ARITAKE-WILD

Joint European Level Social Partners'

Work-programme 2009 – 2010

Joint Study on Restructuring in the EU

Final Phase

National Dossier - Final

Portugal

Lisbon

22 – 23 June 2009

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Joint Study on Restructuring in the EU, Final Phase

National Dossier, Portugal - Lisbon, 22 – 23 June 2009

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Introduction and background – the purpose of the national dossier

This national dossier was originally prepared for discussion by the Portuguese national social partners at the national seminar held in Lisbon on 22nd & 23rd June 2009. The original dossier has been reviewed and revised to take into account the comments made and discussions that took place during the meeting. It was prepared and revised by the selected external expert for Portugal, Mr Eckhard Voss, and the expert coordinator for the project, Mr Alan Wild.

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

The purpose of the dossier is to describe the role of the Portuguese social partners in the process of economic restructuring at the national, sectoral and enterprise levels. By the end of the project in November 2009, national dossiers will have been prepared and been discussed by the social partners in 27 European countries. At the end of 2009 a report that compares and contrasts the roles of the social partners in restructuring in almost every country in the European Union will be produced and discussed by social partner representatives from throughout the EU at a major seminar to be held in January 2010. The outcome of the discussion will draw lessons for the future and to help shape the activities and priorities of the social partners at the European level in this area.

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

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

At the national seminar, the Portuguese social partners were asked to comment on the accuracy of the dossier; 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 the social partners at all levels in the anticipation and management of restructuring. Whilst this final national dossier takes into account the content of the meeting, but nonetheless remains an "independent expert report".

The author of this report, Mr Eckhard Voss, would like to thank the Portuguese social partners for supporting his work by providing the advice, suggestions and information that enabled the dossier to be prepared.

Alan Wild, Expert Coordinator of the Project

Section one: A macroeconomic review and trends of restructuring in Portugal

Introduction and overview

Following its past glory as an influential world power and leading maritime and colonial nation in the 15th and 16th centuries, Portugal experienced a sustained period of economic decline, particularly after the loss of its Brazilian colony in 1822. After more than six decades of oppressive dictatorship, economic stagnation, and international isolation during the 20th century, Portugal was considered by many to be the laggard of Western Europe by the early 1970s. However, immediately following the country's return to democratic rule in 1974, the economy grew by an average of 5.3% annually throughout the period from 1975 to 1980.

Portugal joined the European Union in 1986, and its GDP growth slowed to less than 1% annually during the period of EU adjustment. After 1990, the country achieved a more satisfactory annual average growth rate of 2.1% and growth reached 2.7% in 2000. In 1998, Portugal successfully qualified for the European Monetary Union (EMU) and joined with ten other European countries in launching the European currency, the euro, on the 1st January 1999.

EU membership has been particularly beneficial for Portugal, allowing the country access to development funds and creating favourable conditions for its economy to compete, integrate, learn from, and get closer to the advanced economies of Western Europe. The government is working to modernize the country's economic capacity and increase its competitiveness in the increasingly integrated European and world markets. Improvement in the education sector is critical to this process.

These successes notwithstanding, industrial development and restructuring in Portugal generally has been slower than in other EU countries. Its industrial base is still quite limited, often facing hardship from having to compete in the single European market. Driven by the pressing competition from lower-cost East and South Asian imports, some traditional Portuguese exporting industries, such as footwear, clothing, and textiles, have faced an increasing pressure to adjust and modernize since the 1990s. Portugal is aware that it can no longer rely primarily on low wages to attract new investment and a seminar participant expressed the view that low pay was today the enemy of improving productivity and economic development.

Conversely, the country’s cheap labour has attracted substantial foreign investment into Portugal in several new industry projects, and Portugal has recently managed to establish a foothold in the fast growing ICT sector and in the motor industry, largely through the operations of Volkswagen. A new technology park outside of Lisbon has attracted several high-profile computer software and hardware companies. However, these operations face keen competition in Europe from low-cost manufacturing locations in Central and Eastern Europe.

Against this background it is generally recognised that the most important challenge the Portuguese economy faces today is the need to improve the skill base of the population and the system of education and training. The country has launched a number of initiatives to begin to address this long term problem.

1 Macro-economic review and indicators

1.1 Population

At the end of 2007 the total population of Portugal was 10.6 million of which more than one quarter (2.8 million) live in the urban area of greater Lisbon and a further 3.7 million in the Northern region. According to estimates, the Portuguese population is expected to increase slightly by 0.2% until 2020. Whilst net migration to Portugal increased between 1998 and 2002 to a level of 70,000 per year, it has since decreased, and in 2007 was just 19,500.

Net migration (1998-2007)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
31,874	38,000	47,000	65,000	70,000	63,500	47,282	38,400	26,044	19,500

Source: Eurostat 2009

After 2000, Portugal, together with other Southern European countries such as Spain and Greece, experienced an increase in immigration flows from Eastern European countries, resulting in a migrant population share of around 4.5%. Although this is a significant increase on the numbers in 2000 (when the foreign population share was approximately 2%), immigration to Portugal was not as strong as it was to Spain and remains lower than the OECD average of almost 7% (see Moniz 2008, p. 40). Most migrants to Portugal still arrive from former Portuguese colonies, in particular Cape Verde, Brazil, Angola and Guinea-Bissau. With nearly 6% of migrants coming from the United Kingdom (mostly pensioners spending their retirement lifetime in Portugal) the UK today is the source of the fourth most important group of migrants.

Largest groups of nationalities of foreign population with legal status of residence, Portugal, 2007

	%	
1º Cabo Verde	15,2	Cape Verde
2º Brasil	13,9	Brazil
3º Angola	7,6	Angola
4º Reino Unido	5,9	United Kingdom
5º Guiné-Bissau	5,5	Guinea-Bissau
	%	

Source: INE, Statistics Portugal

1.2 GDP development, wealth and social cohesion

GDP development in Portugal since the 1990s reflects three distinct phases which, in general, illustrate the difficulties faced by the country after entry to the European Community in “catching-up” in terms of growth, wealth and competitiveness.

During the early 1990’s the Portuguese economy experienced a period of positive economic development with above EU average levels of growth for much of the period. The late 1990’s were a period of sustained positive growth and Portugal converged toward the EU average in terms of both GDP per capita and productivity. Since the end of the 1990s the economic situation has generally worsened, with what were already low GDP growth rates slumping into negative territory in 2003 and since then, increasing only moderately.

GDP at constant prices (annual percentage change)

Source: INE, Statistics Portugal: National Accounts

The illustrations above and below show an average annual increase in GDP of just 0.7% between 2002 and 2007 with GDP growth in Portugal in 2007 remaining significantly below the EU average of 2.9%.

Economic growth 1990 – 2006 (change in real GDP, in %)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Portugal	**4.3**	**3.6**	**4.2**	**4.8**	**3.9**	**3.9**	**2.0**	**0.8**	**-0.7**	**1.3**	**0.5**	**1.3**	**1.9**	**0.0**
Spain	2.8	2.4	3.9	4.5	4.7	5.0	3.6	2.7	3.0	3.2	3.5	3.9	3.7	1.2
EU-15	2.5	1.7	2.6	2.9	3.0	3.8	1.9	1.1	1.1	2.3	1.6	2.8	2.7	
EU-27	2.6	1.8	2.7	2.9	3.0	3.9	2.0	1.2	1.3	2.5	1.8	3.0	2.9	0.9
USA	2.7	3.6	4.4	4.3	4.1	3.7	0.8	1.6	2.5	3.6	3.1	2.9	2.0	1.1

Source: Eurostat.

According to the Portuguese statistical office the GDP per inhabitant in Portugal in 2007 was €15,400 which places the country not only significantly below the EU27 average of €24,900 but also below other Southern European countries (Italy €25,900, Spain €23,400 and Greece €20,400).

Portugal not only lags behind the EU average in terms of GDP per inhabitant but there has also been a widening relative gap in wealth creation over recent years. While GDP per capita, expressed in Purchasing Power Standards, in 2001 compared to the EU27 average was 77.3%, it declined to 75.2% in 2005 and further to 74.3% in 2006.[1] Over this period the country to dropped three places to 18th in purchasing power parity, behind Greece, the Czech Republic and Slovenia.

1.3 Further deterioration of the economic situation in the global economic crisis of 2008

According to the EU Commission's forecast at the time of writing, Portuguese GDP was expected to fall by 3.75% in 2009, slightly below the expected downturn for the EU average and the Euro area (-4.0% each). However, against the background of a weak economic position, forecasts of the macroeconomic effects of the global crisis on Portugal are a significant cause for concern.

[1] José António Vieira da Silva: The Reform Strategy of Employment, Social Protection and Labour Market Policies in Portugal 2005 – 2008. OECD, ELSA Committee, Paris 3 November 2008, p.1.

After a period of GDP growth in 2007 of nearly 2%, the economy already experienced zero growth in 2008 with a sharp downturn between the second half of 2007 and the first half of 2008. This was mainly the result of decreasing investment, notably in the construction sector, and weaker exports. More fundamentally, the general macroeconomic situation worsened significantly during 2008. According to the EU Commission:

> "In particular, the contribution of the external sector to GDP growth became negative as the rebalancing of GDP growth away from domestic demand and towards external demand clearly faded away. Accordingly, the high external deficit deteriorated further, aggravated by soaring commodity prices in 2008, augmenting the stock of external liabilities." (*EU Commission, Spring Economic Forecast 2009, p. 96*).

Against this background, the situation of public finances is expected to deteriorate significantly. In 2008, the general government deficit represented 2.6% of GDP, unchanged from 2007, when a marked reduction of the government deficit had taken place against the previous period. Due to the economic crisis, the EU Commission projects a further deterioration of the fiscal balance, with the government deficit expected to reach 6.5% of GDP in 2009 as a result of the heavy burden imposed on public finances by the downturn and from the economic impulse package implemented in the context of the European Recovery Plan which involves an estimated cost of 0.8% of GDP (complemented in a balance-neutral way by 0.5% from EU funds). Against this, the government debt ratio is projected to grow to over 81% of GDP by 2010 (2007: 63.5%) due to high government deficits and stagnating nominal GDP.

1.4 The ranking of Portugal in global and European indicators

The World Economic Forum's global competitiveness index ranking 2008/2009 ranks Portugal 43rd out of 134 countries. Compared to the previous period Portugal experienced a decline in the ranking of 3 places.

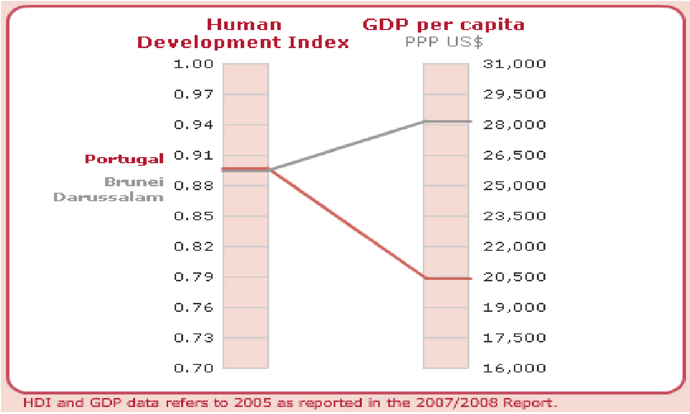
Global competitiveness index rankings and 2008-2007 comparisons

Country	GCI 2008-2009		GCI 2007-2008	Changes in rank 2008/09 – 2007/08
	Rank (out of 134 countries)	Score	Rank (out of 131 countries)	
United States	1	5.67	1	0
Switzerland	2	5.61	2	0
Denmark	3	5,58	3	0
Sweden	4	5,53	4	0
Slovenia	42	4,50	39	-3
Portugal	43	**4,47**	40	-3
Lithuania	44	4,45	38	-6

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

Every year since 1990 the UNDP Human Development Report has calculated a human development index (HDI) that looks beyond economic figures to a broader definition of well-being and quality of life. The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy); being educated (measured by adult literacy and enrolment at primary, secondary and tertiary education); and having a decent standard of living (measured by purchasing power parity, PPP, income). The HDI for Portugal in 2005 (latest available data) was 0.897, which gives the country a rank of 29th out of 177 countries. The country's relatively stronger showing on this indicator is influenced by high life expectancy.

Portugal's ranking in the UNDP Human Development Index



Source: UNDP 2008

With regard to the implementation of the Lisbon strategy, Portugal clearly ranks in the middle of the field of the EU27 and in the segment of the Euro area group. In the Lisbon review carried out by the World Economic Forum in 2008, Portugal ranks 14th with regard to the implementation of the Lisbon targets - a slight deterioration in the nation's position in the 2006 Lisbon Review (rank 13th). A relatively high score in network industries is offset by relatively poorer performance in liberalisation and social inclusion.

