change and experienced five major "restructuring waves". The first was related to Luxembourg being one of the founding countries of the European Coal and Steel Community (ECSC) in 1951, and the massive restructuring process that took place as a result of establishing ECSC in the two sectors in question. In this respect, the country's experience in managing restructuring is a long one.

The second wave of restructuring was a result of the oil crisis of the 1970s when a so-called "Luxembourgish model" for management of restructuring processes was defined. This model was based on tripartite social dialogue, very often taking place at the sector or branch level. One of its characteristics was basing the Luxembourgish model on the assumption that all possible measures should be implemented to avoid dismissals. The third economic slowdown took place in the 1980s and was the so-called "second steel crisis" which further reduced steel production.

Prior to today, the most recent economic crisis resulting in widespread restructuring took place between 2001-2004. During this time, "the Luxembourgish model" was further elaborated in the famous restructuring case ARBED which was taken over by Arcelor in 2002. With a view to avoid dismissals, requalification units were established (*cellules de reclassement, CdR*).

At present, the Luxembourgish model for restructuring management remains in existence. Restructuring processes are quite lengthy and aimed at protecting employment. The concept of CdR and re-training programs as well as partial unemployment and working-time reductions are widely used. It is a well established process with the support of legal and organizational frameworks (more in Section Two of the report). The Luxembourg model has evolved in stages since its creation, and consistent with this a number of new initiatives have been launched as a part of the country's current anti-crisis measures.

### 1.11 Structural change in certain economic sectors

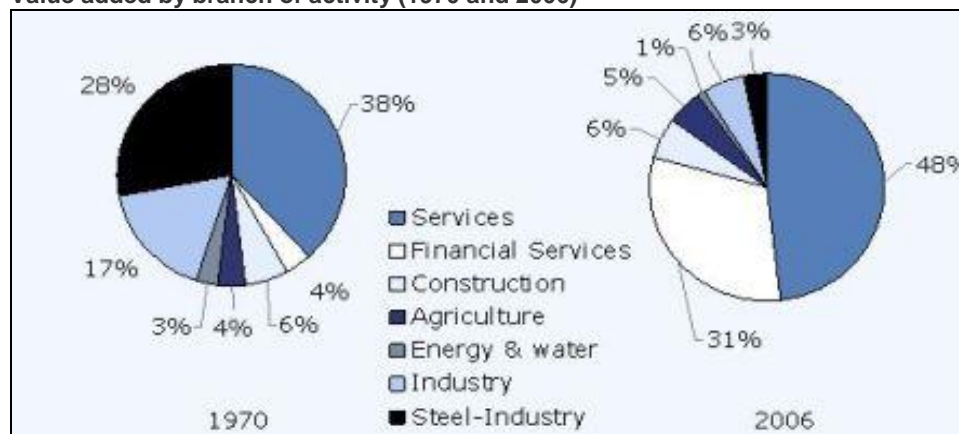
The 1970s crisis resulted in profound changes in the structure of the economy. Luxembourg was transformed from a steel-based economy into a service-based one. Before the oil crisis the Luxembourgish steel industry accounted for 28% of the value added in the whole economy. However, by 1975, it had decreased to 12%<sup>24</sup>. The relative weight of the steel industry in the economy continued to fall in subsequent years to the level of 3% of total value added in 2006. In the same year, services accounted for 79% of gross value added - compared to 42% in 1970, with 75% of the labour force employed in the services sector. Restructuring of the steel sector was characterized by serious employment cuts. Between 1970 and 2000 employment in the industry dropped by 80%.

---

<sup>24</sup> *Portrait of regions- Luxembourg – Economy*, Eurostat, 2004 ([http://circa.europa.eu/irc/dsis/regportraits/info/data/en/lu\\_eco.htm](http://circa.europa.eu/irc/dsis/regportraits/info/data/en/lu_eco.htm))

The **financial services sector** has emerged as the main engine of economic growth over the past two decades. The growth of financial services has greatly contributed to the total growth of gross value added. The share of financial services in the sum of value added grew from less than 5% in 1970 to 22% in 1985, and to over 28% in 2002<sup>25</sup>. An adaptive legislative and regulatory framework combines with low taxation to provide an incentive for basing financial activities in Luxembourg. As a result, Luxembourg is today one of the main international centres for investment funds, the world's number-two financial centre after New York. The specialisation of the sector is mainly private banking, but financial engineering activities (holding companies, domiciliation, re-insurance, securitisation, etc.) are becoming more important.<sup>26</sup>

Value added by branch of activity (1970 and 2006)



Source: STATEC 2009

The development of financial services has influenced positively such sectors as **hotels and restaurants, air transport, IT services**, and especially **business services** (consulting, advertising, legal services, cleaning, security). Employment in business services experienced a major increase from 7,000 employed in 1985 to over 35,000 employed in 2002, representing around 13% of total employment in the Luxembourg economy in 2002. The share of business services in total value added grew from 3.1% in 1985 to 6.3% in 2002. The civil engineering and construction sector also benefited enormously from the healthy economic situation<sup>27</sup>.

High dependence on the financial sector is a concern as it makes the economy vulnerable to the kind of external shocks that can be seen in the current crisis. The OECD has pointed to the problem of the finance-dominated economy of Luxembourg and the sensitivity of the sector to developments in international financial markets. According to the OECD, STATEC data related to assessing the impact of the financial sector on the economy as a whole suggests that a 1% drop in financial sector value added would have a negative impact on the Luxembourg economy, with the first-year effect of a decline by 0.6% and in each of the following two years a decline of 0.3%<sup>28</sup>.

Another sector experiencing growth in the past two decades has been transport and communication including rail transport, road transport, air transport and post as well as telecommunication services. Its share in the total value added of the Luxembourgish economy rose from 6% in 1985 to about 10% in 2002<sup>29</sup>. This is also a sector where the negative impact of the present economic crisis can be observed through a reduction in overall demand for industrial transport services and the relocation of activities to the Central and East European countries,

<sup>25</sup> Ibidem

<sup>26</sup> Bourgain, P. Pieretti, J. Høj, *Can the financial sector continue to be the main growth engine in Luxembourg?* Economics Department working paper No. 660, OECD, 2009 ([http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00000986/\\$FILE/JT03258258.PDF](http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00000986/$FILE/JT03258258.PDF))

<sup>27</sup> Ibid

<sup>28</sup> Bourgain, P. Pieretti, J. Høj, *Can the financial sector continue to be the main growth engine in Luxembourg?* Economics Department working paper No. 660, OECD, 2009 ([http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00000986/\\$FILE/JT03258258.PDF](http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00000986/$FILE/JT03258258.PDF))

<sup>29</sup> *Portrait of regions- Luxembourg – Economy*, Eurostat, 2004 ([http://circa.europa.eu/irc/dsis/regportraits/info/data/en/lu\\_eco.htm](http://circa.europa.eu/irc/dsis/regportraits/info/data/en/lu_eco.htm))



More recently, the Luxembourgish government has put emphasis on developing new sectors such as ICT, e-commerce and media, automotive components, materials and plastics, logistics, health and environmental technologies<sup>30</sup> in order to better balance the economy.

## Section two: The role of the Luxembourgish social partners in restructuring

### Social Partners and Social Partnership in Luxembourg

#### 1.1. Introduction

A trademark of Luxembourg is its political stability and industrial peace and its system of social concertation is often titled the “Luxembourg model”. The model, created to overcome the structural crisis of 1970s and 1980s and stimulate economic growth, is characterised by tripartite consultation. Industrial relations over the past 70 years have been marked by close collaboration between the social partners at enterprise level. Social peace is closely related to the wealth of society, which has one of the highest GDP’s per capita in the world. Other characteristics of the Luxembourg model of industrial relations include the relatively even division of income after social transfers and the role of foreign labour as market stabilisers during economic downturns, which prevent social conflicts. Foreign workers have always acted as stabilisers in the economic history of Luxembourg, operating as a buffer for decreasing demand, during downswings in the economy, which might have caused social tensions accompanying waves of layoffs<sup>31</sup>. Foreign workers also allow the economy to expand rapidly during increasing demand. Last but not least, Luxembourg is a small economy, which facilitates semi-formal and informal contacts between the social partners and amongst members of all of the social dialogue institutions. Recently, the Luxembourg model has found its critics and its role as an “exportable model” has been questioned<sup>32</sup>.

The critics<sup>33</sup> of the ‘Luxembourg model’ argue, that the term is inappropriate and difficult to define, as there is nothing to indicate that Luxembourg’s system of social dialogue has any particular elements which are specific to this country – many similarities are apparent with structures and practices in other countries, like professional chambers in Austria or tripartite negotiation in France. Secondly, the structures of social dialogue in Luxembourg are hardly transposable to another context, as ‘informality’ in the functioning of consultation plays a crucial role – and it is possible only in such a small country as Luxembourg, where all of the actors know each other well. Another argument is, that exceptional economic situation of the country constitutes the best guarantee of harmonious labour relations and this is why ‘it is unlikely that the “model”, insofar as it exists, will be transposable to another country where the economy is not flourishing.’

In Luxembourg employers’ organisations and trade unions functioned effectively prior to the First World War. Trade unions were created to protect employee rights in the steel sector and at the very beginning were represented by the German trade union “Deutscher Metallarbeiterverband”. The “politically neutral” Luxembourgish trade union founded in 1916, was called “Luxembourger Berg-und Huttenarbeiterverband”. In parallel the socialist “Luxembourger Metallarbeiterverband” was established. In 1920 the two unions merged and the union changed its name to “Luxembourger Berg-und Metallindustriearbeiterverband (LBMIAV). In 1944 its name was changed to LAV and after taking over FLA the in 1965 the union became “Onofhangege Gewerkschaftsbond Letzebuerg” (OGB-L). In 1921 the trade union of catholic workers called “Letzebuenger Chrestchtleche Gewerkschafts-Bond (LCGB)” and the federation of private employees (FEP) were created.

<sup>30</sup> *Economic and social portrait of Luxembourg*, STATEC website: ([http://www.bed.public.lu/business\\_location/index.html](http://www.bed.public.lu/business_location/index.html))

<sup>31</sup> *Economic and social portrait of Luxembourg*, STATEC 2003, p. 38.

<sup>32</sup> O. Wlodarski, “*Luxembourg model*” of social dialogue explored, European Industrial Relations Observatory online, <http://www.eurofound.europa.eu/eiro/2008/07/articles/lu0807049i.htm>

<sup>33</sup> Franz Clément, *Les relations professionnelles au Luxembourg*, Reprem - CEPS/Instead, June 2008.

The employers' organisation *Federation des industriels luxembourgeois* (FEDIL) was established in 1918. It has not changed its name since.

