

Joint Project of the European Social Partner
Organisations

Study on restructuring in new Member States

LITHUANIA – COUNTRY DOSSIER



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Contents

- 1. INTRODUCTION: THE DOSSIER – WHAT FOR?**

 - 2. ECONOMIC TRENDS AND CHALLENGES**
 - 2.1 Dynamic economic development
 - 2.2 Declining, restructuring and expanding sectors
 - 2.3 Lithuanian labour market

 - 3. RESTRUCTURING AND SOCIAL DIALOGUE**
 - 3.1 Restructuring- how to define it?
 - 3.2 Collective bargaining in Lithuania
 - 3.3 Legal framework of restructuring
 - 3.4 Lithuanian best practices in restructuring
 - 3.5 Examples of restructuring cases in Lithuania
 - 3.6 Challenges of the Lithuanian social dialogue
-
- Annex 1 Statistics**
- Annex 2 Restructuring case - VABD Drobe, Kaunas**
- Annex 3 List of interviewed persons and sources**

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

I. INTRODUCTION: THE DOSSIER – WHAT FOR?

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

It was discussed by the Lithuanian Social Partners in the presence of the European Social Partners at a common Seminar which took place on 26 May 2005.

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

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

In the first part, the dossier highlights the main economic drivers and trends. It attempts to point out the main issues influencing the pace of economic growth, employment and competitiveness. Then it focuses on restructuring as a process and object of the public debate nourished by concrete cases of restructuring in different regions of Lithuania. It ends up presenting an overview of the social dialogue challenges.

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

II. Economic trends and challenges

This section:



presents the economic situation in Lithuania, analysing its GDP, foreign trade, market characteristics and business creation;



presents declining, restructured and expanding sectors.

2.1 Dynamic economic development

The Lithuanian economy keeps developing at one of the highest rates in Europe (DG Enlargement, Country Profile, Lithuania, <http://europa.eu.int/comm/enlargement/lithuania/#Country%20profile>). In 2003, Lithuania's economic growth rate was 9% and Lithuania was labelled "The Baltic Tiger" or "The Ballistic Tiger" by Goldman Sachs (Ministry of Economics of the Republic of Lithuania, *Invest in Lithuania*, p. 6). The biggest impact on the growth of gross value added was caused by an increase of value added in activities such as construction (increase of 18% as compared with 2002), manufacturing (13%), wholesale and retail sale, gas and water supply.

In 2002-2003, Lithuania experienced deflation (-1% and -1.3% in 2002 and 2003 respectively). Lithuania has one of the lowest fiscal deficits in Europe (1.7% of GDP, equivalent to € 269 million) which is significantly below the Maastricht convergence criteria. Inflation is also low and was recently estimated at 3.1% (comparing October 2004 to October 2003).

- Trends in GDP over the last 3 years

In 2003 GDP was estimated at LTL 55,737 million at current prices (Statistikos Departamentas, *Lithuania in Figures 2004*, p. 46). As already mentioned, in 2003 the

GDP growth rate was 9% and was also estimated at 9% for 2004 (see Figure 1 at Annex for trends in Lithuanian GDP growth over last 8 years). Economic forecasts indicate further GDP growth for the future..

👉 This situation is due to a very favourable tax environment in Lithuania that makes investment more profitable.

👉 Lithuania is the fastest developing country from the 3 Baltic States.

- GDP per capita and per sector

In 2003, GDP per capita was estimated at LTL 16,136 at current prices (Statistikos Departamentas, *Lithuania in Figures 2004*, p. 46). It is projected to increase at an annual rate of 6.5 - 7.5% in the coming years. Figure 2 at Annex presents the Lithuanian GDP per capita in PPP compared with the GDP of the EU15 and the EU25.

👉 There is still a significant difference between the level of GDP of the EU15 and Lithuania; however, this difference is being gradually reduced.

In 2004, GDP composition by sector was estimated as follows: agriculture: 6.1%, industry: 31.3%, services: 62.6%.

(<http://www.cia.gov/cia/publications/factbook/geos/lh.html>) (17.01.2005). The biggest share of the Gross Added Value by Economic Activity at current prices applies to the following sectors:

- 19.8% manufacturing,
- 17.8% wholesale and retail trade,
- 13.3% transport, storage and communications,
- 9.8% real estate, renting and business activities (Statistikos Departamentas, *Lithuania in Figures 2004*, p. 47).

- Data on foreign trade

The Lithuanian liberal foreign trade policy has stimulated dynamic foreign trade growth in the last few years. Before joining the EU, Lithuania pursued a liberal trade policy and had Free Trade Agreements with the EU, EFTA, CEE countries, Turkey and the

Ukraine. Trade with these countries now accounts for about 70% of Lithuania's foreign trade.

In 2003, the foreign trade balance was negative (LTL -8,124 million). Exports amounted to LTL 22,145 million and imports LTL 30,269 million.. As exports were growing faster than imports - exports increased by 9, 1%, whereas the growth in imports was 6% - the foreign trade deficit dropped by 1, 8% compared with 2002 (see Figure 3 at Annex for data on foreign trade turnover).

👉 The foreign trade balance has been negative since 2000. The situation is slightly better if comparing 2003 with 2002, but overall the negative trade balance has been increasing since 2000.

👉 According to the Lithuanian social partners the current situation can be explained, among other things, by the growing production capacity of refineries that need more oil to convert, therefore they import more Russian oil.

In 2003, the EU was Lithuania's main export and import partner (42% of total exports and 44.5% of total imports) and accession countries accounted for 19.3% of exports and 11.8% of imports. Exports to CIS constituted 17% of total exports, and 25.3% of total imports (Statistikos Departamentas, *Lithuania in Figures 2004*, p. 41).

Export

In 2003, Lithuanian exports totalled LTL 22,145 million (Statistikos Departamentas, *Lithuania in Figures 2004*, p. 39). Lithuania's main export partners were respectively Switzerland, Russia, Germany and Latvia. However, the 1st place of Switzerland can be explained by the fact that all oil products exported by Lithuania are exported through Switzerland, so in fact Switzerland is mainly a transit country, not the final recipient of this category of goods.

Figure 4 at Annex presents Lithuania's export structure by country. In 2004 the EU-25 countries received 62.1% of Lithuania's total exports. In 2002 exports of goods and services were estimated at 45% of GDP.

The main products that are exported are mineral products (19.6% of total exports), transport means (15.3%), textiles and textile articles (13.6%), machinery and

equipment (11.1%), chemical products (6.6%) as well as wood, wood products and foodstuffs (see Figure 5 at Annex) (Statistikos Departamentas, *Economic and Social Development of Lithuania, 2004/9*, p.96-97)..