Progress on the Lisbon Indicators 2008

Country	Final Index		Sub-indexes							
			Information Society	Innovation and R&D	Liberali-zation	Network Industries	Financial Services	Enter-prise	Social Inclusion	Sustainable Development
	Rank	Score	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Sweden	1	5,71	1	2	3	4	1	7	3	2
Estonia	12	5.02	4	12	12	14	12	4	13	8
Cyprus	13	4.68	15	21	13	11	15	17	8	17
Portugal	**14**	**4,61**	**16**	**16**	**18**	**12**	**16**	**16**	**18**	**15**
Slovenia	15	4.58	12	11	19	18	21	20	16	13
Czech Republic	16	4.53	18	15	15	19	19	21	12	4
Spain	17	4.52	17	14	14	13	14	23	19	18
Greece	23	4.10	27	17	23	17	17	26	22	23

Source: World Economic Forum: Lisbon Review 2008

1.5 The structure of the Portuguese economy

Although Portugal mirrors the broad European trend towards a service sector based economy (services accounted for 69% of GDP in 2004 compared to 60% in 1990), Portugal today remains characterised by a strong primary sector (4% of GDP) while the industry sector contributed 27% to the national GDP.

With an employment share of around 11% in agriculture, Portugal was significantly higher than the EU average of 5.5% in 2006 with just a few other EU countries showing a similarly high share of agricultural employment (Greece, Poland and Romania). Industry employment (30.5%) was slightly above the EU average (nearly 28%) based on 2007 data. Finally, the Portuguese service sector still has a share in total employment which is significantly below the EU average (around 60% against 67%).

Employment by industry 2000 – 2006 (thousands) and % change

Economic sectors (NACE codes)	**2000**	**2002**	**2004**	**2006**	**2000-2006 Change %**
Agriculture	626,3	645,2	619,1	603,8	-3,6
Industry	1.721,6	1.722,3	1.601,3	1.577,2	-8,4
Retail etc.	730,0	777,0	784,0	751,2	2,9
Hotels, Restaurants	258,6	270,2	263,8	280,0	8,3
Transport, Communication	182,7	207,0	210,7	239,6	31,1
Financial Services	94,2	83,6	101,1	90,1	-4,4
Business Services	214,0	248,7	288,8	294,5	37,6
Public Administration	324,9	330,3	325,6	354,3	9,0
Education	282,5	305,1	313,5	318,7	12,8
Social Services	256,8	252,6	308,9	329,8	28,4
Total number of employees	5.002,6	5.157,7	5.124,6	5.159,5	3,1

Source: European Labour Force Survey

Agriculture, forestry, and fishing - though agriculture, forestry, and fishing employ around 11% of the Portuguese workforce, it only accounts for roughly 4% of the national GDP. Particularly in crop and animal production Portugal’s productivity is well below the EU average and countries such as Spain or Greece. An agro-food deficit is only partly offset by a surplus on forestry products (wood, cork, and paper pulp). A number of factors contribute to Portugal's poor agricultural performance:

- The level of investment in agriculture has been traditionally very low (e.g. the number of tractors and the quantity of fertilizer used per hectare);
- Farms, particularly in the north of the country, are small and fragmented;
- The collective farms which were set up in the south after the 1974-75 revolution proved incapable of modernizing and their efficiency declined;
- Poor productivity is associated with the low level of education of farmers;
- Distribution channels and economic infrastructure are generally regarded as inadequate.

The national seminar participants commented that the country’s agro-sector faces the combined and related challenges of a failure to attract young entrepreneurs and slow modernisation.

Industry - Portugal’s industrial sector experienced significant growth in the 1960s under the dictatorship. Though this growth trend weakened after the revolution and the nationalisation of major industries in 1975-76, Portugal's industrial production grew at a respectable 4.8% during the 1980-89 decade, functioning as the major driver of GDP growth. The fastest growing sectors in this period were electricity, gas and water, mining (e.g. copper mining), paper, chemicals and plastics products and the manufacturing of non-metallic products.

The most important manufacturing industries in Portugal today are the textiles and clothing sectors together with food, beverages and tobacco. By 2006, and after a period of significant restructuring, textiles and clothing represented just 2% of overall gross value added; 4.3% of total employment; and nearly 12% of total manufacturing exports.[2] Food, beverage and tobacco in 2002 had a share of 19% in gross value added of manufacturing.[3]

Manufacturing is concentrated in two major industrial regions: Lisbon-Setúbal in the south-central region and Porto-Aveiro-Braga in the north. Together they account for about 75% of Portugal's net industrial output. The Lisbon area is home to major industries like iron and steel; ship building and repair; oil refining, machinery, chemicals, cement, and electronics; and food and beverages. Setúbal, about eighty kilometres to the southeast of Lisbon, also has a large shipyard and automobile assembly and machine industry plants, as well as cement, wood, pulp, cork, and fish processing.

Porto traditionally is a centre of light industry, including textiles, footwear, furniture, wine, and food processing. Porto is also the location of the nation's largest petroleum refinery; the other is located in Lisbon. Other traditional centres of the Portuguese textile industry are Braga and Covilha.

The industrial structure of ownership in Portugal is characterised by the traditions of three main types of ownership patterns. Private domestic and overwhelmingly micro and small firms are the most widespread form of ownership in the traditional, light industries and in construction. Mining and heavy industries mainly iron and steel, petrochemicals, shipbuilding, petroleum refining, and electricity which had been nationalized in the 1970s are characterised by large company structures. Finally, subsidiaries of multinational corporations dominate the growing and technically more advanced electronics, automotive, pharmaceutical, and electrical machinery industries.

Tourism - international tourism is an important component of Portugal's services sector. While from 1973 to 1990 tourism income as a share of GDP was roughly stable, the 1990s were a watershed decade for Portuguese tourism, with rapid growth in both international and national tourism which today accounts for around 9% of national GDP and 6% of employment. The 1990's saw the success of Expo 98 in Lisbon and an even greater share for the Algarve region in tourism investment and receipts.

1.6 The position of small and medium sized companies

The assessment that SMEs and in particular micro and small enterprises are the backbone of European economies, fits Portugal perfectly. According to Eurostat[4] there are approximately 81 SMEs per 1000 inhabitants in Portugal, which is more than double the EU-27 average of almost 40. In line with this, SMEs in Portugal have an exceptionally high importance for the domestic labour market compared to other EU Member States.

More than four out of five jobs depend on SMEs and the contribution to the overall economy in terms of value-creation also considerably exceeds the EU average. In this context, a particular role is attributed to micro businesses employing 1-9 workers and accounting for 43% of all persons employed (EU-average around 30%). A seminar participant explained that of 800,000 small businesses in Portugal only one third had any employees and only 20,000 were “exporters”. On the other hand, large companies with more than 250 employees in Portugal account for a share of just 17.5% of employment while the EU-24 average is nearly 33%. With regard to small companies (10-49 employees) and medium sized companies (50-250) the respective shares in employment are rather similar to the EU average.

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[2] Figures from Bank of Portugal: Economic Bulletin, Spring 2009
[3] Figures taken from: World Bank Group, World Development Indicators 2006
[4] European Commission/DG Enterprise and Industry: SBA Factsheet Portugal

SMEs in Portugal

	Number of enterprises			Number of persons employed			Value added (MEUR)		
	Value	%	EU-26 average	Value	%	EU-24 average	Value	%	EU-26 average
Micro	803.708	94,5%	91,8%	139.646	43,0%	29,6%	16.453	25,2%	21,1%
Small	40.127	4,7%	6,9%	755.658	23,2%	20,6%	14.960	22,9%	19,0%
Medium	5.666	0,7%	1,1%	528.254	16,3%	16,8%	14.322	22,0%	17,8%
SMEs	849.501	99,9%	99,8%	1.423.558	82,4%	67,1%	45.735	70,1%	57,9%
Large	794	0,1%	0,2%	570.015	17,5%	32,9%	19.489	29,9%	42,1%

Source: European Commission: SBA Factsheet Portugal. Data of 2004 and 2005

It is interesting to note the respective performance of the different size groups with regard to productivity measured by value added. Micro enterprises reflect a significant gap between employment shares and the respective share in the national value added (43% against 25%). By contrast, large sized enterprises in Portugal show a very positive picture in terms of labour productivity (17.5% against 29.9%).

In common with the whole Mediterranean area, self employment as a proportion of total employment is very high in Portugal with 24.1% in 2005. Whilst Greece (30%) and Italy (24.9%) have similarly high shares of self employment, the respective EU15 average is just 10%.

Finally, Portugal is also characterised by a significant share of the shadow economy – it is estimated that the informal sector in 2007 had a share of around 19% of the official GDP (Greece: 25%, OECD average: 14%).[5]

1.7 Foreign trade and foreign direct investment

Portugal recorded an overall trade deficit amounting to nearly €20bn in 2007. The country's trade balance was negative both within the European Union and with trading partners outside the EU,

Portugal's international trade of goods, 2007

milhares de euros / thousands euros		
Saídas	37 588 758	Departures
Entradas	57 055 625	Arrivals
Comércio Intracomunitário		**Intra-community Trading**
Expedições	28 819 802	Dispatches
Chegadas	43 015 868	Arrivals
Comércio Extracomunitário		**Extra-community Trading**
Exportações	8 768 956	Exports
Importações	14 039 756	Imports

Fonte: INE, Estatísticas do Comércio Internacional.
Source: INE, International Trade Statistics.

By far the most important trading partner of Portugal is Spain, which in 2007 had a share in the import of goods of nearly 30% and a share in Portuguese exports of 27%. Trade cooperation between the two countries during the last decade has increased significantly. In 1997, Spain delivered 24% of all Portuguese imports and had a share in the exports from Portugal of 15%. The other major trading partners of Portugal are Germany, France, Italy and the United Kingdom.

5 "Estimating the Size and Development of the Shadow Economy: Methods, Problems and Open Questions" Prof. Dr. Friedrich Schneider, University of Linz / AUSTRIA

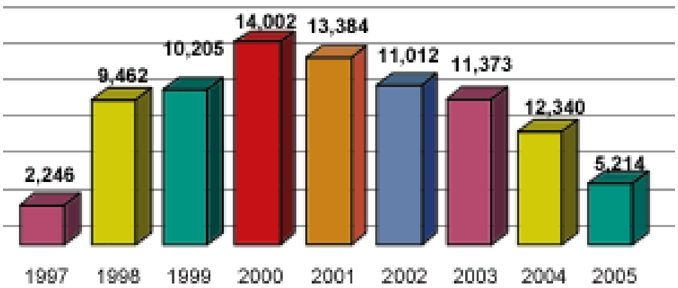
Main trading partners, 2007

Exportações	%	Exports	Importações	%	Imports
Espanha	27,1	Spain	Espanha	29,5	Spain
Alemanha	12,9	Germany	Alemanha	12,9	Germany
França	12,3	France	França	8,4	France
Reino Unido	5,9	United Kingdom	Itália	5,2	Italy
EUA	4,8	United States	Países Baixos	4,5	Netherlands
Angola	4,5	Angola	Reino Unido	3,5	United Kingdom
Itália	4,0	Italy	Bélgica	2,8	Belgium
Países Baixos	3,3	Netherlands	Brasil	2,4	Brazil
Bélgica	2,5	Belgium	China	1,9	China
Singapura	1,9	Singapore	Nigéria	1,8	Nigeria

Fonte: INE, Estatísticas do Comércio Internacic nal.
Source: INE, International Trade Statistics.

Portuguese foreign direct investment increased substantially during the 90s, reflecting a growing involvement of Portuguese companies in the international market. Up until 2000, increases were enormous, transforming Portugal into a net exporter of capital, an inversion of its traditional role. However, Portuguese foreign direct investments declined after 2001.

Portuguese foreign direct investments 1997 – 2005 (millions of Euros)



Source: The Bank of Portugal

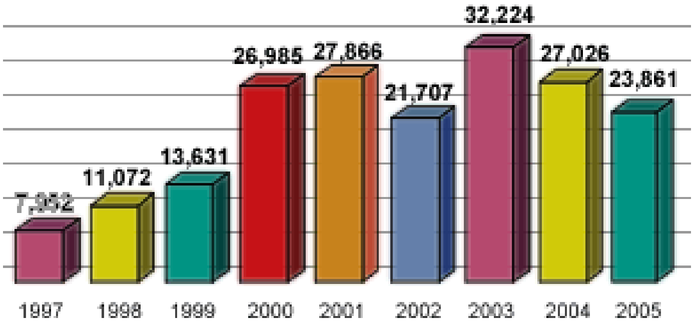
Spain, other EU member states such as the UK and the Netherlands as well as Brazil are important destinations for Portuguese foreign direct investments. In recent years, there has also been an increase in the importance of the countries of Central and Eastern Europe as well as investment in Angola.