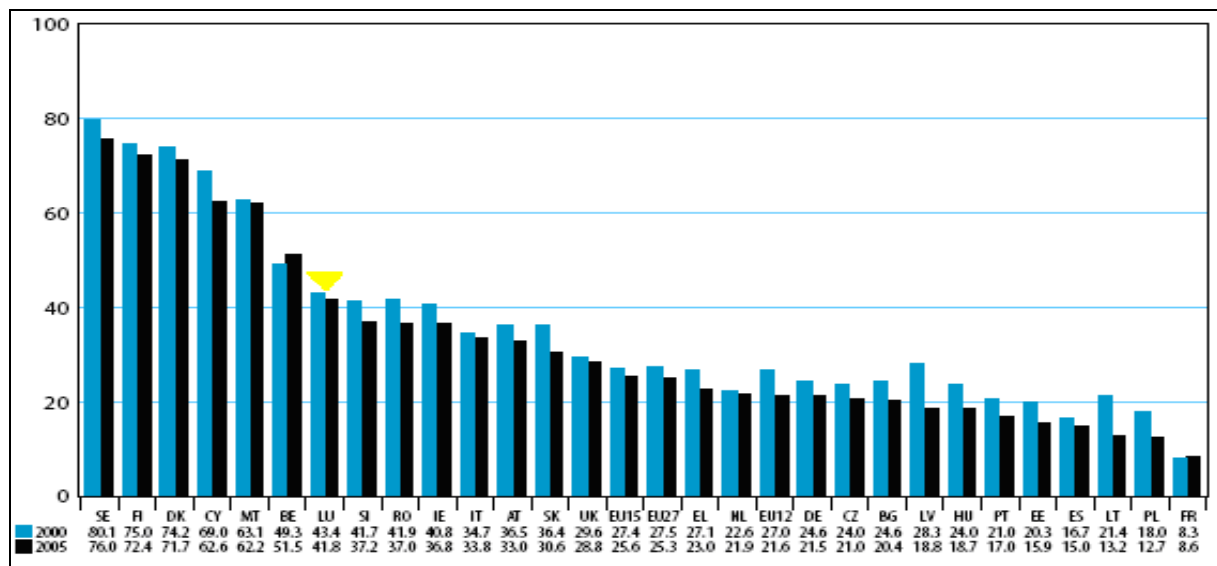
Besides trade unions and employers' organisations, there is an extensive system of chambers, which operate as umbrella organisations for employers and employees in given sectors. Additionally, there are tripartite industrial relations institutions charged with the mission of conducting analyses of the employment situation or the general economic situation and its influence on employment.

**1.2. Trade unions**

Freedom of collective industrial organization is guaranteed by Article 11(5) of the Luxembourg Constitution and by ILO Convention No. 87, which was ratified by Luxembourg in 1958. It gives workers the right to protection from all forms of discrimination that threaten trade union freedom in the context of employment.

Trade union density in Luxembourg is rather high at 45% in 1990 and increasing to 46% in 2004<sup>34</sup>. Like other European countries membership has contracted in recent years, to 40.4% in 2006<sup>35</sup>. Despite this negative trend, trade union density in Luxembourg remains well above the EU average.

Trade union density, EU-25, 2000/ 2005



Source: European Commission: *Industrial Relations in Europe 2008*, p. 74.

Luxembourg is characterized by structural pluralism of trade unions. Two trade union confederations - both members of ETUC and active mainly in the private sector - meet the national requirements to be "representative":

- ✧ Confederation of Independent Trade Unions (*Onofhängege Gewerkschaftsbond Lëtzebuerg*, OGB-L), is a group of 16 trade unions with a total of 50,000 members (socialist oriented);
- ✧ Confederation of Christian Unions in Luxembourg (*Lëtzebuenger Chrëschtliche Gewerkschaftsbond*, LCGB), a group of 16 federations made up of 10 sector federations and six that organise specific target groups, representing 40,000 members.

OGB-L and LCGB have a joint European secretariat, and since 2002 a joint office to solve issues related to the economic changes and restructuring in the steel industry. The office was created following the ARBED takeover by Mittal.

<sup>34</sup> *Industrial Relations in Europe 2008*, European Commission p. 73.

<sup>35</sup> ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 34 countries between 1960 and 2007.

OGB-L and LCGB are both members of the ETUC.

Another important trade union is a white collar union (*Association Luxembourgeoise des Employés de Banques et d'Assurances*, ALEBA), active in the banking, financial services, and insurance sector. In the public sector the CGFP (*Confédération Générale de la Fonction Publique*) is the most representative trade union. It is composed of 11 sub-organisations. They dominate the elections for the Chamber of Civil Servants (80% of the votes). In the local public sector the FGFC (*Fédération Générale de la Fonction Communale*) is active.<sup>36</sup>

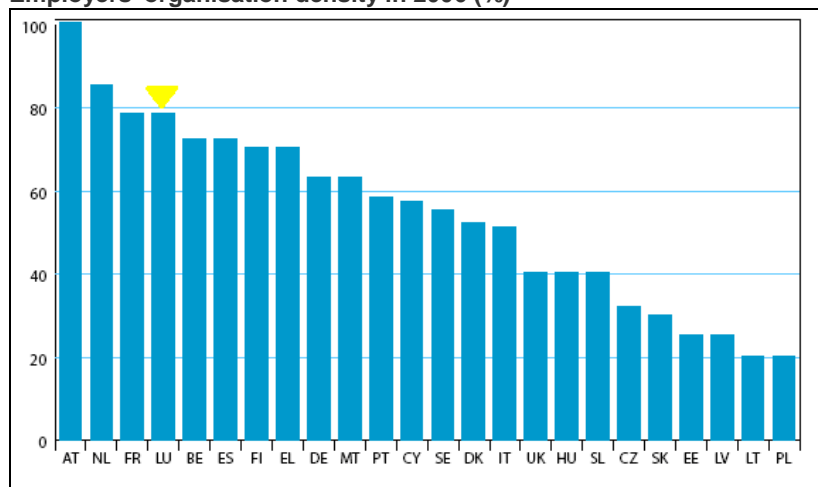
It is important to note that in Luxembourg there are precisely defined representation criteria. To be representative at a general national level, the trade union must, at the previous two elections to the Chamber of Employees, have won an average of 20% of the vote among blue collar and white collar workers, and an average of 15% of the vote in each of the two categories. A trade union claiming nationally representative status must also be functionally active in most branches of economic activity. These conditions for obtaining national representation status were formulated by the Industrial Relations Law of 2004.

Trade unions are closely involved in the social and political life of the country. They conclude collective agreements, play an important role in resolving individual or collective labour disputes, are represented on employee committees and joint works committees, have seats in the Chamber of Employees, participate in the management of the sickness and maternity insurance funds and pension funds, are involved in the works of the Economic and Social Council, and exert a degree of influence on government policy within the context of the tripartite meeting<sup>37</sup>.

### 1.3. Employers' Organisations

Employers' organisations density in Luxembourg is much higher than the union one. At around 80%<sup>38</sup> it is one of the leading countries in this category amongst the EU27.

Employers' organisation density in 2006 (%)



Source: ICTWSS database. No data are available for Bulgaria, Ireland and Romania.

The major employers' organisations in Luxembourg are<sup>39</sup>:

- ✧ The Federation of Luxembourg Industrialists (FEDIL), representing companies from construction, manufacturing, and services sectors, and a member of BUSINESSEUROPE;

<sup>36</sup> *Luxemburg: Industrial Relations Profile*, European Foundation for the Improvement of Living and Working Conditions, 2004

<sup>37</sup> G. Thomas, *European employment and industrial relations glossary: Luxembourg*, European Foundation for the Improvement of Living and Working Conditions, Sweet and Maxwell Office for Official Publications of the European Communities, 1999, p.13

<sup>38</sup> J. Visser, *Industrial relations in Europe 2004*, quotation after: *Luxemburg, Industrial Relations Profile*, European Foundation for the Improvement of Living and Working Conditions, 2004.

<sup>39</sup> It is worth noting that there are two members of UEAPME - FDA and CDM - that are important actors for the European level social dialogue.

- ◇ The Luxembourg Bankers' Association (ABBL);
- ◇ The Insurance Companies Association (ACA);
- ◇ The Commerce Employers Association (CLC);
- ◇ The Federation of Artisans (FdA);
- ◇ The Hotel and Catering Employers Association (HORESCA)<sup>40</sup>.

Apart from the employers' associations mentioned above, the Union of Luxembourg Enterprises (UEL) deserves mention. It is a principal confederation, consisting of eight member organisations, which represents all private sector companies except those related to the primary sector. The UEL was founded in 2000 as a result of formalising an existing liaison committee of sectoral business organisations. Besides employers' organisations, members of UEL are also the Chamber of Commerce and the Chamber of Artists. UEL has the right to conclude conventions, one of them being a convention on individual access to continuing vocational training.

#### 1.4. Professional chambers

The chamber system of Luxembourg is quite complex and has a long history. It was founded in 1924, following the strike of 1921. There used to be six chambers: three were created for employers (Chamber of Trade, Chamber of Artisans and Chamber of Agriculture) and three for employees (Chamber of Labour, Chamber of Private Employees and Chamber of Civil Servants). Recently, there was a fusion of the Chamber of Private Employees and the Chamber of Labour and the newly created chamber became operational on 1 January 2009. As a result, at present there are two chambers on the employee side - the Chamber of Employees and the Chamber of Civil Servants and Public Sector Employees.

Membership in the chambers is compulsory. Chambers enjoy public-law status representing their members' interests and participating in state regulatory functions<sup>41</sup>. The chambers play a consultative role in the law-making process on social and economic issues affecting their members' interests. They have also the right to submit legislation drafts to the Government. In certain matters (e.g. the collection of statistics) chambers function as public administrative bodies. Additionally, they also participate in the supervision of vocational training, particularly apprenticeship.

Chamber delegates are generally elected every five years. The law also prescribes the financing of the chambers. They are entitled to raise a membership fee and ask for contributions for services rendered<sup>42</sup>.

#### 1.5. Economic and Social Council

The Economic and Social Council (*Le Conseil économique et social*) is a bipartite body, founded in 1966, consisting of an equal number of employer and employee representatives. Employers' representatives are organised by sectors of the economy, while employee representatives have ten seats for employees from the private sector, three for civil servants and employees of the public sector and one for a representative of the transport sector. On the top of that, seven seats are foreseen for independent experts: four are chosen by employers' organisations and trade unions and three are mandated by the government.

The Council is one of the government's consultative bodies charged with the task of analysing economic, financial and social issues related to chosen sectors of economy or to the economy as a whole. The Council convenes at the request of the government or on its own initiative.

The most recent change in the Council's operation took place in 2004 with a view to adapting its functioning to the present socio-economic situation. The changes were induced by structural change in the economy as well as integration of European policies. As a result, the Council is charged with assisting the social dialogue at the national level and in drafting the national plan for participation in the European social dialogue. Changed scope of responsibilities also influenced the composition of the Council. At present it consists of 39 members and there are more social partner representatives:

<sup>40</sup> In the literature this Chamber is sometimes called "Chamber of White Collar Workers", but it does not correspond to its French name ("*chambre des employés privés*").

<sup>41</sup> P. Kenis, *Luxembourg*, The European Association of Craft, Small and Medium-sized Enterprises, (<http://www.ueapme.com/docs/projects/Project%20Business%20Associations/LUXEMBOURG.pdf>)

<sup>42</sup> *Luxembourg. Industrial relations profile*, European Foundation for the Improvement of Living and Working Conditions, 2004.

there are 18 member representing employers (13 representatives from enterprises, 2 representatives from liberal professions and 3 representatives from the agriculture sector) and 18 representing trade unions (14 representatives of the private sector employees and 4 representatives from the of public servant and public sector employees).

### 1.6. The Committee of Conjecture

The Committee of Conjecture (*Comité de conjoncture*) was funded in 1975 and is a tripartite body that carries out monthly analyses of the Luxembourg labour market. Its activities are aimed at preventing collective dismissals caused by the economic situation and to ensure protection of employment. The Committee is also responsible for providing views on measures aimed at protecting employment (*le plan de maintien dans l'emploi*), for example allowing an enterprise to enter the partial unemployment scheme (*chomage partiel*), deciding about early retirement schemes or approving the introduction of public intervention works as a response to the worsening economic conditions in which an enterprise operates.