Import

In 2003 Lithuanian imports totalled LTL 30,269 million and were still growing (Statistikos Departamentas, *Lithuania in Figures 2004*, p. 39). Lithuania's main export partners were respectively Russia, Germany, Poland and Italy. Russia's 1st place is caused predominantly by the import of oil products (see Figure 6 at Annex).

In the first quarter of 2004, EU-25 countries contributed 64.7% of total imports to Lithuania. The major imported goods are machinery and mechanical appliances (18.6% of the total import value), mineral products (18.1%), transportation equipment (15.6%), chemicals (8.6%), textiles and textile articles (7.4%), base metals and articles thereof (6%), and plastics and articles thereof (5,3%) (see Figure 7 at Annex). Imports of all the above articles are on the increase in comparison with the previous year (Statistikos Departamentas, *Economic and Social Development of Lithuania, 2004/9*, p.97-98).

- Foreign Direct Investment (FDI)

Foreign direct investment (FDI) in Lithuania has been steadily increasing and reached € 4,34 billion as of 01 October 2004. Figure 8 at Annex present trends in cumulative FDI in the years 1995 and 2003 as well as cumulative FDI by country as of 01 January 2004.

There were 68 FDI projects realised between January and September 2003. The market share of the projects in the region was estimated at 15.3%, and the value of projects was 261 LTL million, equivalent to 5% of GNP. The top 3 destination sectors of FDI in Lithuania are the sectors of hotel, tourism & leisure; textiles; and IT & software. According to the *Statistikos Departamentas*, in 2003, the total FDI was LTL 13,183.8 million (for 2004 FDI was estimated at LTL 13,699.4 million). The top 3 source countries of FDI inflow to Lithuania are Denmark, Sweden and Germany. Moreover, Latvian

companies have recently become active in investing in Lithuania, e.g. VPM, the owner of a rapidly expanding supermarket network. The cumulative FDI by sectors as of 01 July 2004 reached € 4.25 billion and its structure is presented in Figure 9 at Annex.

According to the Lithuanian Development Agency, there are 53 new investment projects proposed. The list includes such investments as pulp mill construction (total investment: \$ 855,675,000, prospected jobs: 600), Port Terminals & Storage Premises Construction Project/Klaipeda (total investment approx. € 34 million), Iron Casting Project / Kaunas (total investment € 5-7 million), Metal Processing Project / Vilnius (total investment € 4-8 million), Airport/Aviation Training Center/Kedainiai Distr (total investment € 4 million), Wind Electric Power Generation System / Vilnius (total investment € 1 million)¹. At the same time, it has to be stressed that Lithuania is not as attractive for investors as it could be: among the EU25 countries Lithuania has the lowest inflow of FDI.

One of the Lithuanian social partners indicates that the recent 5.5% decrease in the growth of FDI inflow could be caused by an unfavourable increase of tax on re-investment (until 2004 it was 0%).

- Business creation

Prospective sectors for business creation are electronics, machinery and information technologies. Lithuania, once known as “Soviet Silicon Valley”, has always had a long-lasting tradition in science and technology which facilitates the transition to a modern, knowledge-based economy. The country has world-class specialists in biotechnology, lasers, telecommunications and IT. The government continues to foster the cooperation of different partners which could stimulate future business creation, i.e. *the National Agreement* was signed by different stakeholders, among them social partners, such as LPK (Confederation of Lithuanian Industrialists).

In Lithuania there are 7 Science and Technology Parks: 3 in Vilnius - Vilnius STP (www.stp.lt), Visoriai ITP (www.vitp.lt), Northtown TP (www.smtplit.lt); 2 in Kaunas - Kaunas High-Tech and IT Park (infopark@isag.lei.lt), Lithuanian University of Agriculture STP (www.lzuu.lt); 1 in Klaipeda - Klaipeda STP (www.mtp.ku.lt) and 1 in Siauliai - Siauliai STP.

¹ The full list of projects can be found at <http://www.lda.lt/invest.opp.projects.html>

Various economy cluster projects are being carried out at the moment, i.e. the *Sunrise Valley* knowledge economy cluster project (www.sunrisevalley.lt)

👉 The most attractive industry for investment is the chemical industry. It produces pharmaceuticals products and chemical ingredients in the chemical industry. Of the 110 chemical enterprises 24 have attracted foreign investment. The main investors in this sector are Denmark, the USA, Sweden and Estonia (Ministry of Economics of the Republic of Lithuania, *Invest in Lithuania*, p.114-115).

SMEs sector

According to the Lithuania Country Assessment carried out by the OECD (Forum for Enterprise Development, Baltic Regional Programme, *Lithuania Country Assessment*, December 2001, p.17-18) in 2001, the average number of registered SMEs per thousand inhabitants was approximately 13 and this ratio is poor compared to EU standards (50-60 entities per 1000 citizens). However, Lithuanian social partners claim that the SMEs sector, together with the service sector, is growing fast.

The biggest share of SMEs is active in trade, followed by services, manufacturing and construction. According to the study of the Lithuanian Development Agency for SMEs (SMEDA), in 2000, the share of GDP created in the SMEs sector accounted for 32% of GDP. Moreover, the share of SMEs compared to the total number of active enterprises increased from 95.6 % in 2000 to 95.8 % in 2001 and the number of employees in SMEs is constantly growing.

👉 The above mentioned OECD report states that SMEs in Lithuania (as in other EU and OECD countries) are the main source of new job creation in the economy.

2.2 Declining, restructuring and expanding sectors

The most important sectors of the economy in Lithuania are electronics, metal-cutting machine tools, electric motors, television sets, refrigerators and freezers, petroleum refining, shipbuilding (small ships), furniture making, textiles, food processing, fertilizers, agricultural machinery, optical equipment, electronic components, computers and amber.

- Main sectors' share of GDP

The table below presents the Lithuanian GDP share by sector from 1998 - 2003.

	1998	1999	2000	2001	2002	2003
GDP	100.0%	100.0%	100.0%	100.0%	100.0	100.0
Agriculture, hunting, and forestry	10.2%	8.3%	7.5%	7.0%	7.0%	6.2%
Extraction Industry	0.5%	0.7%	1.1%	1.2%	0.6%	0.6%
Manufacturing	18.8%	17.6%	21.0%	22.9%	18.9%	19.8%
Electricity, gas, and water supply	4.6%	4.5%	4.2%	4.3%	4.1%	4.7%
Construction	8.6%	7.9%	6.2%	6.1%	6.3%	6.8%
Domestic trade	16.3%	15.4%	15.1%	15.4%	17.5%	17.8%
Hotels and Restaurants	1.4%	1.5%	1.4%	1.3%	1.6%	1.6%
Transport and communications	9.6%	11.4%	12.2%	12.3%	13.4%	13.3%
Financial intermediation	2.3%	2.3%	2.4%	2.3%	2.3%	2.2%

Source: <http://www.lda.lt/invest.abs.html>



The biggest share of GDP is in the manufacturing sector, the second biggest is in the domestic trade sector and the third is in the transport & communication sector (both of the latter sectors have been steadily growing since 1998).