Between 1996 and 2003 (in accumulated terms), Portuguese investment by sector of activity were made mainly on real estate activities and services to companies, which accounted for more than half the total. These were followed by financial, transportation, warehousing and communications activities, along with those of commerce, repairs, accommodation and catering. The processing industry accounted for only a small part of the total. In 2005, activities involving Portuguese investments in the processing industry amounted to just 8.3% of all investments according to the Bank of Portugal

Foreign direct investment (FDI) into Portugal increased intensely at the beginning of the 1990s. The exceptionally high levels of 1993-1994 were associated with Volkswagen and Ford and the *Autoeuropa project* - the highest foreign investment ever made in Portugal. The plant in Palmela opened for business in 1995 and produces the Sharan, Alhambra and Eos car models? and today is producing at around a half of its maximum capacity of 180,000 units. Directly and through suppliers, the investment is responsible for around 9,000 jobs.

A decline in inward FDI was experienced in the mid-90s, followed by an accentuated upturn in 2000-2001, occurring at the height of the boom in international mergers and acquisitions. The worldwide economic climate produced a small drop in FDI in Portugal, in 2002, but in 2003 it was almost restored to its previous level, recording an increase of 48.4%. In 2004 and 2005 further declines were reported.

Foreign direct investments in Portugal, 1997 – 2005 (millions of Euros)



Source: The Bank of Portugal

The EU constitutes the principal source of foreign capital. Between 1996 and 2003 (in accumulated terms), the major investor countries were the UK, Germany, France, the Netherlands, Spain, Belgium, Luxemburg, Finland and the US. In 2004, the countries that invested most in Portugal were the same, but in a different order, with first place being occupied by Spain, followed by the UK, Germany, the Netherlands, France, Finland, Belgium and the US. In 2005, once again it was the EU that occupied the top places, with first place going to Germany, followed by the Netherlands, UK, France and Spain. The US ranked 8th.

According to distribution by sector, the processing industry is the principal sector of investment. During the 1996-2003 period (in accumulated terms), the processing industry accounted for more than 40% of the total invested, followed by activities involving real estate and services to companies, commerce, repairs, accommodation and catering, transportation and communications and finance. In 2004, the processing industry continued to lead (30.1% of the total), followed by commerce, repairs, accommodation and catering (28.2%), real estate and services provided to companies (24.1%) and financial activities (10.7%). In 2005, the processing industry had already bolstered its position (32.9%), wholesale and retail trade, repairs, accommodation and catering continued steady (28.6%), with real estate activities and services to companies down slightly (21.6%). Financial activities also dropped off slightly in 2005 (7.9%).

Foreign controlled enterprises in Portugal in 2003 employed almost 8% of the Portuguese workforce but contributed a significantly higher share to the countries value added – 16.3% according to Eurostat figures. Here, a comparison to Spain is interesting: in the neighbouring country foreign controlled enterprises had a share in the national workforce of 9.6% but "only" contributed a share of 14.7% to the national value added. The performance of foreign owned companies in Portugal, shown below, is relatively higher in terms of value added than in Spain, the Czech Republic, Greece and France.

Foreign controlled enterprises in the non-financial business economy 2003

	Number of persons employed	Value added
Portugal	**7.9**	**19.6**
Spain*	9.6	14.7
Czech Republic	18.7	31.2
Greece	19.6	29.2
France*	14.6	18.6

Source: Eurostat, SBS
** Spain: excluding construction; France: number of employees instead of persons employed*

1.8 Employment and unemployment

Portugal has one of the highest employment rates in Europe, and the rate has always been above the EU average. According to Eurostat figures, Portugal in 2007 reached an overall employment rate of 67.8% in the 15 to 64 year age range and therefore falls within the handful of countries (Germany, Estonia, Ireland, Latvia and Slovenia) very close to the overall EU target for 2010 of an employment rate of 70% which has been already met by Finland, Denmark, Sweden, the Netherlands, Austria and the United Kingdom. Portugal is however the only member state whose employment rate has decreased compared to the year 2000.[6]

Portugal meets the EU targets on the female employment rate (more than 60%) and the employment rate of older people (more than 50%). In 2006, the female employment rate was 61.9% and the older person's employment rate was 50.9% with both rates not differing significantly from the rates in 2000.[7]

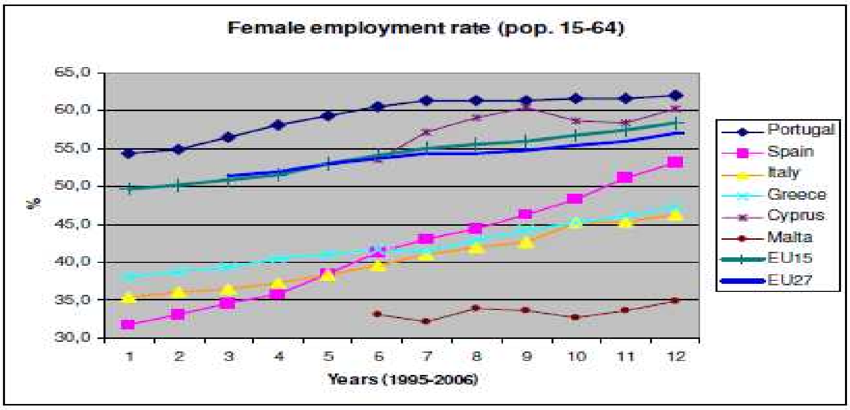
Part-time work in Portugal has increased slightly but remains far below the EU average level. In 2007, only 12.1% of all employees worked part-time in Portugal compared to an EU average of 18.2%. This figure is similar to the respective share in Spain (11.8%) or Italy (13.6%) but significantly below the shares in countries such as Sweden, the UK and Germany (25-26%). The full-time employment rate in Portugal has traditionally been high and remains above the EU average.

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
Portugal	65.7	68.4	67.8	---	66.7	65.7	10.6	10.9	12.1
Spain	---	56.3	65.6	---	53.9	61.9	7.9	7.9	11.8
France	59.6	62.1	64.6	---	58.7	59.4	17.0	16.7	17.2

Source: EU Commission: Employment in Europe 2008

With its high female employment rate, the Portuguese labour market contrasts with most other Southern European countries as the following chart illustrates.



Source: Moniz 2008

6 Employment in Europe 2008: p. 29
7 Employment in Europe 2008: p. 30

An interesting and positive feature of female employment in Portugal is the role of women in supervisory and managerial positions. As European surveys like the European Working Conditions Survey consistently demonstrate, Portugal ranks alongside countries with the highest proportions of women in these positions Northern Europe and some Central and Eastern European countries.

With regard to ***unemployment***, Portugal experienced a decreasing unemployment rate until 2001 before the rate started to rise again to a level similar to the EU15 level in 2005. The following table shows that the situation with regard to unemployment for certain groups of workers has deteriorated since 2002 when compared to the EU15 average:

- The female unemployment rate, which was just 5% in 2000 and significantly below the EU15 average has increased steadily since then and reached almost 10% in 2007, two percentage points above the EU15 average.
- Similarly, the successful fight against youth unemployment came to an abrupt halt in 2001, and the youth unemployment rate of 16.6% in 2007 was higher than in 1997 and also above the EU15 average rate.
- The long-term unemployment situation in Portugal has also worsened since 2001 – by 2007 the long-term unemployment had more than doubled from 1.5% to 3.7%. Long-term unemployment is particularly high amongst low qualified employees and mainly affects young adults (25-44 years), in particular women.

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total unemployment											
EU15	9.8	9.3	8.5	7.7	7.2	7.6	7.9	8.1	8.1	7.7	7.0
Portugal	6.7	5.0	4.5	4.0	4.1	5.1	6.4	6.7	7.7	7.8	8.1
Female unemployment											
EU15	11.2	10.7	9.9	8.9	8.3	8.5	8.7	8.9	8.9	8.5	7.8
Portugal	7.6	6.2	5.1	5.0	5.1	6.1	7.3	7.7	8.8	9.1	9.7
Youth unemployment (15-24)											
EU15	19.6	18.1	16.4	14.8	14.1	14.6	15.3	15.9	16.3	15.7	14.7
Portugal	14.8	10.4	8.8	8.6	9.4	11.6	14.5	15.3	16.1	16.3	16.6
Long term unemployment											
EU15	4.8	4.4	3.9	3.4	3.1	3.1	3.3	3.4	3.4	3.2	2.8
Portugal	3.2	2.1	1.7	1.7	1.5	1.7	2.2	2.9	3.7	3.8	3.8

Source: Eurostat, Employment in Europe Report 2008

1.9 Labour productivity and labour costs

Beside growth in GDP per capita, the growth of productivity is a key factor in the long-term level of welfare in a society. It defines the trend growth of real wages and the sustainable growth in household consumption of goods and services. Against this, the low productivity growth in the Portuguese economy over recent years is a worrying aspect of the country’s economic development. While the annual average increase in labour productivity in the EU15 between 2000 and 2008 was 1.2%, Portugal only produced an average increase rate of 0.8% (data taken from the table below).

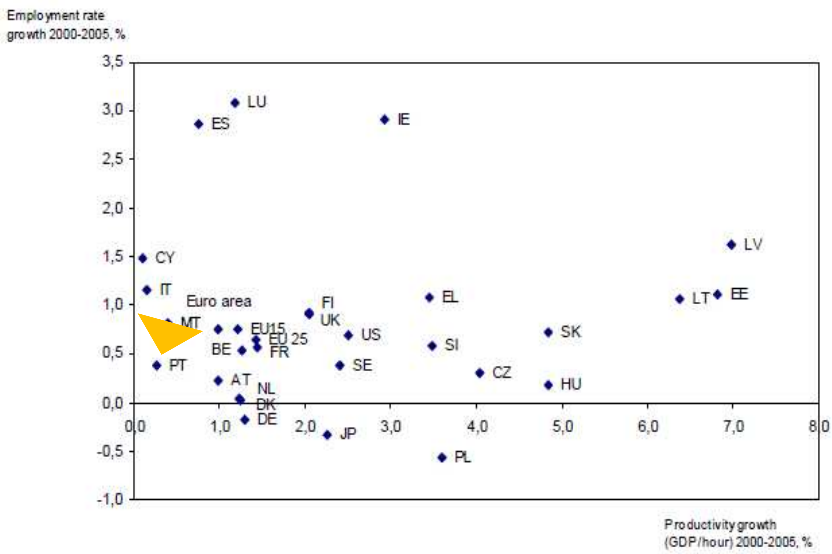
Annual Change of labour productivity 2000 - 2008

	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
USA	1,6	0,5	2,7	2,7	2,7	1,7	0,8	1,0	1,1
Portugal	1,6	0,2	0,3	-0,4	1,4	0,9	0,6	1,7	1,0
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 Report 2008, p.207

Although Spain scored even worse on productivity (with an annual average growth rate in labour productivity of only 0.5%), the situation differs substantially as countries experiencing rapid growth in employment are normally associated with lower productivity growth. The graph below illustrates this by combining employment and productivity developments in the EU member states.

Employment and Productivity Developments across the Member States 2000 - 2007



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

The unfavourable picture of labour productivity can partly be explained by substantial sectoral and structural differences in performance. The strong bias towards small companies with low productivity levels affects the average data. As does the share of labour intensive traditional industries and service sectors such as textiles, clothing and hotels and restaurants. The fact remains that productivity is relatively high in Portugal's large companies and in the foreign owned sector.

The following table shows that the Portuguese position with regard to competitiveness in the European context (i.e. the score of the "gross operating ratio"[8]) is mainly based on labour costs. Portuguese competitiveness is underpinned by a combination of low labour productivity and low average labour costs. It was suggested at the national seminar that

[8] The gross operating rate can be considered as one measure of profitability and, as such, is a key indicator for competitiveness and enterprises success. The gross operating rate is defined as the gross operating surplus (value added at factor cost less personnel costs) divided by turnover and is expressed as a percentage - the higher this percentage score is the more profitable is a business.

low pay was the enemy of productivity improvement and economic development in the country.