The regulation of 2007 stipulates composition of the Committee of Conjecture: it consist of 23 members, there are eleven members representing the government (the Minister of Economy and three representatives delegated by him/her, the Minister of Labour and three representatives delegated by him/her and the Minister of Finance and two representatives delegated by him/her), six representatives of employers' organizations and six representatives of nationally representative trade unions. As a result of this change, there will be more representatives from among social partners' organizations in comparison with the former composition of the Committee.

It is important to note that in case of Luxembourg the Committee is one of the most important institutions involved in managing of the restructuring processes at the enterprise level, i.e. by examining the economic situation of a given enterprise and approving/denying the introduction of the partial unemployment scheme. It is a very pragmatic institution with precisely defined tasks.

### 1.7. The National Employment Commission

The National Employment Commission (*La Commission nationale de l'emploi*) is a tripartite advisory body created in 1976 under the auspices of the Minister for Labour. The Commission is charged with the task of advising the Government on the formulation and administration of employment policy and thus it is empowered to issue opinions either at the Minister's request or on its own initiative<sup>43</sup>. The total number of Commission members is 21. There are an equal number of representatives of the three partners; seven representatives of Government, seven representatives of the employers' associations (seats are divided by sectors) and seven representatives of the most representative trade unions. It is chaired by the Minister and the mandate's duration is four years.

It is important to note that despite the fact that the National Employment Commission could play an important role in shaping employment policy, the reality today is that it is a "dead institution". It has not convened for many years and has not formulated opinions. A possible explanation for this situation could be relatively large number of institutions charged with overlapping responsibilities and with the same composition of members.

### 1.8. The Tripartite Co-ordination Committee

The Tripartite Coordination Committee (*Le Comité de coordination tripartite*) was created in 1977. Its role was to offer responses to employment challenges that were brought by the 1970s crisis. The Committee is composed of 12 members with an equal participation of four representatives from each of three groups:

- ✧ Four representatives of the government include the Prime Minister, the Minister of Economy, the Minister of Labour and Social Security and the Minister of Finance;
- ✧ Four representatives of the employers' organisations (comprising two mandated by the Chamber of Trade and one each from the Chamber of Artisan Chamber of Agriculture);
- ✧ Four representatives of the trade unions representative at the national level (consisting of three delegates from trade unions and one delegate representing public sector employees).

<sup>43</sup> The EMIRE database, European Foundation for the Improvement of Living and Working Conditions, (<http://www.eurofound.europa.eu/emire/LUXEMBOURG/NATIONALEMPLOYMENTCOMMISSION-LX.htm>)

The function of the Committee is to intervene through tripartite meetings convened whenever a worsening of the economic and social situation calls for general measures aimed at maintaining employment levels. The government participates directly in this committee. The Committee can be charged with analysis of the conditions for introducing such measures as the reduction of overtime, rules of compensation for enterprises in case of the introduction of partial unemployment schemes as well as reduction of production costs with a view to protecting employment.

The main achievement of the Committee was to enable the restructuring of the steel industry during the 1980s with big job cuts by ARBED, when an Emergency Employment Scheme was created to absorb surplus workers. This tripartite system developed from an effective crisis management tool into a consultation mechanism that today systematically seeks consensual solutions for economic and social problems that do not necessarily constitute a crisis<sup>44</sup>.

### 1.9. The Committee on Female Work

The Committee on Female Work (*Le Comité du travail féminin*) was created in 1984. It is a consultative institution charged with analysing, either at the government request or on its own initiative, issues related to professional activity, professional training and the promotion of female employees. The Committee has the right to propose to the government or the Ministry of Labour initiatives that could improve situation of women in the labour market. The Committee consists of 21 members, which are mandated for three years by the Minister of Labour: there are four representatives of the National Council of Women of Luxembourg, four representatives of employers' organizations, four representatives of trade unions the most representative at the national level, and nine representatives for the government from different ministries and institutions dealing with employment issues such as l'ADEM or the Director of the continuing professional training.

Whilst the Committee has a role in re-shaping labour market participation amongst women, it does not play any particular role in management of the economic restructuring processes.

### 1.10 The Permanent Employment Committee

The Permanent Employment Committee (*Le Comité permanent de l'emploi*) is a tripartite body which functions under the auspices of the Minister for Labour and Employment created by a Law of 31 July 1995. The Committee operated until December 2007, when it was incorporated in the structures of the Standing Committee on Labour and Employment and Instance for Tripartite Mediation.

### 1.11 Standing Committee on Labour and Employment

The Standing Committee on Labour and Employment is a tripartite body, established by the Law of 21 December 2007, which is part of the legal amendments reforming the Labour and Mines Inspectorate. The committee is composed of 12 members, equally divided (by 4) among government, employees' and employers' representatives, and chaired by the Minister of Labour and Employment. It is possible that social partner bring their experts to the meetings; they are eligible to participate with a consultative voice. The role of the committee is to:

- ✧ Issue proposals on actions to be taken with a view to improving the efficiency of services offered to companies and jobseekers;
- ✧ Examine issues such as changes in employment, vocational training, and social legislation;
- ✧ Examine changes in working conditions and workers' health and safety;
- ✧ Monitor the situation and developments at the workplace, in particular these concerning the application of occupational health and safety legislation and of labour law;
- ✧ Examine the relationship between Labour and Mines Inspectorate and employers and workers, and the way in which social dialogue is encouraged between employers and workers' representatives within companies<sup>45</sup>.

In addition to above mentioned issues, within the framework of the Committee an individual conciliation pre-judicial employment body has been set up. Its aim is to act as a mediator in proposing settlements of disputes relating to labour law and workers' health and safety so the case would not have to be taken to the court.

<sup>44</sup> P. Kenis, *Luxembourg*, The European Association of Craft, Small and Medium-sized Enterprises, (<http://www.ueapme.com/docs/projects/Project%20Business%20Associations/LUXEMBOURG.pdf>)

<sup>45</sup> O. Wlodarski, *New committee to monitor labour market and working conditions*, European Industrial Relations Observatory online (<http://www.eurofound.europa.eu/eiro/2008/01/articles/lu0801029i.htm>)

What is new in the approach of the Standing Committee is that, while analyzing labour market in Luxembourg, it takes into consideration international developments and context. This is a new approach for the industrial relations institution, and it demonstrates the importance of globalization in changing the nature of labour market at the national level.

**1.12 Observatory of Industrial Relations and Employment**

The Observatory of Industrial Relations and Employment (*L’Observatoire des relations professionnelles et de l’emploi*, ORPE) was established in 2000. It is another tripartite institution of industrial relations in Luxembourg which is to function in an informal way. There are six members of the Observatory: two representatives of the employers’ organizations, two representatives of the trade unions and two representatives of the Ministry of Labour and Employment. It is foreseen that experts from different institutions active in industrial relations will be invited to join the meeting of the Observatory, i.e. from l’ADEM or from the STATEC.

The principal goal of the Observatory is to follow developments in Luxembourgish industrial relations. One of the employees of the Observatory is the national correspondent for the Dublin Foundation. What seems to be especially interesting from the point of view of managing restructuring is that, among others, the Observatory conducts analysis on:

- ✧ Developments in the field of industrial relations and its influence on employment and vocational training;
- ✧ Social partners’ input to drafting action plans aimed at promoting employment, vocational training, collective agreements and agreement on intersectoral social dialogue;
- ✧ Developments in continuing vocational training.

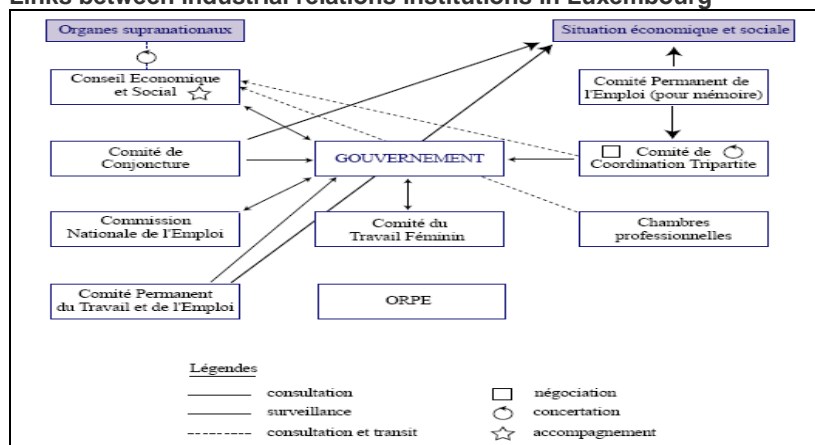
The table below summarises the complex activities performed by the Luxembourgish industrial relations institutions, while the graph shows relations and interactions among them.

**Activities of industrial relations institutions in Luxembourg**

	Concertation	Consultation	Surveillance	Transfer	Accompanying measures	Negotiations	Follow up
Economic and Social Council							
The Committee of Conjunction							
The National Employment Commission							
Tripartite Coordination Committee							
The Committee of the Female Work							
The Permanent Employment Committee							
Standing Committee on Labour and Employment							
ORPE	Special activities						

Source: *Les relations professionnelles au Luxembourg, EURES Luxembourg, 2008, p. 57*

**Links between industrial relations institutions in Luxembourg**



Source : *EURES Luxembourg : Les relations professionnelles au Luxembourg 2008, p. 59.*

In conclusion, it can be suggested that despite the fact that Luxembourg is such a small country, the industrial relations institutions' density is substantial. These institutions not only serve as fora for negotiations and discussions, but also attempt to predict future trends and assess their potential impact on employment. Institutions created more recently have been quite successful in providing regular fora for discussing ongoing labour changes and development in tripartite setting. The characteristic feature of the social dialogue in Luxembourg is its tripartite nature. The involvement of representatives of public administration ensures that agreements or proposed regulations can be backed up with the appropriate laws and funding. From this point of view the model nonetheless seems to be extremely efficient, although it sometimes does not satisfy the aspirations of one or other of the social partners. Additionally, broader Luxembourg society has been generally willing to accept policy solutions developed in the tripartite setting. It is important to note that a potential danger of such a large number of labour market institutions is the potential for overlap of responsibilities and the subjects discussed in the large number of institutions.

Some challenges faced by the tripartite approach have been pointed out by Mario Hirsch<sup>46</sup>. One of them is the length of discussions and the desire to find acceptable compromise. He gave the example of the lengthy negotiations that took place in case of restructuring in the steel sector in the 1980s. The length of negotiations and inability to conclude an agreement resulted in government decisions to introduce very harsh measures aimed at improving the situation that were strongly opposed by trade unions. The conclusion was that the government is not a social partner and that it should not be treated as one; and that it has the right, and sometimes the obligation, to introduce unpopular solutions as its role is to rule the country.