Expanding sectors

There are a few expanding sectors in the Lithuanian economy as well as some sectors that are likely to develop in the near future. According to the Lithuanian Development Agency these are the following sectors:

- IT sector (growing at a pace of 30% per year);
- biotechnology;
- plastic and rubber;
- industrial R&D: biotechnology, laser technology, information technologies and telecommunication;
- automotive components;
- wood products and furniture;
- chemicals and pharmaceuticals;
- hotels and shopping centres (Ministry of Economics of the Republic of Lithuania, *Invest in Lithuania*, p. 95-124).

Job creation in the developing/potentially developing sectors

Job creation is connected with new investments. Therefore it is most intensive in sectors such as hotel, tourism & leisure, textiles and IT & software. The SMEs sector has also been developing dynamically and has stimulated job creation. At present a very dynamic expansion of supermarket consortia can be observed (i.e. Vilnius Prekyba Market, VPM).

- 👉 Job creation in the traditional Lithuanian industries (i.e. electronics, machinery) is likely to be less intensive than in newly created businesses (i.e. hotels and tourism) or knowledge-based industries (i.e. IT & software) as the former industries often try to make use of the people already employed.
- 👉 It is worth noting that job creation in the SME sector takes place at a similar rate in Lithuania as in the “old” EU Member States.

Declining sectors

The most prominent sectors in decline are the manufacturing sector (i.e. metalworking industry, textile industry), agriculture² as well as traditional electronics. According to the Lithuanian social partners, problems in the textile industry are linked to excessively liberal EU regulations that hinder their ability to compete with Asian products. A similar situation can be observed in the steel production sector: changes in the trade regime, introduced after accession to the EU, affect export of steel to Ukraine. Another industry in decline is extraction and mining; it has been declining steadily following the pattern of neighbouring countries. In general the **declining sectors are most often the sectors which have been closely related to the Russian market either as suppliers or as clients**. This interrelation with Russia concerns many different types of sectors, such as steel, food processing, chemical industry, transport services, railway, telecommunication services and breweries.

- 👉 At the moment it is hard to talk about the phenomenon of relocation, but it is worth noting that there are companies that relocate to the Kaliningrad district in the search of a cheaper labour force.

² Agriculture remains a traditionally important sector of the economy. However, its share of GDP is gradually decreasing. In 2000 the share of agriculture in GDP structure was 7.5%, by 2002 it had decreased to 7% and finally, in 2003, it reached 6.2%.

Restructuring sectors and reasons for the process

Sectors undergoing the heaviest restructuring are the following:

Sector	Reasons for restructuring
Steel	
Telecommunications	Privatisation
Food processing	Overemployment, poor conditions of work, low wages, lack of competitiveness
Textile	
Steel production	
Television set production	Lack of new technologies
Public sector	Reforms
Chemical sectors	
Breweries	

2.3 Lithuanian labour market

When discussing Lithuanian human resources, it is important to underline that Lithuania has the highest level of education in Europe with over 20% of the population having a higher education certificate, equivalent to double the EU average.

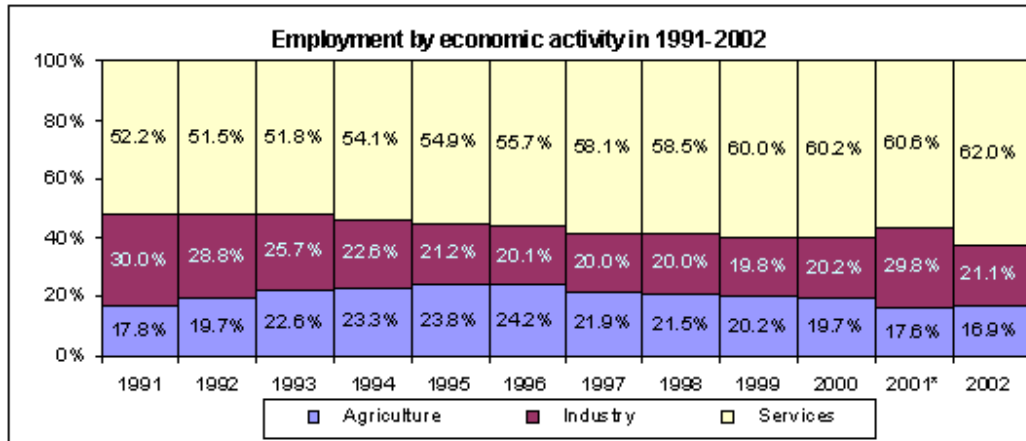
In the first quarter of 2004 the total working population was estimated at 1,451,000 persons. The table below presents employment by type of sector and type of employment contracts.

Type of sector	Number of persons
Public sector	391,800
Private sector	1,059,600
Type of employment	Number of persons
Employers and self-employed	214,500
Employees	1,182,300
Contributing family workers	54,600

Source: <http://www.std.lt/web/main.php?parent=1044> (18.01.2005)

Among the total working population in 2004, 92.7% of job holders worked full-time, while the remaining 7.3% worked part-time. The occupational analysis of the Lithuanian labour

force shows that 16.2% of the total labour force is employed in agriculture, 28.7% in industry and the remaining 55.1% in services³. The graph below presents employment trends in the three sectors between 1991 and 2002.