Productivity, costs and profitability in Europe 2003

	Industry				Construction				Non-financial services			
	Apparent labour prod. (EUR thousand per person employed)	Average personnel costs (EUR thousand per employee)	Wage adjusted labour prod. ratio (%)	Gross operating ratio (%)	Apparent labour prod. (EUR thousand per person employed)	Average personnel costs (EUR thousand per employee)	Wage adjusted labour prod. ratio (%)	Gross operating ratio (%)	Apparent labour prod. (EUR thousand per person employed)	Average personnel costs (EUR thousand per employee)	Wage adjusted labour prod. ratio (%)	Gross operating ratio (%)
EU-25 (1)	49.6	32.6	152.0	10.3	33.5	27.0	123.9	11.9	38.2	25.9	145.9	11.2
BE	77.0	48.5	158.9	9.8	37.3	34.8	107.1	9.1	50.0	38.0	131.5	7.3
CZ	15.1	8.4	180.7	13.5	9.9	8.2	120.0	10.1	12.7	8.5	150.3	10.5
DK	69.4	41.0	169.3	14.5	44.5	37.9	117.5	8.7	56.0	34.6	161.9	10.4
DE	59.3	45.0	131.8	7.0	34.6	32.3	107.0	6.8	47.3	27.8	170.0	6.1
EE	11.1	6.4	173.7	11.7	9.8	6.4	154.2	7.1	12.5	6.4	195.0	8.8
EL	:	:	:	:	:	:	:	:	:	:	:	:
ES	46.7	28.2	165.5	11.7	30.4	24.4	124.6	11.3	31.4	21.4	146.7	11.7
FR	56.0	41.0	136.8	6.3	37.7	34.3	109.8	7.1	47.2	35.8	131.9	6.8
IE	:	:	:	:	97.9	46.7	209.5	21.3	48.3	26.6	181.3	13.6
IT	45.1	31.2	144.6	10.3	27.6	24.0	114.9	15.0	33.9	27.5	123.2	12.1
CY	29.5	17.4	169.1	15.5	26.6	20.4	130.6	16.4	:	:	:	:
LV	8.7	4.0	218.0	17.7	8.4	3.3	254.7	16.2	9.3	3.7	252.7	13.2
LT (2)	7.9	4.4	179.9	11.4	6.4	4.2	153.3	10.3	7.2	3.9	185.5	8.7
LU	70.5	45.1	156.4	6.4	40.1	33.1	121.2	8.2	57.1	36.0	158.3	9.9
HU	17.6	8.8	200.2	11.4	7.8	5.9	133.4	6.7	11.2	7.4	151.1	7.5
MT (3)	25.6	14.6	176.1	14.3	11.4	9.2	123.7	18.1	25.7	10.8	237.5	24.6
NL	77.0	43.8	175.9	10.7	48.6	44.0	110.6	8.3	45.1	28.9	155.7	9.5
AT	65.4	41.8	156.3	12.4	47.0	34.9	134.9	13.6	45.3	31.8	142.5	10.2
PL	16.9	7.7	219.9	18.5	8.4	6.2	135.9	12.8	9.5	6.8	140.2	9.5
PT	23.9	14.0	170.0	11.9	15.6	12.4	126.2	7.4	21.0	14.8	142.1	7.3
SI	23.6	15.6	151.2	11.1	15.5	12.9	120.4	7.7	21.9	15.7	139.3	7.7
SK	13.7	6.4	214.4	11.5	7.7	5.4	141.2	6.2	11.3	6.2	182.9	7.8
FI	73.3	39.9	183.9	13.6	44.8	34.4	130.1	10.0	50.0	33.7	148.4	8.9
SE (4)	59.5	42.2	140.9	9.0	43.3	38.2	113.5	8.4	49.8	40.7	122.4	8.2
UK	67.0	36.7	182.9	15.4	57.5	34.9	165.0	16.5	43.9	26.6	164.8	12.6

(1) Industry, rounded estimate based on non-confidential data; non-financial services, average labour productivity, rounded estimate based on non-confidential data; average personnel costs, wage adjusted labour productivity and gross operating ratio, 2002.
(2) Non-financial services, 2002.
(3) 2002.
(4) Industry and construction, 2002.
Source: Eurostat (SBS)

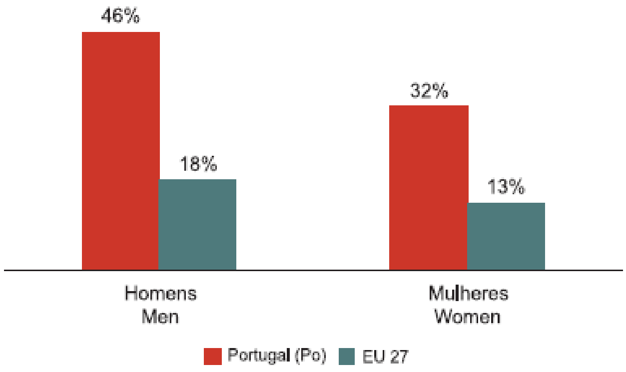
1.10 Educational attainment, skills and training

According to the Portuguese government, the educational attainment and qualification of Portugal's population is the "*greatest structural deficit*", the country is facing today:

> *"In fact, notwithstanding the improvement of education and qualification levels during the last decade, due to the action over the education system and enlargement of youth and adults' education and training opportunities, it is true that there are still (although decreasing) extremely worrying levels of early leaving and school failure, as well as high qualification deficits, a skills mismatch to the labour market and a low participation rate in lifelong learning, with clear reflexes on productivity levels." (Ministry of Labour and Social Solidarity: National Action Plan for Employment, p. 61)*

Although the proportion of early school leavers declined from nearly 45% in 1999, the proportion of young people leaving the school system without achieving a satisfactory level of education is still very high with a proportion of nearly 39% (46% of men and 32% of women) in 2005 compared to the EU average of 15%.

Early school leavers in Portugal 2005



Source: INE, Statistics Portugal

Portugal's performance in other aspects of education gives further cause for concern. In general the poor education of the Portuguese population is a significant challenge in the context of broader economic, social and demographic developments:

- In 2005, only 49% of young people (41% of men and 57.5% of women) in the age of 20-24 had concluded the secondary education. The respective EU average is nearly 78%;
- A study carried out in 2007 on the qualification level in Portugal reports a share of low-skilled workers of around 70% of the economically active population[9];
- The tertiary attainment for the age group 25-34 (as a percentage of the population of that age) group also is very low with below 20% compared to an OECD average of more than 30% and higher shares in other Southern European countries such as Spain (around 38%) or Greece (25%).

The low educational qualification of the workforce is also regarded as a major obstacle to innovation and productivity improvement. In 2005 26.4% of workers had only four years of compulsory schooling; 22% had six years; and 20.6% had nine years. Nearly 28% of Portuguese employers had only four years of education.[10]

The Moniz study referred to above also reveals some further insights into the skill levels in Portugal when they are compared internationally against more highly developed economies in Europe (France, Germany, the Netherlands, Portugal, Sweden and the United Kingdom):

- The negative impact on entrepreneurialism;
- A slow generational renewal of the labour market;
- Very low investment in education, as well as in adult and vocational training;
- Between 1985 and 1996, Portugal was the only country among those surveyed in which the demand for low-skilled workers is not in decline;
- According to current trends, it will take over 10 years for Portugal to reduce the proportion of low-skilled workers to 10% of the economically active population;

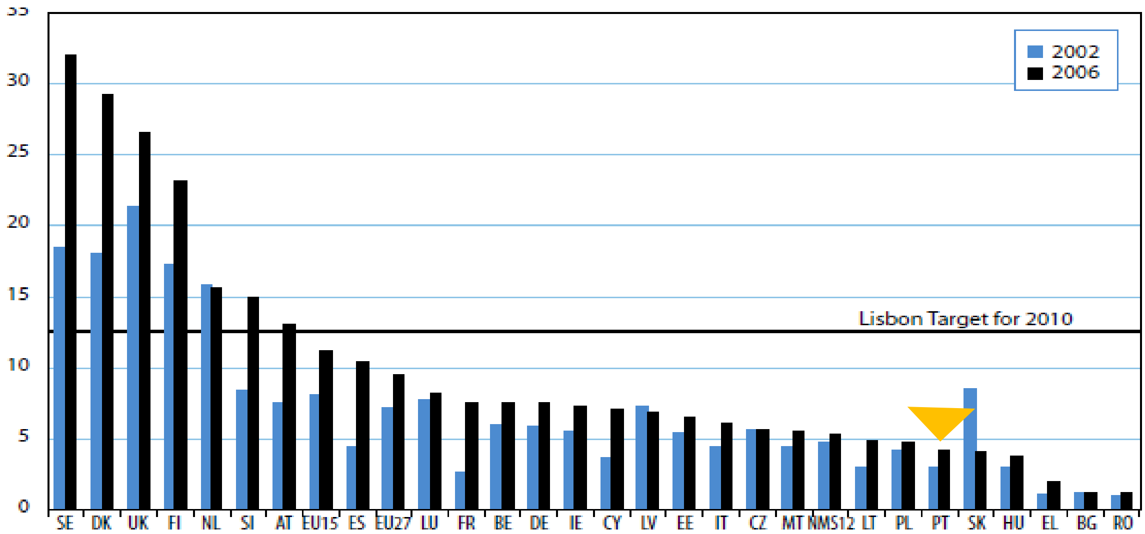
[9] Carneiro, R. (ed.), Valente, A.C., Fazendeiro, A., de Carvalho, L.X. and Abecasis, M., Baixas qualificações em Portugal [Low skills in Portugal], Cogitum Collection No. 29, Lisbon, Study Centre for Peoples and Cultures of Portuguese Expression, Ministry of Labour and Social Solidarity (Ministério do Trabalho e da Solidariedade Social, MTSS), 2007.

[10] Moniz 2008, p. 56

- Portugal will be the last country in the sample to maintain a high proportion of low-skilled jobs in the labour-intensive services sectors, such as construction, the retail trade, and hotels and restaurants.

Globalisation, along with the intensification of international competition and technological changes in most economic sectors, has generated a bias in labour demand, resulting in a preference for highly-skilled rather than low-skilled workers. Consequently the continuing low-skilled and education profile of the Portuguese population is regarded as the country's main limitation in meeting the labour market demands of an increasingly knowledge-based economy. Hence, further and continuous education and training becomes a challenge of particular importance for Portugal in order to overcome what is an acute skills deficit. The following table illustrates the extent of this challenge.

Trends in adult participation (aged 25-64) in lifelong learning (four weeks prior to the survey)



Source: EU Commission: Industrial Relations in Europe Report 2008, p. 60

Neither the government nor the social partners are blind to this problem. In 2007, the Portuguese government and the social partners approved an agreement for the reform of vocational training (substantial detail on new education and learning initiatives is provided in part II).

2 The nature and extent of restructuring in Portugal

2.1 Structural change in key economic sectors

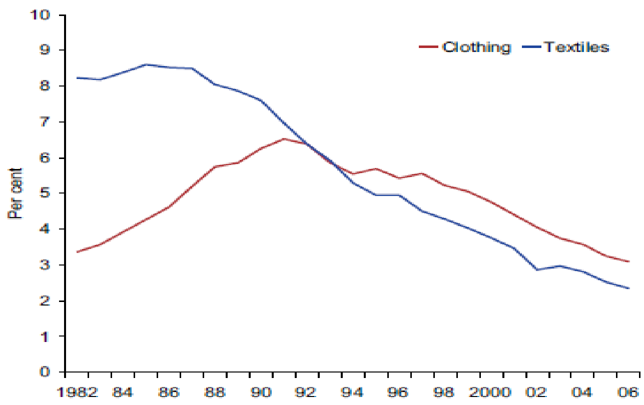
Textiles and Clothing

Textiles and clothing represent a significant share of the Portuguese economy, though their importance has declined significantly in the last two decades. The development over time of these two sectors has been substantially different as the table below illustrates.

In the beginning of the 1980s the textile sector represented about 2.5% of total GDP while the clothing sector contributed only around 1%. Prior to EEC accession in 1986 both sectors increased their share, but they evolved quite differently afterwards. The relative importance of the textiles sector declined continuously after 1986 while the clothing sector increased its importance until 1992, declining afterwards to a share slightly below 1% in 2006.

The development of these sectors in terms of share in total employment has been similar to that in terms of share in GDP. The share of textiles in total employment was more than double that of clothing in the beginning of the eighties but this relationship has reversed in recent years. The share of employees operating in clothing increased until 1991, but declined to 3.1% in 2007. The share of the textiles sector in total employment has declined continuously since 1985 to around 2.3% in 2006. Taken together, the share of textiles and clothing sectors in total employment dropped from 11.6% in 1982 to 5.4% in 2006. Between 1996 and 2005 around 45,000 jobs were lost in the textile and clothing industries (Moniz 2008, 31).