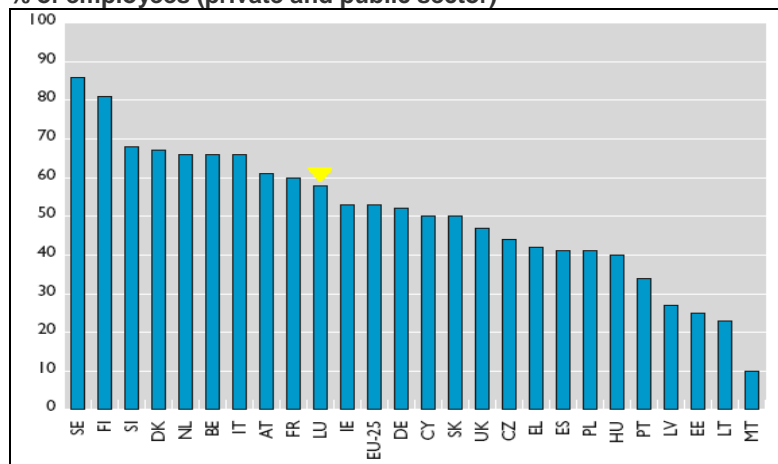
Whilst there is a strong focus on tripartism in the Luxembourg system at the national level, bipartite social dialogue is the most important at the enterprise level and this is referred to in the following paragraphs.

## 2. Employee participation and co-determination at different levels

### 2.1. Workplace representation

There are two basic structures for employee representation at the enterprise level: these are employee committees (*délégation du personnel*) or joint company committees (*comité mixte d'entreprise*). In some cases, employee representatives sit on the company board. According to the European Social Survey, workplace representation is high, reaching 58%, which places Luxembourg above the EU25 average<sup>47</sup>.

**Trade union or similar presentation at the workplace,  
% of employees (private and public sector)**



Source: European Commission, *European Industrial Relations Report 2006*, p. 71.

<sup>46</sup> M. Hirsch, *Le „Modèle luxembourgeois“ et ses limites* [in:] *L'histoire, le présent et l'avenir du modèle luxembourgeois*, S. Allegrezza, M. Irschand N. Von Kunitzki(ed.), Institut d'études européennes et internationales du Luxembourg, Luxembourg 2003, p. 151-155.

<sup>47</sup> Data from 2002



*Employee committees*

According to the legislative act of 18 May 1979 all enterprises employing 15 or more employees in any sector of the economy are obliged to set up employee committees. Their general function is to safeguard the interests of workers with respect to terms and conditions of employment, job security and social rights. In addition to this, the committees are called on to present opinions and formulate proposals on any matter relating to these issues. The committee members are directly involved in collective bargaining through their unions and when a dispute occurs, they are designated by the unions to represent them before the National Conciliation Service (for more see point 2.2).

The representatives on employee committees are directly elected by all employees every five years in "social elections". There are both trade union candidates and "neutral" ones with no trade union affiliation. The last elections took place in November 2008 and in total, more than 1,600 delegations were formed, comprising almost 6,000 personnel representatives. The OGB-L won about 30% seats overall, whereas the LCGB achieved 15% of the seats<sup>48</sup>.

*Joint company committees*

Private sector companies employing 150 or more workers over a three-year reference period are obliged to set up a joint company committee. The committees were introduced under legislation in 1974. They are made up of equal number of employer and employee representatives and chaired by the head of enterprise or a delegated representative. Opinions and decisions are taken by absolute majority.

The joint company committee is a forum where employees and employers work together with a view to improving industrial relations at the workplace. It has a decision-making, consultation and monitoring responsibility. Issues discussed include recruitment, promotion, transfer and dismissal policies, employee appraisal, amendment of the work rules, regulation of health and safety matters, and the use of technical devices to monitor employees' conduct or to measure their performance. Apart from that, at least once a year joint company committees must be informed about and consulted on the company's current and prospective staffing needs as well as necessary training/retraining initiatives.

*Board representation*

According to the Luxembourgish legislation of 1974 employee representatives are also present at board level. It is in case of all companies based in Luxembourg:

- ◇ Employing 1,000 workers over a reference period of three years; or
- ◇ Irrespective of the number of the employed, but when the state has at least 25% of shares or the government offers a concession to carry out their main activity.

In the first type of companies, employee representatives have one-third of the seats on the board of directors and no fewer than three members. In companies with state involvement, there is one employee representative for every 100 employees with a minimum of three employee representatives and a maximum of one-third of the total board.

**2.2. Collective bargaining**

The law of 12 June 1965 with amendments introduced in 1986 and 2004 regulates the conclusion of collective agreements and grants national representative status to trade unions. There are two levels of collective bargaining in Luxembourg, enterprise level and sector level. The 2004 amendment made the conclusion of cross-sector agreements possible, however the inter-sectoral collective bargaining and collective agreements are very rare. Collective agreements are concluded between individual employers and trade unions at the enterprise level or between employers' associations and trade union representatives at the sectoral level. Any employer requested by a representative trade union to take part in the negotiations aimed at concluding a collective agreement is obliged to begin talks. But, where a collective agreement is not concluded, the sides are obliged to follow the conciliation procedure involving the National Conciliation Office.

*The National Conciliation Office*


---

<sup>48</sup> O. Wlodarski, *Trade union federation in strong position after workplace elections*, European Industrial Relations Observatory online (<http://www.eurofound.europa.eu/eiro/2008/12/articles/lu0812029i.htm>)

This institution is charged with the task of seeking to prevent or settle collective industrial disputes. If an agreement is concluded, it has the status of new collective agreement. If an agreement fails to be reached, a “statement of non-conciliation” is drafted by the Office. Producing such a statement enables workers to call a legal strike, provided that it is supported by a nationally representative trade union<sup>49</sup>. In Luxembourgish industrial relations history strikes are extremely rare<sup>50</sup>, and mediation by the office is mandatory. Strikes or lock-outs may not take place without the use of dispute settlement machinery under a threat being fined.

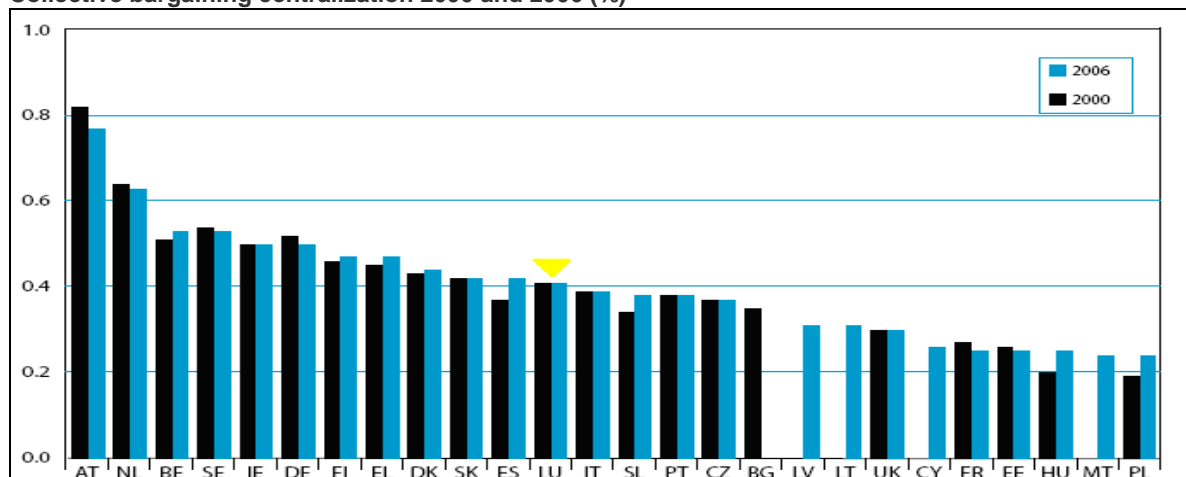
The National Conciliation Office consists of:

- ✧ The Minister of Labour (or his/hers delegate) as chair;
- ✧ Three employers’ representatives appointed by the Minister based on the recommendation of professional organisations of employers; and
- ✧ Three employees’ representatives appointed by the Minister based on the recommendation of trade unions.

Additionally, one or more representatives of the employers and employees of the enterprise or occupation concerned may be appointed.

The index on centralisation of collective bargaining indicates that Luxembourg is in the middle of all the EU25 Member States and did not change between 2000 and 2006. Recently there have been signs of decentralisation in the collective bargaining process. However at the national level the first cross-industry agreement was signed by the social partner organisations on telework<sup>51</sup>. It is difficult to predict whether more cross-sector agreement follow in the future.

**Collective bargaining centralization 2000 and 2006 (%)**



Source: *Industrial Relations in Europe 2008*, p. 76. Data based on the ICTWSS database.

NB: Data on Cyprus, Estonia, Latvia, Lithuania, Luxembourg and Malta refer to 2005 rather than 2006; no data available for Romania.

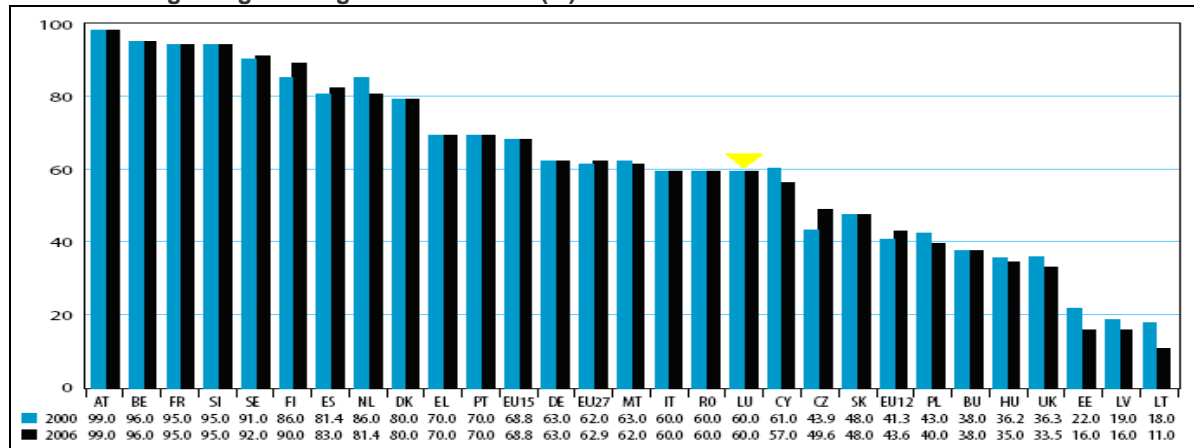
In Luxembourg about 60% of employees have their terms and conditions of employment regulated by collective bargaining, which is few per cent below the EU average and rather low when compared to the Western European countries. Those who are excluded work primarily in the SMEs sector.

<sup>49</sup> The regulation relating to the representative status of trade unions distinguishes between three types of trade unions: with national representative status, representative in an important sector of economy or backed by at least 50% of those covered by a specific collective agreement.

<sup>50</sup> This remark concerns economic strikes at the enterprise, profession or sector levels ; there has never been a general or political strike in Luxembourg in the past decades.

<sup>51</sup> O. Wlodarski, *Social partner agreement opens the way for telework*, European Industrial Relations Observatory online (<http://www.eurofound.europa.eu/eiro/2006/06/articles/lu0606029i.htm>).

**Collective bargaining coverage 2000 and 2006 (%)**



Source: *Industrial Relations in Europe 2008*, p. 78. Data based on the ICTWSS database. No data are available for Ireland. Data on Estonia, Latvia, Lithuania, Malta, Slovenia and Romania refer to 2005 instead of 2006

Collective bargaining is based on a single collective-agreement system. All employees of an enterprise (except for senior executives), in which a collective agreement was concluded, are bound by its provisions<sup>52</sup>. When a collective agreement is accepted by a qualified majority of a given occupation, it may be declared generally binding for all employers and employees in the occupation concerned. Where no sectoral agreement exists, bargaining at the company level may take place in, for example, large retail outlets, major parts of the hotel and catering industry and large companies such as Arcelor. In the public sector there is one binding national collective agreement that regulates terms and conditions of employment for all employees who have a private-law contract of employment<sup>53</sup>.