Source:

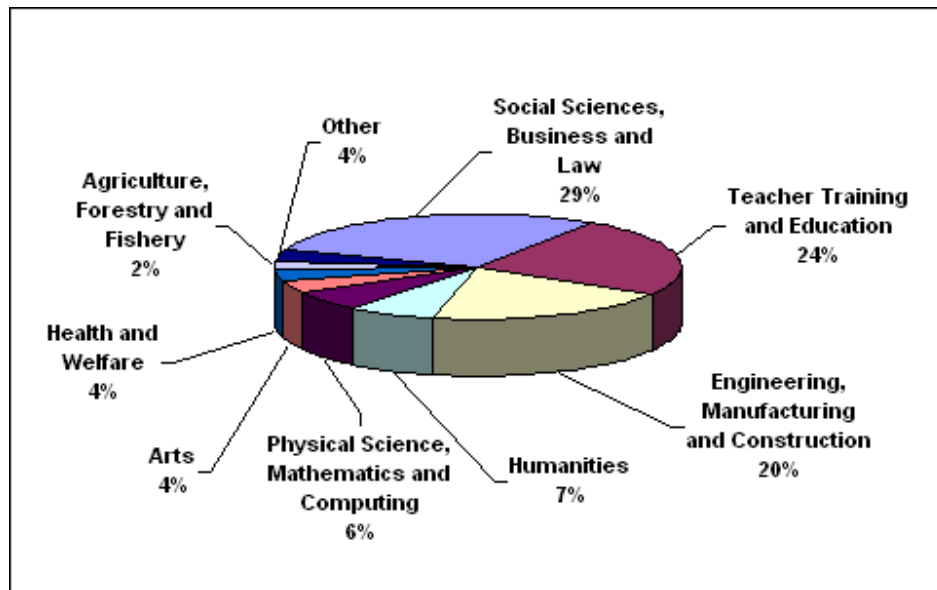
http://www.balticdata.info/lithuania/macro_economics/lithuania_macro_economics_employment_basic_information.htm (based on Lithuanian Department of Statistics) (17.01.2005)

- Education level of the working population

According to the Lithuanian Department of Statistics, the proportion of Lithuanian graduates is the highest in CEE, with 4.3 university graduates per year per 1000 inhabitants. At present there are 21 universities and 27 colleges with a total enrolment of 170,700 students.

In the years 2003-2004 the total number of tertiary graduates was 27,560. The graph below presents its division according to subjects studied.

³ Estimation was made for IV Q 2004.



Source: <http://www.lda.lt/invest.bic.labourforce.html>

- ☞ Taking into consideration that expanding sectors are high-tech sectors, a higher percentage of students enrolling for this type of studies would be desirable, otherwise Lithuania may face the shortage of high-tech skills.
- ☞ The Lithuanian social partners stress that, at present, there is a visible surplus of managers and lawyers.
- ☞ It has been also signalled that, due to the significant disparities in the earnings between Lithuania and the EU 15, a certain number of young graduates leave to work in the UK or Ireland.

- **Unemployment rate**

In 2003, different sources provided various average annual unemployment rates: 10.3% registered by the Labour Exchange, or 12.4% according to the labour force survey data (Statistikos Departamentas, *Lithuania in figures 2004*, p. 14). According to Eurostat, among the 10 new Member States, Lithuania was the country that experienced the largest decrease of unemployment between September 2003 and September 2004 (from 12.4% to 10.4%). This last figure is slightly above the EU25 average which is approximately 9%⁴. At the beginning of January 2005 the unemployment rate in Lithuania was 9.6%.

⁴ http://epp.eurostat.cec.eu.int/cache/ITY_PUBLIC/3-04112004-AP/EN/3-04112004-AP-EN.PDF (Eurostat, EuroIndicators, September 2004)

Figure 10 at Annex presents the trends in employment and unemployment between 2001 and 2003.

In 2003, male unemployment was lower than female unemployment and stood at 12.2% while the female unemployment rate was 12.7%. Unemployment rate among young people of 15 to 24 years old was 24.8%. Unemployment among pre-pensioners (age 55-59) is lower than average unemployment in the country. In 2003, it was estimated at 11.5%. Figure 11 at Annex presents unemployment rate trends between 1991 and 2003.



It is worth noting that the initial disparities between the officially registered unemployment rate and the data from labour source survey are being gradually reduced.

- Demographic trends of the unemployed population

When analysing demographic trends of the unemployed population, it is important to note that male unemployment was higher than the female one and, at the same time, there are fewer unemployed women actively seeking employment than unemployed men. The same characteristic is true for the people over 55 years old.



It is worth noting that unemployment figures of the four groups: men, women, the young and those over 55 years old has always been higher (almost double) than the equivalent indicators in the EU15.

Figure 12 at Annex presents the unemployment rates of people over 55 years old and for youth in comparison with the total unemployment rate.

According to the Lithuanian social partners, excessively high unemployment among young people may be caused by low wages and the fact that wages are not indexed to inflation. These two factors could discourage young people from taking up work. It also has to be stated that there is not enough job creation to assure sufficient number of jobs for those entering the labour market. Furthermore, it seems that many young people who leave Lithuania and start working abroad remain officially unemployed in their country.

In Lithuania, the phenomenon of low unemployment rates among elderly people, in comparison to the general unemployment rate, can be explained by the fact that pension allowances are so low that most people who could retire stay at work as long as possible to earn a living.

- Long duration unemployment phenomena

The analysis of long term unemployment clearly indicates that Lithuania faces the same problem as most of the CEE countries: the largest share of unemployment consists of long-term unemployment. In 1999, the share of long-term unemployed was 39% of total unemployment. In 2001, it was 59%. However, since February 2002, the number of long-term unemployed started to decrease and this trend has continued until now.

- Geographic location of unemployment

As illustrated on Figure 13 at Annex, the region of Akmene is the region with the biggest proportion of unemployment with a rate of over 15%. There are 7 regions with a rate of between 12 and 15%, 15 regions with a rate between 9 and 12%, 6 regions with a rate between 6 and 9% and 17 regions where the unemployment rate is not higher than 6%.

The serious problem of unemployment in the Akmene region was caused by the closure of the cement plant 10 years ago. Since then, there have been no new investors in the region.

- Job creation

According to '*Rapid Labour Reallocation with a Stagnant Unemployment Pool: The Puzzle of the Labour Market in Lithuania*⁵', the highest job creation rates are in the services, trade and so called "other business activities", which include legal services, accounting, business counselling, marketing, personnel recruitment, etc. It also occurs in other fast developing economy sectors such as in manufacturing of wood products and furniture, and in manufacturing of plastic products.

Figure 14 at Annex presents the top 10 industries with the highest rates of job creation.

⁵ J. Rutkowski, *Rapid Labor Reallocation with a Stagnant Unemployment Pool: The Puzzle of the Labor Market in Lithuania*, World Bank Policy Research Working Paper, January 2003
<http://ideas.repec.org/p/wbk/wbrwps/2946.html> (26.03.2005)

Figure 15 at Annex presents trends in job creation according to company size in 2001.








It is worth noting that, in 2001, the biggest share in job creation was observed in start-up companies (almost 35%), with job creation at a level of almost 20%. This data, however, has to be analysed together with the job destruction rate which has also been fairly high for these two types of enterprises. The most stable situation exists in large companies.