Share of textile and clothing in total employment



Source: Bank of Portugal – Economic Bulletin, Spring 2009

The number of firms (with one or more employees) and establishments whose main activity was classified in the textiles or clothing sectors was similar in the beginning of the eighties, at around 2,000 firms. This number increased until 2000, but at a much faster rate in the clothing industry than in textiles. In 2000, the number of firms classified as clothing reached nearly 7,000, more than three times the number of firms two decades earlier. From 2000 to 2006, the number of firms and establishments declined by 1,000 units in the clothing industry and became fairly stable in the textiles industry. The different path of the number of firms when compared with the shares in GDP and employment resulted from changes in the size distribution of firms and concentration processes.

The share of the two sectors in total manufacturing export reflects the long term change reported above: the share of textiles exports decreased from 19% in 1982 to 8% in 2006 and the share of clothing exports increased from 11% to 16% in 1992 before it declined to 4% in 2006. Taken together the share of the textiles and clothing sectors in total manufacturing exports dropped from 30% in 1980 to 12% in 2006. Although the economic importance of the two sectors has declined over time, the figures illustrate that textiles and clothing in Portugal remain two very important economic activities. Portugal is one of the few European countries which have retained a relatively high share of employment in the textile and clothing industries. As far as the clothing industry is concerned only three countries - Greece, Bulgaria and Romania - have export shares higher than those of Portugal.

During the last decade, both sectors have experienced significant processes of restructuring which have affected and changed the quantitative as well as qualitative dimension of employment in Portuguese textile and clothing. If compared to countries like Italy, were the textile and clothing industry is also an important industry sector, the Portuguese case is exceptional insofar as the process of restructuring and change has not affected the nature of work significantly. As a report on the industry states:

> *"Portugal is the only EU-15 country that has retained a relatively high number of jobs in the sector (5 per cent of total employment). The figures by occupational group show that these are mainly jobs for production workers, who make up 78 per cent of the employed in the Portuguese textile and clothing industry. This 78 per cent is a considerably larger proportion than in the other EU-15 countries, where the share of production workers in textile and clothing was significantly lower already in the mid-nineties, and was further reduced between 1996 and 2004. Two thirds of Portuguese production workers are skilled craft workers (weavers, tailors, sewers ...), one third skilled and unskilled factory workers." (Coppin, Geurt and Ramioul 2007, p. 119)*

Construction

Traditionally the construction sector is considered as one of the engines of the Portuguese economy and a sector that generates employment. According to Eurostat figures, the number of persons employed (including self-employed) increased significantly between 2001 and 2006. Today, the Portuguese construction sector faces difficulties in the current financial and economic crisis. In response to this, several new public construction projects have been launched to mitigate the extent of the problems faced.

The problems in the construction sector are not related exclusively to the current crisis. The period since 2003 has seen a substantial decrease in investment in this sector, that has also suffered from a construction fall of around 20%, losing around 75,000 jobs. The volume of both investment and work in the construction sector is currently very low. In 2007, and prior to the onset of the crisis, the Portuguese economy grew 1.9%, whilst the construction sector grew an official 0.1% from 2006. This was the first increase in recent years. Competition is intense.The construction companies are mainly domestic and very few foreigners operate directly in the market. The manufacturers of building materials are both domestic and foreign suppliers.

Productivity in the construction sector is very low. Although there are a number of well-qualified and internationally respected architects and engineers, who bring quality and innovative technology to the market, much of the labour force is poorly trained and pay levels are very low.

Different initiatives have been undertaken to improve this situation including training programmes to improve the skills of the workforce and to teach companies how to rethink strategies and organisation in order to prepare them for international competition on the Portuguese market. Improved quality and innovation are the keys to the future success of construction companies. It should be added that the construction sector has a growing export of services to countries like Spain, Angola, North African countries (Morocco and Tunisia) and Eastern Europe.

The role of future industries

There is another quite different and more positive side to the Portuguese economy.

There are more than 7,600 companies active in the ICT (Information & Communications Technology) sector, ranging from highly innovative manufacturers to very specific software development houses. The sector currently employs more than 100,000 people in Portugal. There are around 700 companies occupied in the electronics sector. 30% of the sector consists of foreign companies, responsible for 60% of production and 90% of exports.[11]

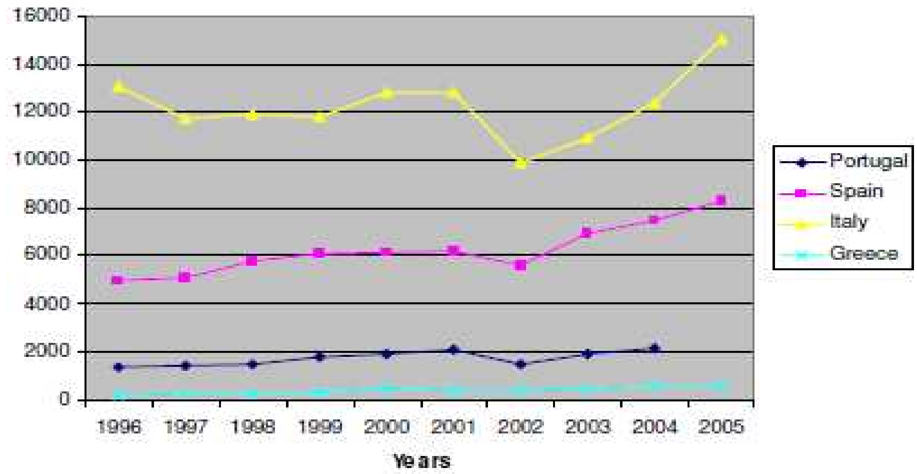
Employment in the Portuguese IT sector increased between 1996 and 2004 by around 50%. Whilst this is significant to the country it is comparatively modest in international terms and is one of the lowest increases in the European Union. Employment in this sector remains just 0.4% of that in the overall economy. This means, given the growing importance of IT related business activities and the scarcity of qualified domestic workers, that the IT industries in Portugal employ a growing number of workers from foreign countries.

The ICT market is characterized by the presence of multinational companies. Currently, the main players in Portugal's IT/telecommunication & electronics sector are Alcatel, Vodafone and Siemens controlling a substantial part of the supply of products purchased in the country. Cisco systems (ICT) has finalised arrangements with the Portuguese government to open a European after-sales service centre in Lisbon. The investment amounted to €36 million. Interestingly, Portugal was selected because the multilingual qualified labour force offered a competitive cost centre in European terms. The office was opened in July 2007. The Portuguese electronic component market growth is likely to remain below the EU trend in 2008.

Although the Portuguese government has started some industrial policy initiatives to foster ICT investments and activities (e.g. “Plano Tecnológico”), the country still lags behind with regard to the share of these activities in the overall economy. Seen from a domestic point of view, growth in the ICT sector has been substantial, but by international comparisons the relative growth has been relatively slow. The following figure shows the growth of exports of ICT equipment in the Southern European countries and illustrates the size of the domestic markets.

[11] According to figures presented by the Danish Embassy in Lisbon

Export of ICT equipment



Source: Moniz 2008, p. 54

Four years after the signing of the shareholder agreement between VW and FORD in July 1991 production started in the Autoeuropa plant in Palmela. During this period one of Europe's most modern automotive production facilities was built with a total area of around 2 million m², including the Industrial Park housing many of the main suppliers to the plant. The plant and equipment were designed using advanced technology and incorporating the latest developments in automation and computerised production control. Autoeuropa today is one of the most competitive auto plants in both European and world terms. Since its inauguration, VW Autoeuropa has been the target of several investment agreements between Volkswagen and the Portuguese state, in 2003 and more recently in November 2007, anticipating the arrival of new models to the plant.

The Palmela plant produces the VW Sharan, VW Eos and the Seat Alhambra. It will be the location for the new VW Sirocco. Production in the plant in 2008 was around 90,000 units, a half of the total plant capacity were it to operate on three shifts. Direct employment at the plant in 2007 was around 3,000 people with a further 6,000 employed in the locality and the region in supplier companies.

A further important future industry is the production of renewable energy against a background of growing fuel costs and worries about energy security. Here, Portugal is proud of presenting itself as the home of the biggest solar plant in the world and as the fastest growing European country in wind energy. The country is actively embracing renewable energies and is already among Europe's leaders in the field. Portuguese EDP Renováveis (EDPR), the renewable-energy subsidiary of Energias de Portugal (EDP) and one of the world's largest and fastest-growing wind-energy companies, EDPR which is listed at the NYSE Euronext Lisbon market, rated the country fourth in the world based on net wind installed capacity at the end of 2007, after growth of 168% in the past year. EDPR aims to triple its installed capacity to more than 10.5 gigawatts by 2012. The company owns and operates wind farms in Spain, Portugal, France and the USA.
The Portuguese government has set a goal to produce around 30% of its energy from renewable sources - solar, wind, wave and hydropower - by 2020 up from 20% today.

2.2 Structural change in the service sector

The Portuguese economy is characterised by a growing share of the private service sector in overall employment and GDP contribution. However the development of the individual service sector industries has been quite different. There are also significant differences to the EU15 average and other EU countries, e.g. Spain as the following table summarizing the development of service sector employment between 2000 and 2006 illustrates.

Employment change in the service sectors 2000 – 2006 (% change)

Economic sectors (NACE codes)	Portugal	EU15	Spain
Retail etc.	2.9	5.3	19.1
Hotels, Restaurants	8.3	19.4	37.6
Transport, Communication	31.1	5.9	24.4
Financial Services	-4.4	3.4	14.2
Business Services	37.6	28.2	66.3
Public Administration	9.0	4.1	26.1
Education	12.8	13.7	30.5
Social Services	28.4	19.0	44.8

Source: European Labour Force Survey

The table shows that there are a number of sectors where employment growth was above the EU average such as transport and communication, public administration, business services and social services. Conversely, the employment development of financial services and hotels and restaurants compares unfavourably with the EU average.

2.3 Public services' restructuring

Employment in the Portuguese public administration sector grew by around 9% between 2000 and 2006 (around 29,000 jobs). However, the proportion of public administration workers in the labour market decreased slightly to a level of around 6% of total employment.

In contrast to this employment in the railway and postal services in Portugal has decreased significantly. From a comparatively low share in overall employment, the number of jobs further decreased between 2000 and 2006 by around 4,000 (10%).

Public initiatives to develop transport and logistics in Portugal

The government programme PIIP (Programa de Investimentos em Infra-estruturas Prioritárias) will invest €8.3 billion in the transport sector during the next four years. The Portuguese Logistics Plan - the PLP - aims to promote Portugal as a crossroad of world trade routes boosting the amount of cargo handling in local harbours and airports by €9.5 million and creating around 5.000 new jobs. The PLP includes building and operating 11 logistics platforms and two air cargo centres at a cost of €1 billion. The PLP has taken on increasing significance following decisions to move ahead on the new international OTA airport and the TGV high-speed rail link connecting the European countries. The PLP foresees partnerships between public and private entities. The Government expects that Portugal will become a main gate for the entry and exit of products between Europe and Atlantic countries. One of the biggest challenges for the development of Portugal is transforming itself into an Atlantic platform for the international movements in the Iberian and European markets.

Restructuring in the telecoms sector has resulted in a reduction in employment in Portuguese Telecom from 33,000 to around 20,000 staff.

Section two: The role of the Portuguese social partners in restructuring

1 Social Partners and Social Partnership in Portugal

1.1 Introduction

During the last century, Portugal experienced nearly 50 years of authoritarian dictatorship, reached democracy in 1974 and became a member of the then European Community in 1986. These massive changes in politics and society also had fundamental repercussions on the system of industrial relations and in particular the organisation and role of social partners in the Portuguese society and the processes for managing structural change. Notions such as "social partners", "social partnership" and "social dialogue" have emerged, changed and been adjusted not only in a relatively short period of time but – in contrast to many other countries in Western European – are still in flux as the recent debate on the reform of the labour relations system and the controversial implementation of the new labour code in February 2009 illustrates.

At the same time, the Portuguese social partners have played an important role not only in the successful transformation from dictatorship to democracy but also in the preparation of the country for EU membership and in managing economic and social structural change in the Portuguese economy.