Collective agreements must include rules on premium pay for night work and dangerous working conditions, and on the application of the principle of equal pay without any sex-based discrimination. In addition, collectively agreed provisions may not be less favourable for employees than those laid down by national law. In 2005 there were some 250-300 collective agreements in force; approximately 100 of them are renewed every year. In the banking and insurance sector agreements concluded every two or three years.

In Luxembourg a mechanism of automatic wage indexation assures that wages, salaries and certain social benefits are automatically adjusted to the cost of living. The calculation is made on the basis of the household expenditure on a range of commodities and used to measure changes in the cost of living. According to a sliding pay scale, automatic adjustment of all pay and benefits fixed by law, collective agreement or individual contract, including the minimum wage, is triggered when the weighted retail prices index passes a certain threshold (the average change over the preceding six months has exceeded 2.5%). However, the government can suspend the automatic indexation in an economic downturn, which was the case between 1981 and 1984 in the second oil crisis. The automatic adjustment mechanism was re-established (with provision for action to be taken in the event of a renewed economic crisis) in 1985. During the present economic crisis wages were indexed automatically in March 2009, however, discussions have commenced on whether the mechanism should be suspended in the near future.

*Minimum wage*

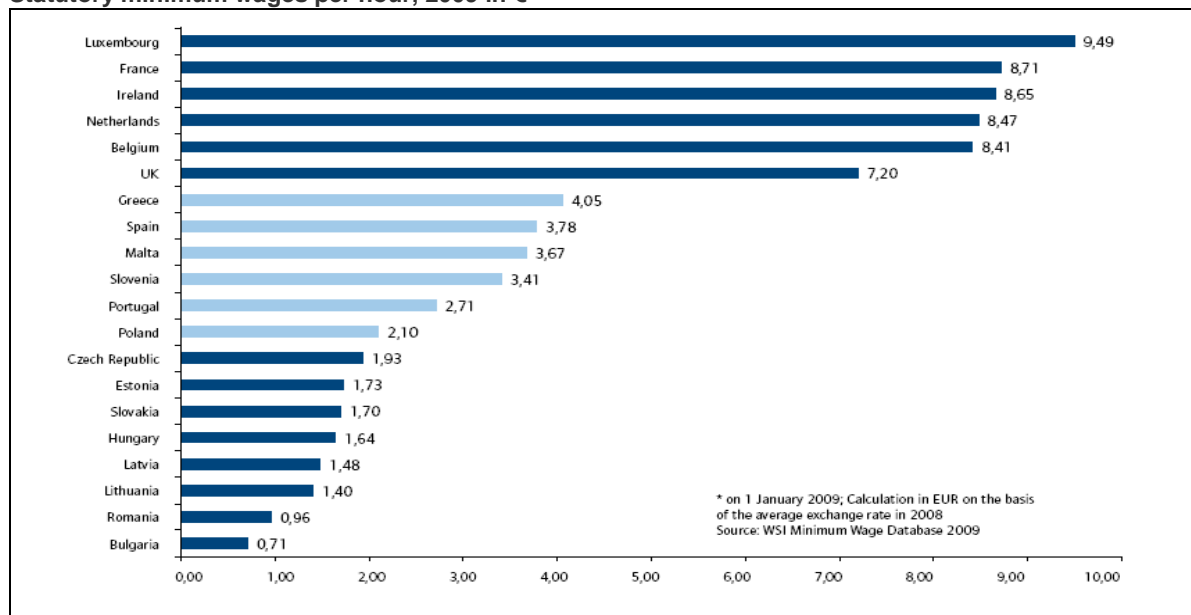
Under the Law of 12 March 1973, the statutory minimum wage applies to all employees in all occupations and in all enterprises under a contract of employment on Luxembourg's territory. Minimum wage rates are determined on the basis of the employee's age and skills. Every two years, the government is obliged to submit to the Chamber of Deputies a report on developments in the economy and incomes, accompanied, where necessary, by draft legislation raising the level of the

<sup>52</sup> If there are supplementary provisions specific to particular occupations, they are placed in the annex.

<sup>53</sup> G.Thomas, *European employment and industrial relations glossary: Luxembourg*, European Foundation for the Improvement of Living and Working Conditions, Sweet and Maxwell Office for Official Publications of the European Communities, 1999, p.17

minimum wage<sup>54</sup>. In January 2009 the minimum monthly wage of the unskilled worker was € 1,641<sup>55</sup>; there was an automatic indexation in March 2009, which increased the minimum salary to € 1,682. The minimum wage in Luxembourg is by far the most generous minimum wage in the EU, and more favourable conditions are often written into company level or sector-level collective agreements.

**Statutory minimum wages per hour, 2009 in €\***



Source: ETUI Policy brief, Issue 2/29

### 3. Micro- and macroeconomic restructuring as an issue of social dialogue and collective bargaining

#### 3.1 The legal framework of employee involvement in company based restructuring operations

In Luxembourg there are a variety of legal regulations and mechanisms that ensure social partner involvement in the restructuring process at the company level.

Firstly, the law regulating the functioning of the employee committee and joint company committee (Law of 18 May 1979) establishes the committees as the fora for information and consultation in the planning stage and anticipation of restructuring. They are also the platform for employer-employee dialogue and reaching compromise solutions. Alongside playing a consultative role, it is also involved in the decision-making process on the content of restructuring related programmes and plans (i.e. *plan social*).

Secondly, there is a law on collective dismissals which identifies two types of dismissal: termination of employment through reason of employee behaviour or performance and termination of employment due to reasons unrelated to the employee. In the first case a collective dismissal takes place when at least seven employees are dismissed within a period of 30 days or at least 15 employees within a period of 90 days. The second type of collective dismissal takes place while there are five cases of dismissals during three months or eight during six months.

Before executing collective dismissals, the employer is obliged to enter into negotiations with employee representatives (employee committees or joint works committees depending on the enterprise). In the event that there is a collective agreement in force, the employer is obliged to negotiate with the signatory unions for the purpose of reaching a *plan social* (redundancy programme). The principal aim of the programme is to reduce the number of necessary collective dismissals or to mitigate their consequences. The procedure is the following: the employer is obliged

<sup>54</sup> M. Feyereisen, *Minimum wage increased by 3.1%*, European Industrial Relations Observatory online (<http://www.eurofound.europa.eu/eiro/2001/01/inbrief/lu0101155n.htm>)

<sup>55</sup> As reported by the Federation of European Employers, <http://www.fedee.com/minwage.html>, 29.07.2009

to send a written notice to employee representatives with a copy to l'ADEM stating the reasons for dismissals, the number of employees concerned and the planned period for executing dismissals. The law foresees 15 days for agreeing a social plan. If agreement is not reached, the case must be passed to the National Conciliation Office and a joint conciliation committee should issue a memorandum within 15 days of receiving the case. When such a memorandum is signed, the employer is entitled to issue individual notices of dismissals, which take effect after 75 days (unless there are more favourable agreements in force). If the employer fails to comply with these requirements, the dismissed employee is entitled to claim compensation for unfair dismissal or to apply to have their dismissal declared null and void, which results in continuation of their employment or reinstatement<sup>56</sup>.

For companies employing 15 or more people, all collective dismissals due to reasons unrelated to employee actions should be reported to the Committee of Conjunction. All types of employment contracts (except for apprenticeship contracts) are taken into consideration when calculating the employment level of the company in question. It also concerns those part-time workers who work 16 or more hours a week. There are special rules for calculating effective working time for those employed on the basis of fixed-term contracts or temporary workers<sup>57</sup>.

Thirdly, the law of 22 December 2006 on promoting maintaining employment and defining special measures in the field of social security and environmental policy brought some amendments to the Labour Code. One of the amendments introduced the obligation that an employer who employs at least 15 people has to inform the Committee of Conjunction about all dismissals not-related to employee conduct or performance. This information should be submitted at the latest at the moment of giving notice. It is possible to submit this information in electronic version via email. Another change (application of article 115-1 L.I.R. and 115-0 L.I.R) stipulates that the non-taxed amount of the compensation paid in case of voluntary leaves caused by complete or partial closure down of an enterprise should not exceed twelve months minimum social wages for unskilled workers. Next, the law resulted in amendments on the introduction of the partial unemployment schemes. It stipulates that the employer is responsible for paying the salary for the first 16 hours of partial unemployment scheme (monthly). The Labour Fund pays for the 17<sup>th</sup> and the next hours of the "lost" working time. It covers 80% of the gross hourly wage of an employee. The partial unemployment scheme should not exceed 50% of the regular working time per month (more on partial unemployment can be found in 3.2). The law of 22 December 2006 also introduced a new instrument, the plan for maintaining workers in employment (*le plan de maintien dans l'emploi*) described in 3.2 below. Finally, the law regulates the participation rate of enterprises in pre-retirement arrangements, which may be important in implementing a plan of maintaining in employment<sup>58</sup>.

Fourthly, once an employer informs l'ADEM about planned collective dismissals on the basis of article L.166-4 (1) it is necessary to agree a social plan (*le plan social*). During the negotiations of the social plan with the social partners the following issues are most commonly included. The possibility of preventing collective dismissals or reducing their scope; and the possibility of mitigating the effect of restructuring by introducing accompanying measures like assistance in professional reconversion of dismissed workers, and possibilities for assisting in their immediate reinsertion on the labour market. The issues discussed for the purposes of drafting social plan are the same as the ones necessary for drafting the plan of maintaining employment. If a plan has been approved by the Ministry within previous six months, the enterprise does not have to enter negotiations for a new social plan.

In addition, the social partners are involved in the negotiation of compensation packages. The severance pay regulated by law amounts to two months' salary in case of employment up to 5 years; four month's salary in case of employment between 5 and 10 years and six month's salary in case of employment longer than 10 years. It is also common that employment termination is compensated (*indemnité de rupture*) by one month's pay in case of employment between 5 and 10 years and two month's salary in case of employment longer than 10 years. Additional elements of compensation are

<sup>56</sup> The European Foundation for the Improvement of Living and Working Conditions, EMIRE, *Luxembourg Collective dismissal/redundancy*, <http://www.eurofound.europa.eu/emire/LUXEMBOURG/COLLECTIVEDISMISSALREDUNDANCY-LX.htm> .

<sup>57</sup> *Les licenciements non inhérents à la personne*, Comité de Conjoncture, [http://www.cdc.public.lu/instruments/4\\_licenciements/index.html](http://www.cdc.public.lu/instruments/4_licenciements/index.html)

<sup>58</sup> *Modifications apportées au Code du Travail par la loi du 22 décembre 2006*, [http://www.cdc.public.lu/instruments/1\\_modif\\_2007/index.html#1](http://www.cdc.public.lu/instruments/1_modif_2007/index.html#1) (information dated 28.02.2007); *Droit du travail, fiscalité et sécurité sociale. Nouvelles dispositions légales applicables*, FEDIL, Serie "Information rapides".

negotiated at the level of the sector; however, the total compensation package cannot exceed a maximum of one year's salary.