- Cross border labour movements

The most intensive labour movements concern young university graduates who leave the country in order to find a better paid job in the “old” Member States such as the UK or Ireland. Some labour movements also take place between Lithuania and Latvia, especially in Akmene, the region with highest unemployment. There is an inflow of unskilled workers from Ukraine and Byelorussia who take up unqualified jobs.

III. RESTRUCTURING AND SOCIAL DIALOGUE CHALLENGES


This section:


-  presents various definitions of the restructuring process;
-  describes collective bargaining practices in Lithuania;
-  briefly presents the legal framework on restructuring;
-  presents some existing practices of the restructuring process; and
-  presents some case studies of restructuring.


3.1 Restructuring – how to define it?

According to various Lithuanian social partners “restructuring” is a synonym of:

- bankruptcy; any other changes are perceived as “business as usual” or “the reality of business”;
- firing people / collective dismissals;
- closing down the factory;
- an answer to the low effectiveness of the company / financial problems of the company.

 In Lithuania restructuring is not associated with regional issues and/or regional implications.

 In Lithuania restructuring is not associated with the phenomenon of change and/or anticipation of change.

 Restructuring is not a main topic of reflection for the majority of the social partners: the employers’ representatives are predominantly interested in assuring tax incentives for new investors and increasing flexibility of the labour market. One of the workers’ representatives stated that restructuring has an adverse effect on their activities: representatives of the trade unions believe that the redundancies in the number of workers caused by restructuring have an adverse effect on their organisations, making them lose members.

3.2 Collective bargaining in Lithuania

In Lithuania the legal right to collective bargaining was established in 1994. Trade unions have more power than works councils in the field of collective agreements. Trade unions are eligible to represent employees while negotiating and concluding enterprise, branch or industry, territory or state collective agreements, whereas work councils are able to represent employees only at the enterprise level (*Invest in Lithuania, p.34*). It has to be stated that collective bargaining activity in Lithuania has not been satisfactorily developed so far. A great part of employers do not see any benefits from collective bargaining and avoid entering into such agreements. At the same time, employees, not being used to collaboration and not experienced in collective bargaining, are not active and interested enough in signing the collective agreements.

Enterprise level

A crucial part of collective agreements is signed at company level. But the total rate of collective agreements entered into by companies and organisations is very low: it does not exceed 15%.

In 2002, a model of a collective agreement for industrial enterprise was developed. In the same year, Lithuanian joint venture companies started signing collective agreements.

Sectoral level

Despite the fact that collective bargaining seems very intensive at sectoral level, sectoral agreements have been completed only in a few sectors: telecommunications, energy, railways and education, and they are more declarative than operative in reality. This situation can be explained by the fact that all of these collective agreements have been signed by one or two large state-owned enterprises, which are in a monopoly position in a given sector and cannot therefore be perceived as representative for the majority of enterprises in this sector.

National level

The “2003-2004 Implementation Plan for the Development of Government, Trade Unions and Employers’ Organisations Social Partnership” was drawn up at the Lithuanian

Tripartite Council and approved by the Government. It displays the approach and strategy concerning social dialogue, suggests drafting a new, updated version of the Law on Trade Unions, and lays down measures related to the development, implementation and promotion of social dialogue at the national and regional level.

The new Labour Code (in force since 2003) pays particular attention to the development of social dialogue and collective industrial relations. It defines for the first time the concept of social partnership and principles of collaboration. However, due to the role of *tripartism*, there is no national *bilateral* bargaining which might lead to formally binding agreements. The main issue of negotiations is minimum wages.

- Collective bargaining procedures

According to the discussion paper “Trade union responses to globalization in Lithuania”⁶, “Negotiations must begin within ten days after a request from one of the parties, or such other period as is agreed. Where an existing agreement is coming to an end, negotiations on a new one begin two months before the termination date. Before negotiations start, the parties are supposed to provide each other with proposals from employees and the necessary information concerning the economic, social and working conditions of the enterprise.

The parties prepare a draft agreement which is discussed at small group meetings of the employees (structural divisions) and then presented for the discussion at a General Meeting (conference). If the draft agreement is not approved, the parties amend and supplement it and are required to submit it again for discussion at a General Meeting within 15 days. If the draft is accepted, representatives of the social partners sign the collective agreement within three days. Local collective agreements enter into force from the day they are signed. There is no requirement for such agreements to be registered in order to become valid. Collective agreements at national and branch level have to be registered at the Ministry of Justice within ten days of signing.

Collective agreements are valid until a new agreement is signed, but may not exceed a two-year span. Parties to the collective agreement report to employees on progress in implementation at least once in a half-year period”.

⁶ R. Dovydeniene, *Trade union responses to globalization in Lithuania*, ILO, Geneva, 2000, p. 24-25

3.3 Legal framework of restructuring

Law on Restructuring of an Enterprise (2001)

At first, the question of restructuring was regulated only by the bankruptcy law, which stipulated that there are basically two possible cases: the case of company liquidation or the case of company bankruptcy.

The law was altered in 2001, however it has to be noted that **the perception of the restructuring process as the synonym of bankruptcy is still deeply rooted**, therefore introducing such concepts as “restructuring for competitiveness” or “anticipation of change” may be a challenge.

In 2001 the law on bankruptcy was altered, now it is the *Law on Restructuring of Enterprises* of 20 March 2001. The law provides a definition of a restructuring process of an enterprise understood as “change of the type of economic activities, upgrading of the production, rationalisation of work, sale of the enterprise assets or a part thereof, acquisition of assets of other enterprises through their merger or division, implementation of technical, economic and organisational measures intended to restore solvency of the enterprise, change in the amount of the enterprise’s liabilities to its creditors and deadlines of their discharge” (*Law on Restructuring of Enterprises*, p. 2).

The law also defines conditions for enterprise restructuring, the process of initiating restructuring proceedings and the role of the court in the restructuring proceedings (appointment of an external administrator). Additionally, the law describes relations between restructuring and bankruptcy, content of the restructuring plan, regulates the sequence and procedure of satisfaction of creditors’ claim and gives guidelines on how the enterprise and its assets are to be managed during the restructuring process. A significant part of the law deals with the rights and obligations of creditors. The law does not specify in detail obligations of the employers towards laid off employees and does not regulate trade union involvement in the process either.



Restructuring plans mainly include economic obligations for the company. However the required information on social aspects of restructuring is very limited. Only the number of employees foreseen to be laid off is to be indicated in

such a plan. The redundancies are to be executed under the *Law on the Employment Contract*.

The fundamental change has been the fact that since 2001 the law recognizes two distinct cases: restructuring (for the enterprises that can still improve their economic performance) and bankruptcy.