1.2 Trade unions

Portugal is characterised by a competitive pluralism of interest organisations in the field of employee interest representation by trade unions. The structure of trade unionism in Portugal is complex and fragmented. In 2005 more than 400 trade union bodies were registered with the Ministry of Labour: around 350 trade union organisations - often based locally rather than nationally, 27 industry federations, 36 district groupings and seven confederations.[12]

There are two main trade union confederations in Portugal, the CGTP *(Confederação Geral dos Trabalhadores Portugueses)* and the UGT *(União Geral de Trabalhadores).*

The CGTP which claims a membership of around 650,000 was formed after the end of the dictatorship in 1974 and initially had close links with the Communist Party. The CGTP organises the majority of trade unionists, other than in finance and energy, and it is strongest in manufacturing, construction and the public sector. The CGTP-IN is made up of 12 industry federations, 27 district and local groupings and 134 single unions. Only 91 of these individual unions are formally affiliated to the confederation, the remaining trade unions co-operate with the CGTP-IN. Approximately one third of the unions are nationally based, like for example the local government union STAL with 56,000 members. The vast majority are based in regions or districts, or groups of districts. Since 1995, the CGTP-IN has made considerable progress in rationalising these structures by encouraging unions to merge, reducing the number of separate unions from 152 in 1993 to 107 in 1999 and by a further 10% between 1999 and 2003. The CGTP has always favoured a more radical and conflict-based political strategy than the UGT.

The UGT was founded in 1979 through a merger of moderate trade unions with links to social democratic and liberal-conservative parties. Today the UGT claims a membership of about 400,000 and organises a mixture of industry and occupationally based unions. Most of its 50 unions are based nationally but there are some, such as the bank employees and teacher's unions which have a district base. The UGT has a confederation for executives and managers (FENSIQ). It has most members in the

[12] According to information presented by the European Trade Union Institute: www.workers-participation.eu

service sector, both private and public, and is particularly strong in banking and insurance. The largest union in the UGT is the SBSI, which claims to represent 50,000 bank employees.

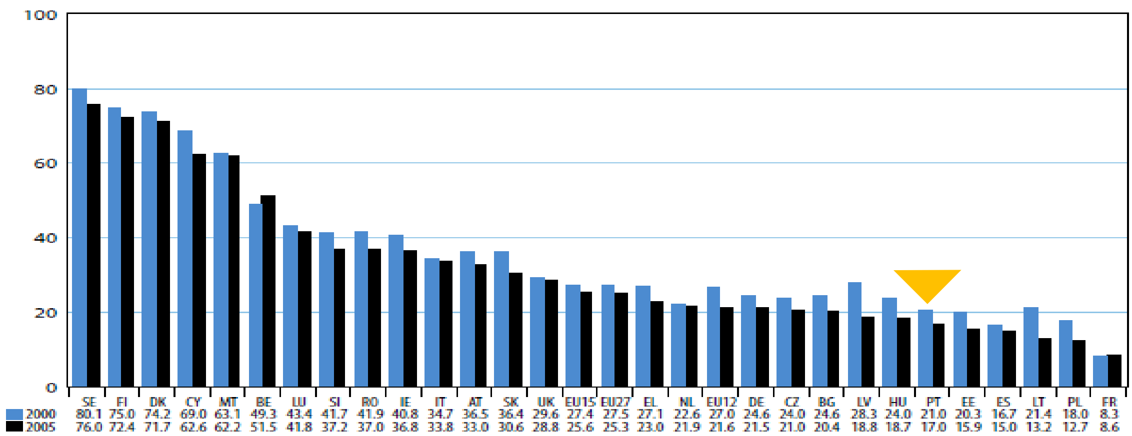
History of Portuguese trade unions

The Portuguese trade unionist movement was born in 1820, when the first workers' associations for mutual assistance and for popular teaching were created. Workers' organisations propagated until the end of the 19th century: in 1889 there were 392 such organisations in Portugal, comprising more than 130.000 workers. Strictly trade union associations increased from 24 in 1876 to 135 in 1903. In late 1910 the Republic enabled the strengthening of workers' organisations. In 1914 the first National Workers' Union was created. This was the first national trade union confederation. Only in 1919 the Government conceded some of the confederation's claims, namely 8 hours work per week for the industry and commerce sectors. The organisation changed its name into General Workers' Confederation. The dictatorial regime Salazar started to build in 1933 lasted almost 50 years. In 1933 legislation was created dissolving every existing trade union organisation and establishing the corporative trade unionism, controlled by the Government. However, the post-war industrial development, as well as emigration and the massive insertion of women in the labour market led to the reconstitution of new and democratic forms trade union organisation and activities. In 1970 an informal trade union organisation was created, comprising 30 trade unions. On 25th April 1974 the fascist dictatorship met its end. The Communist Party left clandestineness and became the only organised political structure. Inter-trade union, which had been clandestine from 1970 to 1974, became the only anti-fascist trade union. But some minority political tendencies started to control some trade unions, especially in the Bank and insurances sectors. These minority trade unionists created an Autonomous Movement for Trade Union Intervention – Carta Aberta (Open letter, a document contesting the Inter-trade union's claim of representing the Portuguese workers exclusively). In 1977 the legal framework was changed and the principle of trade unionism plurality was accepted. The Inter-trade union Congress marked the definite break between those two tendencies. The Communist majority adopted the present name – CGTP-IN and the Socialists and Social-Democrats decided to create a new trade union confederation. On 27th and 28th October 1978, 47 trade unions approved UGT's Declaration of Principles and Statutes. The first UGT's Congress was held in O'porto on 29th and 30th January 1979.

Source: "UGT Contribution to the National Dossier on Portugal"

Due to a lack of precise membership data it is difficult to appraise trade union density in Portugal. The European Foundation for the Improvement of Living and Working Conditions estimates figures ranging from 15% to 25% (2004). A recent analysis by Dornelas (forthcoming) estimates trade union density to be between 10% and 18% in 2007.

Trade union density, EU-25, 2000/ 2005



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

Both CGTP and UGT are members of the European Trade Union Confederation (ETUC).

Since the late 1980s relations between the CGTP and UGT have improved considerably, although marked differences still remain in many areas. An indication of the willingness of the two confederations to work together is shown by the creation of a joint committee in February 2007 to monitor the Portuguese Presidency of the EU in the second half of the same year.

Beside the unions within, or allied to, the main confederations there are around 100 other unions in Portugal, some grouped in smaller confederations, such as the USI or the CGSI, but the majority are totally independent.

1.3 Employers' Organisations

Two different types of business interest organisations have been established in the process of the democratisation of Portugal after 1974. The first type comprises employers' confederations created after the end of the dictatorship including the Confederation of Portuguese Industry (CIP); the Confederation of Commerce and Services of Portugal (CCP); the Confederation of Portuguese Farmers (CAP).

The second type comprises two pure trade organisations, the AIP (Portuguese Industrial Association) and the AEP (Entrepreneurial Association of Portugal) which were already rooted in the times of the authoritarian corporatism before 1974. From the early 1990s to 2001 both associations were members of CIP. However, in the context of the initiative to establish a general umbrella organisation for all Portuguese employers, the Entrepreneurial Council of Portugal (*Conselho Empresarial de Portugal*), AIP and AEP terminated their membership in CIP and in 2004 and created their own coordination body, the Entrepreneurial Confederation of Portugal (*Confederação Empresarial de Portugal)*.

Although the landscape of employers' organisation in Portugal remains fragmented CIP and CCP are the major cross-sector employer confederations and also the most important actors in collective bargaining.

There are no exact figures on employer organisations' density and a recent survey estimated the employers' density in manufacturing at around 51-60% (Visser 2004).

The major employers' organisations are actively involved in the European Social Dialogue structure: CIP as well as AIP are the Portuguese members of BUSINESSEUROPE. AIP is also the national member organisation of UEAPME. The national section of CEEP in Portugal is the APOCEEP association as the main umbrella organisation of public services' institutions in Portugal. CAP represents the Portuguese branch of the European Committee of Professional Agricultural Organisations, COPA. CCP is the national member of EUROCOMMERCE.

1.4 Social dialogue and social pacts

Portuguese social dialogue in the current form did not start until the mid 1980s, a decade after the revolution in 1974. The orientation towards political democracy and the market economy, defined in the Constitution of 1976 also included the constitutional anchoring of trade union freedom and the possibility of organisational pluralism.

Social dialogue in its current form gained momentum with the establishment of the *Standing Committee for Social Dialogue* (*Comissão Permanente de Concertação Social* or CPCS) as the institutionalised form of social dialogue in 1984. Against a difficult economic background (Portugal suffered from macroeconomic imbalances and high unemployment, balance of payment deficits and high public debt) the CPCS and social dialogue between trade unions, employers' organisations and the government became an important instrument for reinforcing the governance of Portuguese society and the preparation for entry into the European Community which of itself accelerated structural changes in society and economy.

With a government having difficulties in deciding on the best possible ways of overcoming economic problems and meeting the challenges in the country's EU membership a politicisation of the social partners' organisations and significant conflicts over economic and social policy orientations took place making it difficult to reach any concrete agreements in the CPCS.

> *"As far as employers were concerned, the greater liberalisation of the economy and employment relationships was to be praised, even though they were somewhat reticent as to the economic effects of European integration; CGTP demanded a strengthening of the state's intervention in both the economy and employment relationships and declared itself to be against membership of the EEC; UGT, which had always been in favour of Portugal joining the EEC, considered the market economy to be an already established reality, and demanded the adoption of policies capable of leading, in the medium term, to a convergence of Portuguese wages and social protection levels towards the European average." (Dornelas, forthcoming, p. 4)*

Against this background, the social pact agreements reached in the 1980s were limited to recommendations on incomes and pricing policy. In the 1990s, they moved on to a higher level with the social partners engaging in dialogue on a wide range of policy issues. Comprehensive economic and social agreements were reached in 1990, 1996 and in 1997. These pacts - which since 1991 were negotiated under the umbrella of the new institutional form of the *Economic and Social Council* (CES) covered a wide range of topics from incomes policy, employment policy, education and vocational training, working time and conditions and social security reform to the regulation of industrial relations.[13]

Created as an organ of consultation of the government, the CPCS and successively the CES became a forum of tripartite negotiation whose major advocates were mostly the respective government and the UGT. In a recent, albeit not universally agreed, overview of nearly 25 years of social concertation in Portugal, Dornelas (forthcoming) describes four distinctive periods, of which each one corresponds to a parliamentary cycle:

Political cycles and social concertation outcomes

Employment change in the service sectors 2000 – 2006 (% change)

Political cycle	Drivers	Outcomes
1985 – 1995	EU accession	Wage setting ad-hoc agreements; first pact on labour market regulation (1990) the two first ad-hoc unanimous tripartite agreements (1991); two failed tripartite negotiations on incomes policy and on labour market policy
1995 – 2002	Meet the Maastricht criteria	Agreements of 1996 and 1997 on the issue of meeting the Maastricht criteria; crisis of these agreements has been followed by ad-hoc agreements on education and training, on health and safety and on the reform of the social security
2002 – 2005	Budgetary and debt crisis Economic downturn and unemployment growth	Generally characterised by the peripheral role of social concertation, the absence of any formal tripartite agreement and by the first unanimous bipartite agreement (2005).
2005 – 2009		Second bipartite agreement (2006); first unanimous tripartite agreement on wage setting (2006), four ad-hoc tripartite agreements (2007) and a new social pact on industrial relations, employment and social protection (2008).

Source: Dornelas (forthcoming, p. 5)

[13] See: ILO: "Social pacts in Portugal", www.ilo.org.

A major problem for the social partners has been the implementation of the 21 agreements reached since the first one in 1986, partly because the largest workers' organisation, CGTP was not a signatory party despite having been actively involved in the negotiation processes. CGTP argue that their non signature of agreements matters relatively little in Portugal since the responsibility for the implementation of their terms lies with government. Some agreements were also opposed by certain employers' organisations and in Portugal unanimity is the exception and not the rule. Only seven out of 21 agreements were concluded unanimously and 12 out of 19 tripartite agreements were refused by the CGTP (all since 2007) and received the public and active opposition of the largest trade union organisation.