### 3.2 New labour market policy instruments in order to better react to restructuring at the enterprise level

Luxembourg has introduced a significant number of new measures to cope with the current crisis. The country's sound public finances have facilitated the implementation of a number of supportive policy measures.

#### *Partial unemployment (le chômage partiel)*

The partial unemployment scheme aims to provide financial aid for enterprises facing temporary difficulties to enable them to survive without collective dismissals or to limit the scope of temporary dismissals. It can be triggered only once other measures such as reduction of intermediary work, eliminating overtime or consuming overdue holidays have been implemented. It is important to note that executing collective dismissals is not possible during the period an enterprise has entered the partial unemployment scheme. The partial unemployment scheme can be implemented in two situations: the first being economic one (*chômage partiel de source conjoncturelle*) and the second being structural one (*chômage partiel de source structurelle*).

In the case of introducing partial unemployment for economic reasons, economic difficulties in a given sector have to be announced by the government. Then, the verification of difficulties in the sector in question and in the individual enterprise is required. There are two practices depending whether the enterprise has training plan or not. When a training plan exists, the enterprise is obliged to identify training programmes corresponding to the training plan, identify participants of the schemes and send the information to l'ADEM, reimbursing the salary for the effective hours of training in cases where training is shorter than 16 hours a month or the whole salary if the training is longer than 16 hours a month<sup>59</sup>. In this case, 14.5% of the cost defined by article L.542-13 of the Labour Code is covered by the Ministry of National Education and Vocational Training (le MENFP).

If an enterprise does not have training plan, it is contacted by INFPC (*l'Institut National pour le développement de la formation continue*) that proposes available training programmes. The enterprise has to conduct *bilan de compétence* of their workforce and send it for the opinion of the employee committee of joint works committee. In this case, 50% of the real cost of training programme is covered by the Funds for Employment (*le Fonds pour l'Emploi*).

An individual worker also has the right to access a partial unemployment scheme at his/her own request. Evening courses are also regarded as training hours eligible for reimbursement and the same rule "of 16 hours" applies. Training courses can be organized by Chambers (i.e. Chamber of Commerce or Chamber of Artisans) or training vendors.

Support granted within the framework of partial unemployment schemes is quite generous. It can reimburse up to 80% of previous wages and up to 90% if training activities are pursued. For those suffering incapacity to work, salary replacement can be 100%.

Partial unemployment for structural reasons is usually introduced if an enterprise faces a significant slump in its activity and future prospects are uncertain. In the case of introducing partial unemployment for structural reasons it is necessary that the plan for maintaining in employment was drafted and approved by the Ministry. Training courses available for individual and collective participation should be defined. Participants should be identified and the list sent to l'ADEM. The same rule for reimbursement applies (up to 90% of the salary plus the "16 hours" rule). Where training programmes are implemented within the framework of partial unemployment for structural reasons, the financial options are more generous. When training is aimed at ensuring internal re-employment or employment in the same sector the Funds for Employment reimburse up to 50% of the real cost of the training programme. When training is aimed at external re-employment, the Funds for Employment reimburse up to 80% of the real cost of the training programme. It is worth nothing that besides a "regular" partial unemployment scheme for economic reasons, there are two additional ones triggered

<sup>59</sup> In any case enterprise reimburses maximum up to 16 hours of training as the 17<sup>th</sup> and the next hours are paid from the Labour Fund.

by economic dependence (especially appropriate in case of automotive sub-parts suppliers that were hit by the production decrease of their clients) and *force majeure*.

Partial unemployment has been used more and more frequently since the crisis emerged in the autumn of 2008. According to information provided by one of the interviewed social partners usually five to seven applications were placed with the Committee each month; at present there are 100 to 170 monthly and approximately 11,000 people are currently beneficiaries of the partial unemployment scheme. It is important to note that the generosity of the partial unemployment scheme has hampered the willingness of workers to agree to part-time working solutions in the crisis.

The law of 17 February 2009 introduced some modifications to the measure on the calculation of reimbursement by the state and by the employer. As a general rule in the case of partial unemployment, the employee concerned is reimbursed up to 80% of salary and up to 90% if they follow training. The enterprise is eligible to participate in a partial unemployment scheme (for economic reasons) for a period of up to six months during a 12 month period. For 2009 there were more flexible rules introduced. Partial unemployment (for structural reasons) is individually fixed on the basis of a restructuring plan. Partial unemployment (for economic dependence reasons) is fixed individually on the basis of partial unemployment schemes introduced in the enterprise(s) on which the enterprise in question depends.

Other specific rules introduced in 2009 are the following;

- ✧ In anticipation of an increasing number of demands for partial unemployment, all the eligibility periods were cleared. This means that all enterprises had a right to claim partial unemployment as if they had never claimed it before;
- ✧ The total time of partial unemployment can be unevenly distributed over the course of six months and can even exceed 50% per month, provided it is a maximum of six months over a 12 month period, e.g. April 2009 - 20%, May 2009 – 70% and June 2009 - 30%.

The maximum salary to be reimbursed corresponds to 2.5 times the social minimum wage and the enterprise must cover all social security contributions. It is interesting to note that instruments like parental leave that can be taken for up to 5 years after the birth of a child, or part-time work can be used as alternatives to partial unemployment.

#### *Plan of maintaining workers in employment (le plan de maintien dans l'emploi)*

The plan for maintaining workers in employment was introduced by the law of 22 December 2006 and it should be discussed within the framework of the social plan. Its goal is to implement anticipatory management of restructuring processes planned by the enterprise. It is based on social dialogue and aims at finding alternative solutions to ensure that any dismissed workers will not be faced with unemployment. The plan should be prepared in a form of a convention signed by social partners. The Committee of Conjecture should be informed about the plan and it transfers it to the Ministry of Labour for its official approval. According to the law, the plan should include instruments addressed to enterprises facing difficulties with a view to adapting to changed economic conditions and to maintaining employment. These are the following instruments:

- ✧ Introducing partial unemployment;
- ✧ Introducing flexible working time in a longer or a shorter period for which the total working time is calculated;
- ✧ Voluntary work on part-time basis;
- ✧ Using up working time accounts;
- ✧ Reduction of working time as an alternative to partial unemployment, i.e. by sending the employee to continuing training programmes or reconversion programs that take place during “non-worked working hours”;
- ✧ Professional training or reconversion aimed at re-employing the employee in a different part of an enterprise or in a different post;
- ✧ Implementing temporary “loans” of employees (*prêt temporaire de main d'oeuvre*);
- ✧ Introducing accompanying measures for the employees with a view to facilitate their career transition;
- ✧ Implementing preretirement arrangements (*préretraite solidarité* and *préretraite ajustement*).

Whilst the plan is approved by the Ministry, the Committee of Conjunction assists an enterprise in its implementation. If the discussion at the enterprise level does not result in the agreement of a plan for maintaining employment, a report with discussed subjects and conclusions signed by all the participating parties is sent to the Committee of Conjunction. It is important to note that a valid plan for maintaining employment "replaces" the social plan<sup>60</sup>.

#### *Unemployment benefit for cross-border workers*

Employment reductions have seriously hit cross-border workers, but it seems that the decisions have been more based on the lack of demand for their work/competences than on the basis of the fact that they are cross-border workers. In any case, when a cross-border worker becomes unemployed, s/he is entitled to unemployment benefit in the country of origin. A new regulation stipulates that after 2010 Luxembourg will reimburse three months unemployment benefit in the case of a dismissed cross border worker. Additionally, the period of eligibility for unemployment benefit has been extended: from six months to 12 months, and in case of the dismissed employees aged over 50, to 24 months. Unemployment benefit is paid at 80% of salary.

#### *Assistance to SMEs*

At present there are approximately 100 000 employees working in the Luxembourg SME sector and an assistance plan for SMEs has been formulated.

#### *"Solidarity Fund"*

There are currently discussions concerning the re-introduction of the "Solidarity Fund". Its budget would come from contributions from individual workers and enterprises. In the case of individuals the contribution would be at the level of 2.5% of the paid tax. It would finance measures introduced with the aim of mitigating the negative influence of restructuring processes.

### **3.3 The role of social dialogue in education, vocational training and skills development**

The Convention of 2 May 2003 on individual access to continuing vocational training concluded by UEL (Federation of the Luxembourgish Businesses), namely by ABBL, clc, FDA, FEDIL, HORESCA, OGBL and LCGB lays the grounds for defining conditions of access of an individual worker to continuing training. The measures foreseen include such arrangements as:

- ✧ Introducing flexitime with a view to accommodate training (*l'horaire mobile*);
- ✧ Unpaid leave;
- ✧ Individual training leave (*congé individuel de formation, CIF*);
- ✧ Part-time work; and
- ✧ Individual working time accounts (*le système de compte epergne-temps*).

The signatories of the convention agreed that these measures are not exclusive and may be complementary and partially cumulative. The decisive factor as to the choice of the appropriate measures is made on the basis of the type of professional training and individual situation of an employee and an enterprise. The convention discussed in detail the conditions for implementing each of the proposed measures.

It is important to note that professionalising skills and continuing vocational training are recognised by Luxembourgish social partners as crucial for maintaining employability. In a way, they have been a part of restructuring programmes and plans since the 1970s crisis and establishment of the model of professional reconversion of steelworkers (usually via *cellules de reclassement*). As a reaction to the present economic crisis OGB-L asked the government recently to take additional actions with a view to maintaining employment or to provide training for people who are threatened or affected by redundancies. The potential measures would also be applicable also for cross-border workers<sup>61</sup>.

Discussions have commenced on certifying non-formal vocational education and training but no solutions have yet been adopted.

<sup>60</sup> *Le plan de maintien dans l'emploi*, Comité de Conjonction,  
[http://www.cdc.public.lu/instruments/2\\_plan\\_maintien\\_emploi/index.html](http://www.cdc.public.lu/instruments/2_plan_maintien_emploi/index.html)

<sup>61</sup> O. Wlodarski, *Mix of confidence and skepticism in face of economic crisis*, European Industrial Relations Observatory online, <http://www.eurofound.europa.eu/eiro/2009/02/articles/lu0902029i.htm>



### 3.4 Social partners opinions on structural change and restructuring

The following views were expressed by the social partners ;

#### *Skills and vocational training*

Some social partners believe that there is insufficient analysis at the level of an enterprise concerning human resources and their skills. They would like to see a more organised approach to the analysis of skills and qualifications for different age groups of workers. It is suggested that this analysis would assist in the design of potential reorganisation scenarios and anticipate training needs of individual employees. The information could also be used in a procedure of introducing partial unemployment or some measures from the social plan.

Some social partners were convinced that, with a view to future structural change (i.e. moving towards green economy and biotechnology), it will be increasingly necessary to enable employees to acquire the necessary skills. A list of future professions should be generated and training needs and programmes should be defined on the basis of this list.

In the context of the present crisis the approach to employee qualification and competence has changed. It is important that the competences a dismissed employee acquires are transferable as was the case of a recent restructuring in Villeroy & Boch where employee qualifications within the company are very specific and virtually non transferable.

More should be done to make dismissed workers or workers threatened with unemployment responsible for their own vocational training and development. Sometimes training budgets negotiated in the plan for maintaining employment are not used. One reason for this can be that financial compensation packages are too high and workers do not see the immediate need to take up training.

There is an urgent need to certify non-formal professional education and training and this is especially important for art and craft sector where a lot of informal training takes place. It is also worth noting that this sector is one of the most adaptable on the Luxembourgish market in terms of the transferable competencies of its workforce.