Possible future developments of the existing law may encompass the situation of insolvency, which in fact seems to be in some way close to the European concept of “restructuring for competitiveness”.

Activity of trade unions and work councils

These areas are regulated in the separate labour laws which are devised along the lines of the related European Directives. Trade unions may be established on the basis of professional, office, industrial, territorial or other principles; and it is possible to join trade union associations.



As it has been stated before, the rate of trade union coverage in enterprises is very low in Lithuania (approx. 15%).



Trade unions are not active in such sectors as the dynamically expanding supermarket sector.

3.4 Lithuanian best practices in restructuring

Specific features of the restructuring process in Lithuania

The process of restructuring in Lithuania seems to have its specific features. Some social partners believe that the involvement of trade unions “smoothes” the process. Another characteristic feature is the fact that people get organized at the “termination” stage, when there are not too many chances to remedy the situation. No anticipatory measures are taken up beforehand. Sometimes, the restructuring process is postponed by protesting workers (VABD Drobe, Kaunas) or by influential people, e.g. the chairperson of the Social Protection Committee (Limetal).

In some cases, companies tend to “wait too long” to start with the restructuring process. The consequence of this delay leads to bankruptcy. At this stage change is no longer possible. Moreover, cooperation between social partners takes place only at the national level. There is hardly any cooperation at the enterprise level. Collective bargaining seems to be more complicated in the private sector than in the public one. It is very hard to obtain information about planned changes. Employee representatives do not know how to negotiate, especially in sectors such as retail (supermarkets). In the majority of cases companies that have gone bankrupt continue to function, sometimes as a company with different investors.

Some existing practices

Among various practises of the restructuring process the following can be enumerated:

- Early retirement scheme: maximum 2 years before retirement due date;
- Leave entitlement as stipulated in the labour code: the seniority principle applies (an entitlement of LTL 200 paid during 6 months - Telekomas);
- Re-qualification programmes (i.e. in the framework of EQUAL, training and re-training for the dismissed workers from the Ignalina nuclear plant);
- The Guarantee Fund: unemployment benefits guaranteed only in the case of collective dismissals, usually for 3 months (sometimes even up to 8 months); the sum stipulated in the labour law is paid to the laid off worker (the seniority principle applies); 0,2% of the salary of each employee goes into this fund, the Tripartite Council decides on a case by case basis how much money should be paid to the employee in each restructuring case; the entitlement paid from the Guarantee Fund is paid only for the workers of a bankrupt company;
- Official counselling and/or assistance in the job search “*darbo birža*” (“labour exchange market”), this service can be organized in the enterprise (Telekomas);
- The Labour Code specifies that the employer who fires 30 and more people is obliged to inform “Darbo Birža” about planned dismissals;
- Financing re-training in the public sector by the state (education sector);

- Providing a generous “leave package”, financed by the state with the EU support (Ignalina);
- Distributing company shares among employees (Utenos Alus Svyturys);
- Providing the unemployed with an unemployment benefit: LTL 250 monthly, reduced to LTL 135 if the unemployed takes part in the retraining courses (in that case, the person participating in the training programme is de facto paying the training costs).

Lithuanian social partners have some suggestions for further actions. Among them:

- Establishing working groups consisting of trade unions and employers from different regions in order to exchange best practices;
- Organizing study trips abroad in cooperation with the foreign counterparts;
- Ensuring more participation of the local authorities in the process;
- Organizing seminars on workers’ rights not only for the ones who have already been given their dismissal notice, but also for the ones to be dismissed in the near future - anticipatory measures;
- Introducing special clauses in cases of restructuring in the collective agreements;
- Introducing a special law on privatization as there are currently no regulations concerning privatization of energy, water, railway and airlines sectors;
- Improving anticipation measures so that people who are well informed and know about the restructuring process in advance are better prepared to cope with the whole process:
 - inform the employees about foreseen measures,
 - apply special measures in order to increase peoples’ awareness of their rights and obligations,
 - promote knowledge about restructuring as a process not necessarily linked with redundancies and downsizing;

- Implementing accompanying measures to manage social consequences, i.e. outplacement tools (CV and interview preparation, job search strategies, skills upgrading courses – computer literacy etc.);
- Promoting social dialogue among employers' and employees' representatives;
- Involving trade unions in the restructuring processes as it is proven that with their participation restructuring processes are smoother both for the company and for the individual.

3.5 Examples of restructuring cases in Lithuania

Companies

- A case study of the textile company VADB Drobe is presented at Annex 2.
- Ignalina: a generous “goodbye” package was granted with EU support. A collaboration agreement was signed between the employer and trade unions. LDF was involved in the process of re-training, and in seminars on rights of workers. These seminars were foreseen for 14 people and it was obligatory to have the required notice from the employer in order to qualify for the programme. Language problems were tackled as it is hard to re-train people if they only speak Russian.,It was necessary to look at how the region was affected by the process, e.g. many people are unemployed and enter the long-term unemployed population, better skilled people are leaving the region, etc.
- Utenos Alus Svyturys: this brewery was bought by Carlsberg, and employees received LTL 70,000 for the cheap shares they had. Such a high reimbursement was negotiated by the trade unions - they negotiated the package for all the employees who wanted to sell their shares and avoid a situation in which the shares were to be bought on an individual basis. From 700 employees 200 were dismissed and retrained and the retraining programme was paid by the employer. The restructuring process can be perceived as a success, the employees now earn 1.5 times or even more of the average salary.

- Telekomas: linked to privatization

3.6 Challenges of the Lithuanian social dialogue

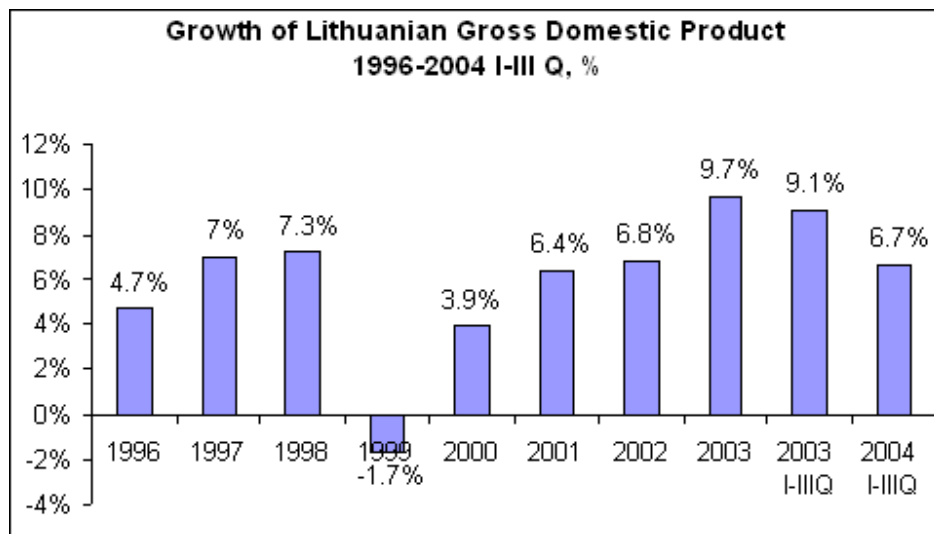
The following challenges for the Social Dialogue process in Lithuania seem to be the most recent ones:

- The “National Agreement of Social Partners” signed on May, 5, 2005. The main challenge will be to implement it and make it work. The most important implication is that the decisions of the Tripartite Council will have to be taken into account by the government;
- An urgent need to cascade down social dialogue to the enterprise level;
- A need to conclude more sectoral agreements - at the moment the only sectoral agreement is in the education sector;
- More knowledge dissemination (i.e. via conferences) on how to conduct social dialogue at regional level;
- Some trade unions face the need to prove their new image and to distance themselves from the image inherited from the Communists times (*“ziotyje profsojuzy”*), in order to become an important partner of the social dialogue at the enterprise level;
- Introducing proactive thinking, rather than a reactive approach, to focus more on anticipation of changes instead of trying to limit their consequences.

Annex 1

Statistics

Figure 1 Trends in Lithuanian GDP 1996 - 2004



Source: Lithuanian Department of Statistics, www.std.lt

Figure 2 GDP per capita in Purchasing Power Standards (PPS), (EU-25 = 100)

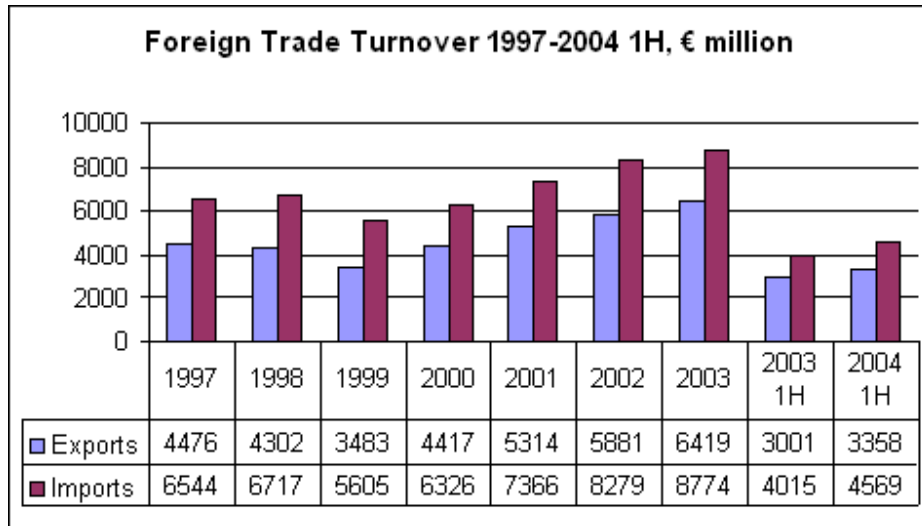
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU (25 countries)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EU (15 countries)	110.7	110.4	110.1	110.0	109.9	109.8	109.6	109.4	109.2 ^(f)	108.8 ^(f)	108.5 ^(f)	108.3 ^(f)
Lithuania	34.2 (e)	35.4 (e)	37.3 (e)	39.2 (e)	37.8	38.6	40.8	42.4	45.8	48.0 (f)	50.1 (f)	51.9 (f)

(f) Forecast
(e) Estimated value

Source:

http://europa.eu.int/comm/eurostat/newcronos/reference/display.do?screen=detailref&language=en&product=STRIND_ECOBAC&root=STRIND_ECOBAC/ecobac/eb011 (17.01.2005)

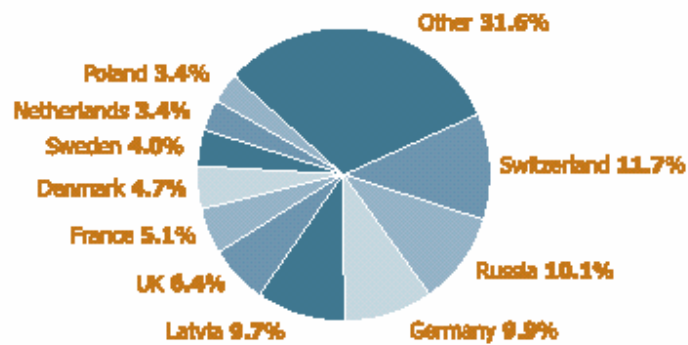
Figure 3 Foreign Trade Turnover 1997 - 2004



Source: Lithuanian Department of Statistics

Figure 4 Lithuanian export structure by country, 2003

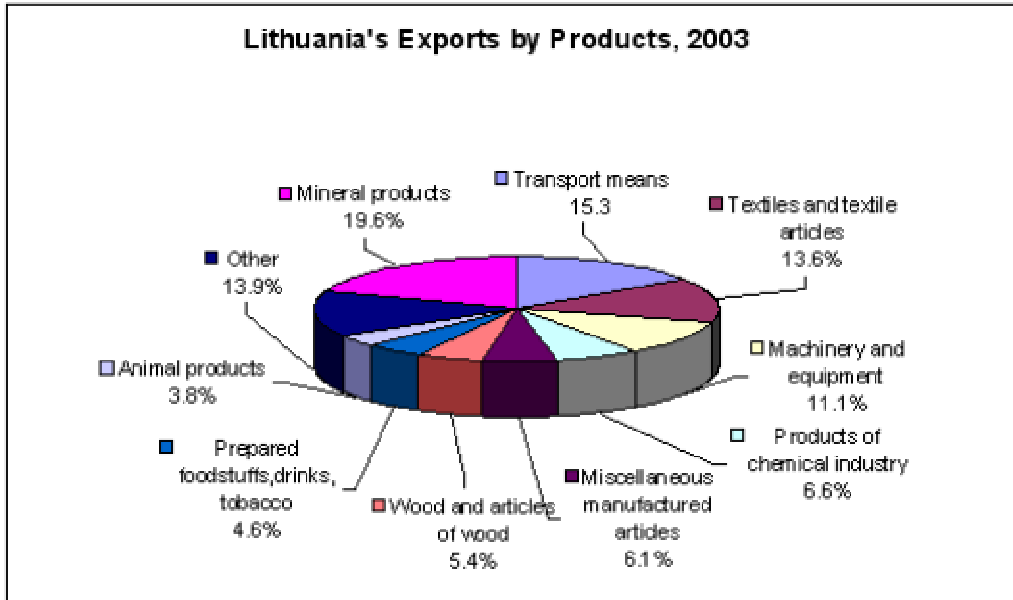
Export Structure by Country, 2003



Source: Lithuanian Department of Statistics

Source: *Lithuania The Smart Move*, Lithuanian Development Agency (www.lida.lt/docs/country_english2003.pdf), p.