Though there are constraints on the social partners' ability to negotiate and implement national agreements, the general assessment by the Portuguese social partners is that this instrument is an important element in the context of social and economic progress. The following quotation from an UGT paper prepared for this dossier illustrates:

> "Social dialogue is more than a mechanism of negotiated reciprocity between the interests of the groups in question, widening its scope of action to general interest issues and underlining its social function, although it may not always be easily perceptible by the society. The last few years were also very important for the development of the bipartite dialogue among social partners with a seat in the Standing Committee for Social Dialogue. This kind of dialogue led to two important bipartite Agreements on the promotion of collective bargaining and on the vocational training reform. Social dialogue should become a permanent process, with results acknowledged by every worker and with valuing trade union intervention in the society. "
>
> Source: "UGT Contribution to the National Dossier on Portugal"

2 Employee participation and co-determination at different levels

2.1 Workplace level

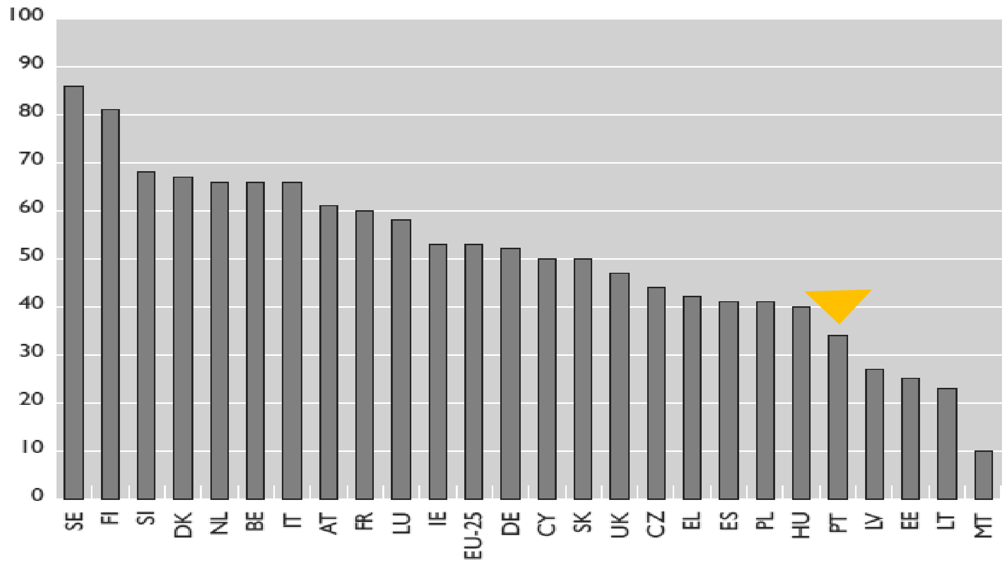
In theory, Portugal has a dual model of representation of workers by workplace trade union representatives and elected works councils ("workers commissions"). In practice, works councils are rare and only exist in large companies. Figures published in the green book on labour relations[14], show that at the end of 2005 there were only 192 works councils in the whole of Portugal – a tiny number if compared to the total of nearly 7,000 companies with more than 50 employees. Works councils consist only of employee representatives. There is no management involvement.

With regard to employee interest representation by trade unions it is up to the unions and the members in the workplace to decide on the number of trade union delegates they choose to elect. However, there are legal limits on the number who can benefit from specific legal rights and protections.

If there are a sufficient number of union delegates in a company, the delegates may come together in a committee and where there are several unions in a workplace, which is fairly common because of the structure of Portuguese unions, they may form a joint union committee. They adopt their own rules of procedure.

[14] Livro Verde sobre as Relacoes Laborais, Ministerio do Trabalho e da Solidariedade Social, April 2006

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



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

The role of the trade union delegates includes ensuring that existing collective agreements are properly applied and negotiating new collective agreements at company level - although these formally need to be ratified by the union(s).

Group level representation

There is no formal structure for group level representation. However, there can only be one works council in any company. Where there are several workplaces, it is normal to set up sub works councils who send representatives to the "official" company works council.

The law also provides for *coordinating councils of workers*, who bring together works councils from different companies with the aim of creating links between them and having a positive role in economic restructuring. However, in reality, these coordinating councils are rare. According to the green book on labour relations at the end of 2005 there were only six in the whole country.

2.2 Collective bargaining

Portugal has traditionally had a high level of collective bargaining coverage – largely through the extension of collective agreements by t he government. Figures for 2004 show that 2.39 million out of 2.55 million employees (94%) in the private sector were covered by collective agreements as a result of the extension of 137 agreements.

However, this high level has come under threat by the legal changes introduced in the context of the 2002 labour code reform which led to a sharp decrease in collective agreements. The changes in the Labour Code in 2003, which allowed collective agreements to expire if both parties are unwilling to negotiate a new agreement, resulted in a sharp reduction in the collective bargaining coverage. In 2004, the number of new collective agreements signed fell to 162 – fewer than half the 342 signed the year before and the lowest level since 1987, when the statistics were collected for the first time. The number of collective agreements has recovered subsequently rising to 254 in 2005 and 245 in 2006. However, this is still around 100 lower than before 2004. It is argued that these figures overstate the actual effect as the previous law, requiring that collective agreements continue in perpetuity, produced an artificially high figure.

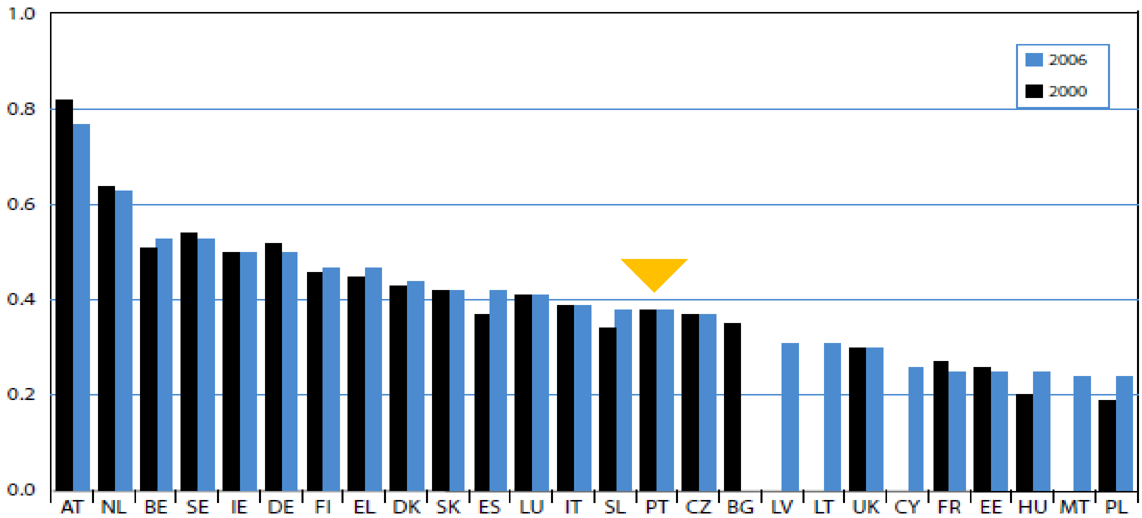
The new Labour Code also brought changes in the relationship between different levels of negotiation, allowing employees to be covered by more than one agreement – for example, by both an industry and a company agreement. However, to date this remains very rare.

The principal level of collective bargaining is the industry level. Figures for 2006 from the ministry of labour show that there were more agreements signed at this level than at company level – 153 as opposed to 65 company agreements and 26 agreements covering several companies, but not an industry-wide employers' association. More significantly, industry level agreements, which are often also for specific regions, also cover many more people. In 2006, 1,344,000 employees were covered by industry agreements as opposed to 37,000 by single company agreements and 73,000 by agreements signed by several companies.

According to information from UGT the total number of workers covered by published collective agreements in 2008 was 1,704,107 which is the highest number since the beginning of this century. There were less sectoral agreements published in 2008, in comparison with 2000/3, but a higher number of workers were covered. The number of published agreements amounted to a total of 296.

There are differences in the negotiating structure between different industries. As the recent green paper on Portuguese labour relations noted, while industry agreements cover more than half of all employees in 10 out of 15 industries, agreements with several companies are dominant in the financial sector and utilities, and with single companies in transport and communications and fishing. There are also gaps in collective bargaining coverage in personal and other services and in public administration public servants are not covered by collective agreements.

Collective bargaining coverage and collective bargaining centralization 2000 and 2006 (%)



Source: Industrial Relations in Europe 2008, p. 76/78. Data based on the ICTWSS database

Collective agreements concentrate on pay rates and increases, but they also cover other issues. According to the green paper, those most frequently covered are working time, night work, health and safety, overtime, temporary transfers, geographical mobility, occupational training, shift rates, exemption from fixed working hours (normally for more senior staff), arrangements for ending or revising agreements, flexibility and additional social benefits. Other issues covered less frequently include non-discrimination and equality, part-time work, making adjustments in working time and the occasional loaning of labour to other employers.

Minimum wage

Portugal is one of 18 EU countries which have a national minimum wage, the RMMG (*Retribuição Minima Mansal Garantida*). In 2004 the overall percentage of employees in Portugal who receive only the minimum wage was fairly small: 5.5% (men 4.0%; women 7.5%). In 2004 the minimum wage in Portugal was established at 40.7% of average earnings in industry and service sector. According to a tripartite agreement in 2006 the minimum wage will until 2011 progressively increase to €500 per month. According to this, at the end of 2007, the Portuguese government and social partners signed an agreement to increase the minimum wage by 5.7% in 2008, the highest annual increase since 1992.

3 Micro and macro economic restructuring as an issue of social dialogue and collective bargaining

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

According to the Portuguese labour code, trade union delegates and/or works councils have to be informed and consulted in various situations in the context of changes at the company level:

Trade union delegates are entitled to information on the “recent and probable development of the employer’s activities and economic situation” and information and consultation on “the situation, structure and probable development of employment”, as well as measures planned to maintain staffing levels, together with “measures likely to lead to substantial changes in work organisation”. This wording is in line with the EU framework directive on information and consultation. In addition, in areas, such as working time, training and temporary close-downs, the trade delegates should be informed and consulted, if there is no works council.

The role of the works council is purely advisory and consultative. It does not have the decision making or veto powers which exist in some countries in Europe. It should receive a range of economic, financial and employment information. These include the financial plans of the business, the annual and quarterly accounts, the extent of taxation paid, plans to alter the capital structure of the business; production levels and their likely implications for employment, information on sales; personnel policy and works rules. In companies with more than 100 employees, the works council and the unions should be given a detailed annual report on staffing (the social balance sheet). In practice, works councils often find it difficult to ensure that they are given all the information that by law they should receive.

Works councils should also be consulted over a range of issues with regard to restructuring with a right to present an opinion before the decision is taken. These include the closure of the company or significant parts of the business; anything that could produce a significant reduction in the number of employees or a major worsening of working conditions; relocation; changes in working hours and the organisation of annual holidays; and changes in grading and promotion procedures. They have 10 days to give their views in most cases.

In addition, the works council has consultation rights over any redundancies or dismissals or cuts in the normal working week. It has a right to express an opinion on the financial plans of the business and on training and retraining.

3.2 “Flexicurity”: Making the labour relations system more efficient

In recent years Portugal has undertaken several initiatives to improve the labour market system and make it more efficient in order to meet the needs of managing structural change and improving overall “flexicurity”. These initiatives have been carried out with the active involvement of the social partners, and in particular, within the institutionalised form of social concertation in the CPCS. Despite this, the notion of “flexicurity” is not a universally accepted concept and the social partners disagree strongly on the question of current labour market flexibility and rigidity.

Major landmarks have been the following:

- The Socio-Economic Agreement (*Acordo Económico e Social*, AES) 1990;
- The Short-Term Social Concertation Agreement (*Acordo de Concertação Social de Curto Prazo*, ACSCP) 1996;
- The Strategic Social Concertation Agreement (*Acordo de Concertação Estratégica*, ACE) 1997; and
- The Tripartite Agreement for a new system of Regulation of Labour Relations, Employment Policies and Social Protection in Portugal (*Acordo tripartido para um novo sistema de regulação das relações laborais, as políticas de emprego e de protecção social em Portugal)* 2008.

According to most commentators however, (Grote/Schmitter 1999, Dornelas, forthcoming) the outcomes of social concertation in Portugal until 2001 were quite ambiguous and rather frustrating. This resulted in the PSD/DCS-PP coalition government of 2002 – 2005 adopting a new labour code that was opposed by the trade union movement.

Aiming at increasing the flexibility in the Portuguese labour market (e.g. by extending the maximum duration of fixed-term contracts), the Labour Code introduced a significant change in the relationship between labour law and collective agreements in a manner that worked to the advantage of employers and increased political competition between the two trade union organisations. The new system of collective bargaining resulted in a major crisis of collectively negotiated agreements. With few exceptions, trade unions found no employers willing to negotiate innovative solutions for collective agreements. Secondly, in spite of protests and demonstrations mostly organized by CGTP, trade unions have not been able to restore the previous power balance at the bargaining table. As a result, trade unions faced a reduction of 60% of workers covered by collective agreements published during the first year of enforcement of the Labour Code (see the earlier chapter on collective bargaining).