The issue of financing continuing vocational training and share of financial responsibility for these programmes is also one of the crucial issues to be solved.

#### *The effectiveness of legal regulations*

Critics of the 2006 law on the plan for maintaining employment raise the issue of its inefficiency. Their principal criticism concerns the lack of an obligation to reach compromise on the negotiators and the requirement to propose concrete results. There is also no conciliation procedure foreseen. The lack of involvement of the Committee of Conjunction was criticized, and the list of nine points to be discussed was felt to be too restrictive. The critics of the present situation would like to see the plan for maintaining employment more concrete, and most desirably linked with a "skills audit". Another criticism is that the law does not prescribe the information to be submitted to employee representatives. Others felt that the steps to maintain employment should relate more specifically to the enterprise in question rather than employability elsewhere.

#### *The Law has become outdated*

Critics suggest that the law on individual training leave (*cong  individuel de formation, CIF*) of 24 October 2007, which foresees that all persons involved in the professional activity in the private sector are eligible to 80 days of the training leave during their working life is already out of date. Despite the fact that the law is recent, social partners point out that in the present rapidly changing economic environment and requirement to continually update one's skills in just 80 days during the whole working life seems not to be enough.

It was further suggested that the whole body of social laws do not correspond to present economic and labour market conditions, and permit misuse. The plan for maintaining employment was especially criticised as being too vague, The law also leaves some room for misuse, for example a company closed one site and production was delocalised to Slovakia and with public aid continued production in another site.

The law of collective dismissals was also criticised, with the time for reaching agreement (15 days after the beginning of negotiations) suggested to be too short.

#### *Institutional capacity*

The Committee of Conjunction is criticised for being only a forum for passing information rather than support. A perceived problem is that the people involved in negotiations do not understand how the measures open to them work. Likewise there were criticisms of l'ADEM as a relatively small institution that may be ill equipped to deal with the crisis and the increased demand for their services.

#### *Restructuring in the 1970s and today*

Some Luxembourgish social partners point out that at present restructuring faces new challenges linked to globalisation and the presence of the multinational companies in Luxembourg. It has serious consequences for the framework of restructuring. Firstly, the decisions about reducing production or employment cuts today are often taken abroad and the local management is left with implementation of the decisions taken, without being involved in the decision taking process. Secondly, while compared with the present situation, in the 70s there was a more “paternalistic” approach to introducing changes when very often the management felt more responsible than they do today for maintaining people in employment.

Present restructuring programmes that involve international companies show that sometimes the national level of regulations or institutional capacity is not enough and it does not correspond to the reality. There is a need for European solutions.

The social partners commended the generous support available within the framework of the partial unemployment schemes, but stressed that workers would rather work full-time on 100% salary. It was suggested that whenever possible there should be attempts to compensate up to 100% of the lost salary. Partial unemployment schemes were perceived as the most effective measure from the measures recently introduced.

#### *The ARBED experience – good or bad?*

... Despite the fact that the Luxembourg economy has been hit hard by the crisis, it is clear that the country has a “peaceful” model of restructuring deeply rooted in history. The first and a rather positive case was the famous and lengthy restructuring of ARBED, which reduced its workforce from 25,000 employees to 6,000 employees between 1974 and 1985. It was done with the help of a systematic professional reconversion programs (i.e. with a use of CdR) and a special law was passed that facilitated restructuring in the steel sector.

... There are also critics of the “ARBED approach” where the assistance provided to employees was so extensive that less initiative was required from their side and all the costs were covered by the enterprise. The “*mentalité ARBED*” was suggested to underpin a resistance to change at a time when employability required employees’ active engagement in continuous professional development, and a readiness to change not only employer, but also profession.

The employers’ representatives tended to believe that the most effective and concrete negotiations on change take place at the level of an enterprise and with the representatives of the workers involved in the process. They suggest enterprise level employee representatives have a bigger incentive to negotiate and agree upon practical solutions.

#### *Potential further restructuring*

Some of the social partners pointed out that the public sector is expensive and too big a burden for the future economy. Future restructuring will need to take place that revisits the number and nature of jobs and the way they are rewarded.

#### *Crisis or paradigm shift?*

A serious question for the Luxembourgish social partners is the strong dominance of the banking sector. In fact, the deepest restructuring processes are taking place in the three basic sectors for the economy of Luxembourg: banking, modern industry (i.e. rubber, chemical production) and transport and communication. For some interlocutors it was clear that the economy will not bounce back to its productivity levels from before the crisis nor will it come out of crisis in the same shape with transport services being delocalised to cheaper countries. As a result, they tend to believe that the crisis should

be used as a vehicle to rethink the Luxembourgish economy and some fundamentals such as automatic wage indexation, with a view to making the economy more competitive.

#### *Finding the way together...*

For employee representatives restructuring is associated with avoiding dismissals and, where these are inevitable, ensuring appropriate compensation packages to avoid unemployment. It would also be desirable to make the process more transparent. It was suggested that in the present restructuring wave, countries with a more liberal approach to change play a role of a buffer for the countries with more restrictive regulations. Striking the right balance for all is European level problem.

#### *Female employment...*

One of the social partners questioned the influence the crisis will have on female employment as some of the hardest hit sectors were those with a high rate of female employment (i.e. banking sector or HORECA). These are somehow “hidden”, but very serious problems.

#### *Social dialogue*

It was suggested that the process of social dialogue has suffered during the crisis and that relations are not as good as they used to be. For some social partners, social dialogue is evaluated as good at the national institution level (i.e. the Committee of Conjunction or the Tripartite Coordination Committee), and poor at the enterprise level.

#### *Limits to the national model?*

Some of the interlocutors believe that there are some mechanisms such as automatic wage indexation that should be at least reconsidered. They are convinced that this mechanism should be more linked to the economic situation.

### Section three: Case studies

#### **1, HUSKY INJECTION MOLDING SYSTEM S.A., Dudelange, Luxembourg**

##### **Company Profile**

Husky was founded in 1953 in Canada as a small shop in a Toronto garage. The company has quickly found its niche in specialized moldmaking and over the time has become a leader in high speed injection molding systems. Today Husky Injection Molding Systems is one of the leading suppliers of injection molding equipment and services to the global plastics industry. Husky's Services and Sales network consists of more than 40 offices including Technical Centers supporting customers in over 100 countries, and employs some 3,400 people worldwide. Manufacturing facilities are located in Canada, the United States, Luxembourg and China. Husky is owned by Onex, a Canadian private equity firm, which was founded in 1983. It has some \$9 billion in assets under management and has invested \$7 billion of equity since inception in 207 transactions. Onex's most recent acquisitions include Carestream Health, Allison Transmission and Hawker Beechcraft. It is important to note that despite the Husky acquisition by Onex, the Husky management still runs the company and defines its strategy.

##### *Husky's mission and vision*

From the very beginning Husky had a strong culture and company values. Husky's mission is “to be the outright global leader in delivering value to our customers”. It aims at building the best team of people who realize their full potential through effective teamwork and fully embracing company's values. The principles for the company's functioning is reorganization from a product-centric to a customer/market focused business (“one Husky”) and consistent growth and performance. Core values have been the foundation of growth and success and are the following: make a contribution, demonstrate proactive environmental responsibility and passion for excellence, set ambitious goals, pay respect and offer uncompromised honesty to all stakeholders.

##### *Husky in Luxembourg*

Husky in Luxembourg has its premises close to its capital, in Dudelange, which is located in the Riedgen industrial zone. It is an important multi-function site. The Luxembourg campus is home for the

European manufacturing activity, and includes a spare parts center and technical center. Dedicated services and sales offices in Europe, Middle East and Africa are managed from Luxembourg.

In 2008 there were 809 employees: 48% of which were German, 26% were French – mostly cross-border workers - and 11% were Luxembourgish. Overall there are 24 nationalities employed; 78% of the employees live outside Luxembourg. This was explained by the fact that the necessary competences are impossible to find in Luxembourg and have to be imported. To address skills gaps in a more systematic way, Husky is involved in a local apprenticeship program. Among employees there is a strong domination of male workers. Approximately 88% are men, who are mainly young, and as a result the seniority level is also relatively low.

#### *Driving forces of restructuring*

At the beginning of 2009 a decision was made that the “Machines Luxembourg” part of the company had to be closed. This decision was a result of reorientation of operations, rather than the impact of the world economic crisis. The two determining factors were changes in the machines business and on decreasing demand for machines. The machines business has become more focused on targeted, growing niches than on delivering equipment for the general purpose market. At the same time less capacity was required within the global machine operations due to lower volumes. As more than 80% of the Luxembourg plant production is exported, it seriously affected demand for its operations.

#### *Character and form of the restructuring process and the role of the social dialogue and social partnership*

In January 2009 the Husky Board decided to close Machines Luxembourg. On 3 February 2009 there was a meeting of the Husky Luxembourg management board, the Committee of Conjoncture, trade unions represented by OGBL, and Husky Delegation leader at FEDIL, employers’ organization. Already on 17 February 2009 the plans for Machines department closure were announced officially to all employees. The time between the decision about the closure and official announcement was very short to avoid information leaks and rumours. It was a matter of the utmost importance to ensure that all employees were informed about planned closure at the same time, by the management representatives and not through the media. In the event the CEO came from Canada to inform employees..The Husky management succeeded in controlling the communication and information flow, which contributed to the social peace. The employees were the first to know how the process was to be carried out and that consultations with social partners would play an important role. On 2 March 2009 the official process of negotiations started, which resulted in signing the plan of maintaining workers in employment (*le plan de maintien dans l’emploi*) and the social plan on 16 March 2009. Negotiations took place with only internal “Husky people” - the OGBL representative and an external law firm were involved only when additional expertise or advice was necessary. Two weeks later, on 1 April 2009 the first wave of people left Husky, followed by the second wave three months later (1 July 2009). The final wave of employees is to leave Husky on 31 December 2009.

One of the very important success factors was effective process of communication. Stakeholder from all levels were involved very early in the process and the Husky Management was committed to inform employees about employment reduction plans and all support offered to those leaving the company. The responsibility was cascaded down to all Team Leaders and they were prepared to cope with all possible reactions and questions. Training was organized two hours prior to the CEO’s official announcement to ensure that they were prepared to offer support for their workers as well as to ensure that the information was not passed before the official announcement. After the announcement, during the negotiations with social partners, weekly updates to all Machines employees were organized. They were aimed at providing information on the process (planned steps, achievements and the negotiation agenda). Moreover, there was also a dedicated bulletin board set up in the production hall to collect and answer employees’ questions. The main goal of this wide communication process was to keep people informed, updated and aware.

#### *Team Leader Communication Training – program content*

The training program contained the following modules:

- Introduction module
  - a/ responsibility and role of the manager;
  - b/ goal of the “10 minute conversations”;
  - c/ structure of the conversation;
  - d/ analyzing vulnerability of the team;

- Step 1: Bringing the news;
- Step 2: Allowing and handling emotions;
- Step 3: Additional information;
- Step 4: Defining and explaining consequences;
- Step 5: Closing the conversation;
- Conversation with “survivors” – employees who stay in the company.