The labour code reform 2008

The tripartite agreement for a new system of regulation of industrial relations, employment policy and social protection in Portugal was signed on 25th June 2008 by the Portuguese government and all of the social partners, with the exception of the CGTP.

The revision of the Labour Code was one of the commitments made by the Socialist Party in their electoral campaign of 2005 to address the controversial outcomes of the 2003 labour code reform (in particular on the linkage between law, collective agreements and individual contracts with regard to the expiry of collective bargaining agreements as well as dealing with issues such as fixed-term contracts, working time flexibility and dismissal procedures).

The social dialogue agreement underlying the new labour code identified the following major problems of the Portuguese labour relations system which were addressed by the new labour code reform;

- A reduced adaptability of companies and workers to structural change;
- A weak system of collective bargaining;
- Formal rigidities in the legal framework;
- Low effectiveness of law and collective bargaining regulations; and
- High levels of precarious employment with strong labour market segmentation.

The set of instruments adopted to tackle these problems were:

- Measures to increase company adaptability through improved internal flexicurity;
- Improvements in the regulatory capacities of collective agreements through enlarging the space for negotiated solutions;
- Changes in the law on dismissals to make dismissals through disciplinary procedures faster, reduce the cases of mandatory reinstatement and introduce maximum compensation for dismissals in the courts;
- Strengthened labour law effectiveness through stricter regulation and the establishment of heavier penalties for breaching the law;
- A reduction in precarious employment through a set of measures with complementary effects. These include the reduction of maximum duration of fixed-term contracts; a more efficient definition of employment relationships that allow the labour inspectorate to fight fraud on the use of fake self-employment; a reduction in the contributions for social security applicable to open-ended contracts and an increase in them for fixed-term contracts and self-employment; and a reduction of labour market segmentation through improving social protection and the re-design of employment policies relating to the self-employed.

Although the Portuguese employers' organisation stated that the agreement on the new labour code did not match their main demands, the agreement was nonetheless supported both by all four employer organisations. By contrast, the trade union movement was deeply split with the CGTP having left the negotiation table before the agreement was reached. The reception of the new labour code by outside institutions was quite positive as the following statement by the European Commission on the progress made by the Portuguese Government in the context of the implementation of the Lisbon Strategy illustrates:

> "It contains specific measures to counter labour segmentation and fight the precariousness of some jobs. Whilst this is undoubtedly a fundamental step, the focus should now turn to its full and swift implementation. It is also important to insert a review clause in the Code. The full implementation of both recommendations issued to Portugal is essential in the context of the current crisis. By overcoming the qualifications deficit and reducing labour segmentation, Portugal will be better equipped to face the rapid and changing needs of its economic situation."
> (European Commission: "Implementation of the Lisbon Strategy Structural Reforms in the context of the European Economic Recovery Plan: Annual country assessments, Brussels 2009, p. 89)

Further elements of flexicurity

Apart from the labour code reform and the modernisation of the labour relations system the Portuguese government in recent years has launched a number of reform initiatives in order to foster flexicurity. These include the reform of social security (2006), following the Agreement with the social partners; the launch of the New Opportunities Initiative and the Reform of Vocational Training (the latter also followed an Accord between the social partners), as part of the lifelong learning strategy (2005 and 2007, respectively).

3.3 New labour market policy instruments in order to better respond to restructuring at the enterprise level

An interesting initiative to improve the management of structural change at company level and to promote preventive and timely engagement in restructuring and enterprise relocation processes is the *"Integrated Intervention Office for Business Restructuring (AGIIRE)"*, which was established at the end of 2005 (Decree-regulation No. 5/2005 of 12th of July).

The general objective of AGIIRE which are organized at the local level is to speed up the transition and restructuring process in companies and reduce the eventual negative impact on social and regional cohesion resulting from restructuring. The work of the office in the area of business revitalisation supports companies in short term difficulty, but which have the skills and resources to assure a successful turn-around if provided with an adequate strategy and consistent management. In this way, it aims to overcome frequent "market failures" and hence avoid the loss of the economic value of business assets and guarantee employment continuity.

Part of the AGIIRE approach includes "Units for Quick and Personalized Interventions" which comprise technical experts from the Public Employment Service, Social Security and other relevant organisations at the regional and local level based on the proximity to the enterprises and workers involved in restructuring processes. The intervention units seek to find rapid solutions based on the specific situation faced by providing guidance and support for workers and entrepreneurs either in a preventive way or in the context of the management of restructuring processes.[15]

Within the scope of the activity of AGIIRE, a total of 6,270 contacts were registered in 2007. Intervention processes were carried out (dialogue with creditors) in 255 companies, involving 12,500 work posts. In 2005 and 2006 some 500 AGIIRE processes had been implemented, representing approximately 30,000 jobs with particularly high shares in the construction and textile and clothing industries.

Further initiatives launched during recent years have focused in particular on the capacity of SMEs to better manage and adjust in the context of structural change: examples are consultancy and training programmes for micro and small companies, including the GERIR and REDE programmes which have been promoted by various public and private bodies (e.g. business associations). The goal of these programmes is to contribute towards increasing management capacity and improving the organisation and competitiveness of enterprises. Currently, this form of intervention has been considered as an example of good practice in the training area for the small business segment, which represents a large proportion of Portuguese enterprises.

A more specific measure at the enterprise level in managing restructuring is the development of "*social plans*" through which measures to support workers in transition are implemented. Support may be of a technical or financial nature and includes vocational guidance, training and job transfer support either within the same enterprise or on the broader labour market. These measures were agreed in the context of an "Adhesion Agreement" between the IEFP, the enterprise and the individual worker affected by restructuring. According to government information, in 2005, 355 workers were covered by individual reconversion plans.[16]

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[15] See: Ministry of Labour and Social Solidarity: National Action Plan for Employment 2005 – 2008. Follow-up Report 2006, p. 13 and 49.

[16] National Action Plan for Employment 2005 – 2008. Follow-up Report 2006, p. 51.

3.4 The role of social dialogue in education, vocational training and skills development

The Portuguese social partners play an important role in the improvement of the education and training system and important agreements were reached in 1991 and 2001 within the *Standing Committee for Social Concertation* (CPCS).[17] The first tripartite agreement covered the improvement of the legal framework of education and training and the second was a partial repetition of the first with some relevant extensions dealing with stronger interlinking of employment, education and training policies based on activation principles, with a focus on youth, basic education and initial vocational training; the creation of an annual individual right to training of all employed persons; the setup of a network of centres for the recognition, validation and certification of competences acquired during working life; and the establishment of a specialized tripartite body, the *National Advisory Board for Vocational Training*; to increase the participation of trade unions in the network of public funded vocational training centres.

In 2005 the Portuguese government launched the "New Opportunities Initiative" to respond to the qualification challenge of the country more effectively through an integrated set of strategic measures on education, training and certification, which aims at generalising the secondary level as a reference goal for the qualification of youths and adults. The strategy focuses in particular on two objectives:[18]

- The improvement of the *basic training of youth* by the diversification of education and training supply through the strengthening of vocational courses to reduce non-achievement and early drop out rates in the educational and training system;
- The improvement of the *base training of the adult population*, recognising, validating and certifying the skills already acquired by means of education, training, professional experience to build qualification paths that match the individual workers' circumstances and focus ongoing personal development towards the needs of the labour market.

In 2006, within the Standing Committee for Social Dialogue, all employers' and workers' organisations signed a bilateral agreement on vocational training, in which they define more than thirty commitments to contribute to the improvement of the population's qualification level, "*either through the ways directly reachable in the dialogue reachable in the dialogue with their associates, or through common positions on training policies."*

Sectoral agreements and partnerships have also been reached in industries such as tourism, agriculture and trade, involving employers' and trade union confederations, as well as public organisations. In these agreements, sectoral plans provide an "adequate training offer in order to respond to the real needs of both the enterprises and workers involved" have been devised.[19]

3.5 Social partners demands with regard to structural change

In a working paper prepared during the preparation of this dossier the UGT highlighted the following major issues associated with better addressing the challenges of structural change and restructuring process in Portugal:

- Assuring workers' information, consultation and participation rights before the beginning of the restructuring process, with a view to creating alternative solutions which are more favourable for workers;

[17] See Dornelas, forthcoming, p. 7.

[18] See: "Lisbon Strategy. National Plan of Reforms (PNR) – Portugal": Report on the implementation of the PNACE 2005 - 2008, Lisbon, October 2008, p. 8.

[19] Ministry of Labour and Social Solidarity: National Action Plan for Employment 2005 – 2008. Follow-up Report 2006, p. 97/98.

- Assuring lifelong training enabling workers to being able to constantly adapt to change and to new challenges;
- Guaranteeing that workers affected by restructuring processes have personal specialized support on reintegration into the labour market, professional reconversion and support to self employment;
- Improving the research and investigation into the preparation for and management of change;
- Promoting the expansion and better use of mechanisms to anticipate crises;
- Developing local and regional partnerships, integrating the main social and economic partners, aimed at finding alternative solutions tailored to specific local needs;
- The Portuguese Government should use the European Globalisation Adjustment Fund whenever the rules enable it, in joint work with trade unions."[20]

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[20] *Note of the author*: In October 2007, Portugal submitted to the European Commission a request for intervention as part of the *European Globalisation Adjustment Fund* in the amount of 2.4 million Euros intended to help 1,549 workers in the automobile industry who lost their jobs and required support to find new work. These layoffs took place in three companies: one in the region of Lisbon (Alcoa Fujikura, which manufactures electrical components) and two in the region of Alentejo (Opel Portugal, a factory for assembling trucks, and Johnson Controls, which produces automobile seat covers).

Section three – Case study

Carris

The Lisbon based transport company Carris is best known for management of the yellow trams that run up and down the hills of the city. The company runs not only the famous trams but also the city's more modern trams and buses and has a long and distinguished history of service to Lisbon. The company was founded in 1872 and opened the city's tram service in 1901 with the original vehicles, as can be seen from their design today, bought from the United States at the turn of the century. Carris began operating regular bus services in the city in 1944.

The restructuring case presented covered a comprehensive change programme over the period 2003 to 2008 which brought the company into operating profit for the first time. From 8,500 workers in 1991, the company had already shrunk to around 3,000 by 2003. From 2003 to 2008, the workforce was reduced by a further 30% to a level of around 2,000. Workers in the company's central services were reduced by more than 50% and in global terms crew was reduced by around 12% and non-crew by around a half. Overtime has been reduced by 40% and absenteeism has reduced dramatically resulting in a 40% reduction in health assistance costs. Over the same period the company restructured routes and renewed 70% of its 750 buses reducing the average age of the fleet from 15 to 7 years. It also achieved ISO 2001, NP 3860 and ISO environmental standard 14001 certification. In January 2009 it was ranked as one of the "Best Places to Work" in Portugal. Even with its reduced staffing level Carris remains one of Lisbon's major employers.

The Carris workforce has a long history of trade union membership and today 90% of workers are members, with the trade unions engaged heavily in the restructuring process on their behalf. The discussions were often far from easy and this was reflected in the questions raised at the end of the presentation made during the Lisbon seminar on June 23rd .

In terms of the workforce reduction process, some 75% of the job losses were accomplished through voluntary severances and involved long serving workers aged 55 or over. The main vehicle used was severance awards combined with an early retirement pension scheme. This change in the company's workforce profile was by and large responsible for the substantial reduction in absence and health coverage costs. No formal trade union agreement was secured for the headcount reductions that took place, but more recently the company and the trade unions managed in 2009 to reach their first collective agreement covering all parties in 27 years. The company put the effective management of the restructuring process down to strong and continuous communication with the workforce.

A number of questions and comments were tabled, in which it was clear that elements of the description of the restructuring process as described were disputed. In response to the questions from participants, the Carris presenter explained the following:

- ✧ The new Portuguese law which places quota limits on voluntary severances would not be an issue as the company headcount was by and large where it needed to be. Any future changes would be likely to be within the legal limits;

- ✧ No training or outplacement support had been offered as many of the employees involved in the restructuring were looking toward early retirement. Others already had a "second" activity which made the transition much less traumatic;

- The quality of service had not been affected by the changes and this had been borne out by the results of the company "mystery rider" audits;

- Whilst overtime has been cut to minimise job losses this has not been popular in some areas. The reduction today in overtime achieved has been from 12% to 6%;

- The restructuring of the company was not a precursor to privatisation. There were no plans on the table to change the nature of Carris ownership;

- The company did not believe that its approach had been adversarial in nature or that employees in the target category for reductions were put under duress to leave.

It seems clear that any future restructuring will need to adopt procedures less related to early retirement and more related to the management of internal and external job to job transitions for workers.

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