*Restructuring and downsizing of the workforce*

In the process of negotiations there were daily “Small Committee” (*Petit Comité*) meetings organized. It consisted of 4-5 people: 2 experienced trade union representatives and 2-3 management team representatives. They started regular meetings even before the beginning of negotiation process. Their goal was to prepare analytical background for the decisions linked to restructuring, they were responsible for consultation with lawyers and shared all information/knowledge that was important from the perspective of the restructuring process. Within the framework of these committees the agreements were reached in such areas as: which parts of business were to be saved, what decisions were to be taken and how they were to be implemented. The Committee was also charged with the mission to draft the plan of maintaining workers in employment, which included such elements as working time flexibility, in-sourcing (transferring people from one part of the business to another), voluntary leaves, early retirement and outplacement services. Moreover, the Committee has also drafted social plan for those employees who had to leave the company.

An interesting way of protecting jobs was the establishment of the so called “Butterfly Team”, which was set up to help people find another job and is planned to exist until December 2009. Twenty-five positions offered within the framework of the Butterfly Team and temporary assignments on the Campus were offered to them. The assignments were combined with temporary unemployment/training programs. The members of the Team could move to new permanent open positions. They were to be beneficiaries of the social plan in case they found new position outside Husky if or they do not manage to find a permanent position by the end of December 2009. It is worth noting that from among the dismissed cross-border workers, German workers tended to be the first to find a job, while the French cross-border workers appeared to experience more problems in finding employment. The average age of the dismissed workers was relatively young.

*Results and the outcome of the initiative*

It is important to note that the restructuring process and employment reduction induced by this process were undertaken according to the principles of the “Husky Model”. This model is based on the Luxembourg model of tripartite social dialogue aimed at offering “win-win” solutions. Solution seeking was based on the principle of compromise; a “Give-and-Take” approach; and mutual respect. This approach was also adopted because all involved stakeholders wanted to do so and were committed, and not because it was imposed from the Canadian headquarters. The adopted model of restructuring was a typical solution implemented in Luxembourg and was not the company-wide or global model.

The final outcomes of the employment reduction are presented in the table below.

<i>Final impact of the restructuring program on employment</i>	
People employed in Machines department:	144
<b>Affected employees</b>	<b>129</b>
Permanent positions in Machines	26
Permanent positions in Tooling	11
Other permanent positions (newly created)	7
CDD (ending defined duration contracts)	12
<b>Total</b>	<b>56</b>
Participants of social plan (2 March 2009)	73
Other opportunities	16
<b>Final participants of social plan (13 March 2009)</b>	<b>57</b>

## 2. MONTAGE SCHWEISSTECHNIK ENGINEERING GmbH, Remich, Luxembourg

### Company Profile

Montage Schweisstechnik Engineering GmbH is a small enterprise located in Remich, Luxembourg. It was set up in September 2006. The company delivers services in the field of industrial piping systems, installation and assembly of central heating systems, sanitary systems as well as climatization and ventilation systems. Among the services provided are construction costs estimation, monitoring of construction work, welding services, introducing industrial equipment and systems to the market and installation and maintaining equipment and system elements. It cooperates with companies from France and Germany.

Prior to the economic crisis (autumn 2008) the company had developed very quickly. Between 2006 and 2008 the company's turnover grew by 70%, employment was also growing. The company started with nine people in 2006, a year later the number of employees reached 20 and had grown to 39 people by the end of 2008. By June 2009 Montage Schweisstechnik Engineering GmbH employment level had reduced once more to 17.

### *Restructuring and downsizing of the workforce*

When the crisis broke the situation of the company deteriorated immediately. Turnover reduced by 70% and cash flow management became the main problem for the company as planned contracts were cancelled or postponed. In this situation Montage Schweisstechnik Engineering GmbH tried to ask the State and big foreign enterprises from the same sector for assistance. The State was asked for allowing the company to enter partial unemployment scheme. This was refused as the sector in which Montage Schweisstechnik operates was not considered as one facing "economic difficulties". Major foreign-owned enterprises in the area were asked to temporarily "lease" employees from Montage Schweisstechnik. Since these two initiatives did not bring the desired results, the company was forced to draft a plan of maintaining workers in employment (*le plan de maintien dans l'emploi*) in order to maintain maximum number of workers in employment and cope with the crisis. There was no involvement of trade unions in the drafting of the plan - Montage Schweisstechnik is a small company with no in house trade union representatives and discussions concerning possible measures were undertaken with all employees together. The plan devised to maintain as many workers in employment as possible included the following tools:

- ✧ Ending all defined duration contracts (CDD);
- ✧ Providing training programs for employees;
- ✧ Offering assistance in search for new employment;
- ✧ Offering "foreign language" leave;
- ✧ Introducing partial unemployment scheme (*le chômage partiel*);
- ✧ Enabling to profit from parental leave;
- ✧ Reducing working time (by approx. 35%);
- ✧ Transferring workers to other assignments.

### *Results and the outcome of the initiative*

#### Reduction of employment

Between January and June 2009 the company was forced to reduce employment from 39 to 17 (reduction by over 55%). All the company's employees were cross-border workers. Despite the fact that such a significant number of employees had to leave, the company avoided a collective dismissal through using the non-renewal of fixed-term contracts (CDD).

#### Reducing working time and salaries

Regular meetings with employees were held throughout the restructuring process. During one of them the decision about changing the contracts and lowering the salary was taken up. It was done with the view to reduce payroll costs and the salary level was to be restored after the crisis. Introducing these measures was necessary to avoid the complete bankruptcy of the enterprise.

#### Temporary "loans" of employees

Contacts with bigger Luxembourgish and German enterprises of a similar profile were taken up and 6 employees of Montage Schweisstechnik were transferred to a German enterprise for a period of 3 months. This transfer was done on the basis of a subcontracting arrangement. The result of this initiative was a very positive one - the six employees have not lost their job and the payroll costs have been reduced.

#### Vocational education activities

Management of the company is in the process of arranging vocational training courses (welding technology) for its employees. Four employees have expressed their interest in pursuing vocational training in this area. At present take-up of training is not possible due to the lack of sufficient number of training programs in the area. The employees must wait until there is an opening for a new course. The company also plans to send its employees to language training, but this requires changing of work organisation and different job planning system.

#### Parental leave

So far none of the employees has benefited from this measure. At the beginning of 2010 one of the office employees is to take parental leave. Another person who was planning to take parental leave was assigned a job, so she remained in employment.

As a result of the introduced measures, Montage Schweisstechnik Engineering GmbH has managed to survive through the worst of the crisis. The situation has started to improve and the company has even begun to re-employ former workers. Ten people have been re-employed since August 2009. Company turnover is increasing once more and new international clients have been found. The company situation till the end of 2009 is stable and contracts are assured until the end of the year. The company is working to fill order books for 2010.

## References

- Bourgain A., Pieretti, P., Høj, J., *Can the financial sector continue to be the main growth engine in Luxembourg?* Economics Department working paper No. 660, OECD, 2009 ([http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00000986/\\$FILE/JT03258258.PDF](http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00000986/$FILE/JT03258258.PDF))
- Clément, F., *Les relations professionnelles au Luxembourg*, Reprem - CEPS/Instead, June 2008.
- Economic and social portrait of Luxembourg*, STATEC 2003.
- European Commission Spring Economic Forecast, 2009.
- European Commission, *Employment in Europe Report 2008*.
- Feyereisen, M., *Minimum wage increased by 3.1%*, European Industrial Relations Observatory online (<http://www.eurofound.europa.eu/eiro/2001/01/inbrief/lu0101155n.htm>).
- Fulton, L., *Worker representation in Europe*, Labour Research Department and ETUI-REHS: 2007.
- Hirsch, M., *Le „Modele luxembourgeois“ et ses limites [in:] L’histoire, le present et l’avenir du modèle luxembourgeois*, S. Allegrezza, M. Irschand N. Von Kunitzki(ed.), Institut d’études européennes et internationales du Luxembourg, Luxembourg 2003.
- Industrial Relations in Europe 2008*, European Commission, 2008.
- Kenis, P., *Luxembourg*, The European Association of Craft, Small and Medium-sized Enterprises, (<http://www.ueapme.com/docs/projects/Project%20Business%20Associations/LUXEMBOURG.pdf>).
- L’économie luxembourgeoise en 2008 et évolution conjoncturelle récente, 1-9 note de conjoncture*, Statistics, OECD 2009.
- Le plan de maintien dans l’emploi*, Comite de Conjoncture, [http://www.cdc.public.lu/instruments/2\\_plan\\_maintien\\_emploi/index.html](http://www.cdc.public.lu/instruments/2_plan_maintien_emploi/index.html).
- Les licenciements non inhérents à la personne*, Comite de Conjoncture, [http://www.cdc.public.lu/instruments/4\\_licenciements/index.html](http://www.cdc.public.lu/instruments/4_licenciements/index.html).
- Levinson, A., *The Regularisation of Unauthorised Migrants: Literature Survey and Country Case Studies - Regularisation programmes in Luxembourg*, Centre on Migration, Policy and Society, University of Oxford ([Http://www.compas.ox.ac.uk/publications/papers/Country%20Case%20Luxembourg.pdf](http://www.compas.ox.ac.uk/publications/papers/Country%20Case%20Luxembourg.pdf)).
- Luxembourg boasts biggest FDI flows worldwide*, FDI Magazine, [http://www.fdimagazine.com/news/fullstory.php/aid/430/Luxembourg\\_boasts\\_biggest\\_FDI\\_flows\\_worldwide.html](http://www.fdimagazine.com/news/fullstory.php/aid/430/Luxembourg_boasts_biggest_FDI_flows_worldwide.html) (23 July 2009).
- Luxembourg income taxes 2008: guide for individuals*, PriceWaterhouceCoopers, [http://www.pwc.com/lu/eng/ins-sol/publ/pwc\\_luxembourgincometaxes.pdf](http://www.pwc.com/lu/eng/ins-sol/publ/pwc_luxembourgincometaxes.pdf).
- Luxemburg: Industrial Relations Profile*, European Foundation for the Improvement of Living and Working Conditions, 2004.
- Noesen J., *Vocational education and training in Luxemburg*, CEDEFOP Panorma series 108, Luxembourg: Office for Official Publications of the European Communities, 2005.
- Thomas, G., *European Employment and Industrial Relations Glossary: Luxembourg*, The European Foundation for Living and Working Conditions series, Office for Official Publications of the European Communities, 1999.
- Wlodarski, O., *“Luxembourg model” of social dialogue explored*, European Industrial Relations Observatory online, <http://www.eurofound.europa.eu/eiro/2008/07/articles/lu0807049i.htm>.
- Wlodarski, O., *Mix of confidence and skepticism in face of economic crisis*, European Industrial Relations Observatory online, <http://www.eurofound.europa.eu/eiro/2009/02>
- Wlodarski, O. *New committee to monitor labour market and working conditions*, European Industrial Relations Observatory online (<http://www.eurofound.europa.eu/eiro/2008/01/articles/lu0801029i.htm>).
- Wlodarski, O., *Social partner agreement opens the way for telework*, European Industrial Relations Observatory online (<http://www.eurofound.europa.eu/eiro/2006/06/articles/lu0606029i.htm>).
- Wlodarski, O., *Trade union federation in strong position after workplace elections*, European Industrial Relations Observatory online (<http://www.eurofound.europa.eu/eiro/2008/12/articles/lu0812029i.htm>).
- Visser, J., *Industrial relations in Europe 2004*, quotation after: *Luxemburg, Industrial Relations Profile*, European Foundation for the Improvement of Living and Working Conditions, 2004.