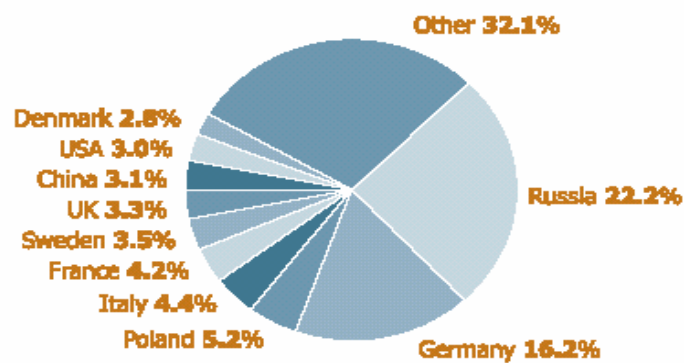
Figure 5 Lithuania export structure by products, 2003



Source: Lithuanian Department of Statistics

Figure 6 Lithuanian import structure by country, 2003

Import Structure by Country, 2003



Source: Lithuanian Department of Statistics

Source: *Lithuania The Smart Move*, Lithuanian Development Agency (www.lida.lt/docs/country_english2003.pdf), p.

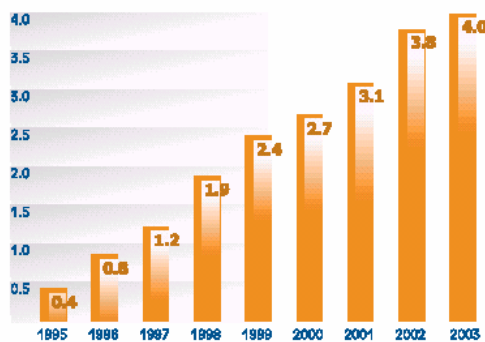
Figure 7 Lithuanian import structure by products, 2003



Source: Lithuanian Department of Statistics

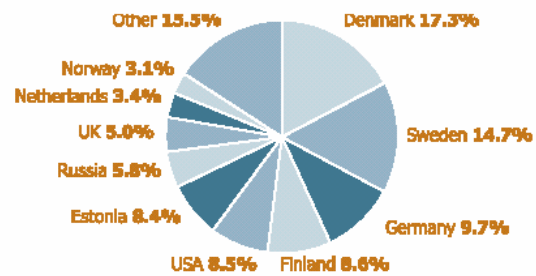
Figure 8 Foreign Direct Investment in Lithuania

Cumulative FDI in Lithuania, as of January 1, 2004 (€ billion)



Source: Lithuanian Department of Statistics

Cumulative FDI by country, as of January 1, 2004 (% of total)



Source: Lithuanian Department of Statistics

Source: *The Smart Move*, Lithuanian Development Agency (www.lida.lt/docs/country_english2003.pdf), p. 8, www.lida.lt/docs/country_english2003.pdf

Figure 9 Cumulative FDI by sector, July 2004

Sector	Sum (€ million)	% of total sum
Manufacturing	1,402	33%
Trade	715	16.8%
Communication services	661	15.6%
Financial intermediation	660	15.5%
Other	811	19.1%

Figure 10 Employment and unemployment trends in Lithuania, 2001 - 2003

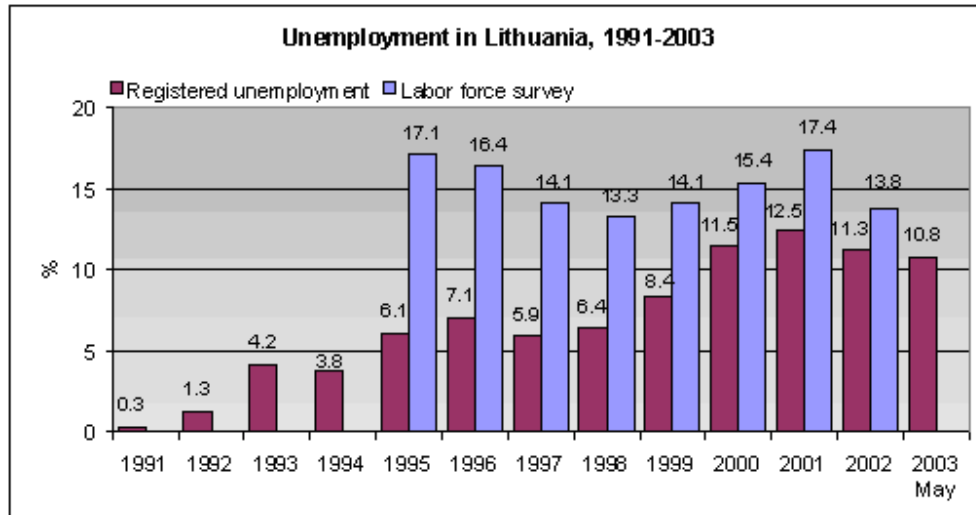
EMPLOYMENT AND UNEMPLOYMENT OF POPULATION				
		2001	2002	2003
WORKFORCE	THOUS.	1 635,8	1 630,3	1 641,9
EMPLOYED	THOUS.	1 351,8	1 405,9	1 438,0
UNEMPLOYED	THOUS.	284,0	224,4	203,9
EMPLOYMENT RATE (AGE 15-64)	%	57,2	59,6	60,9
WOMEN	%	55,9	57,1	58,4
MEN	%	58,5	62,3	63,7
EMPLOYED BY SECTOR:				
AGRICULTURE	%	17,1	17,8	17,9
INDUSTRY AND CONSTRUCTION	%	27,1	27,5	28,1
SERVICES	%	55,6	54,7	54,0
UNEMPLOYMENT RATE	%	17,4	13,8	12,4
YOUTH (15-24 M.)	%	31,1	23,0	25,0
WOMEN	%	14,7	12,9	12,2
MEN	%	19,9	14,6	12,7

Data of the Labour Force Survey

Table 2.1.1.-1.

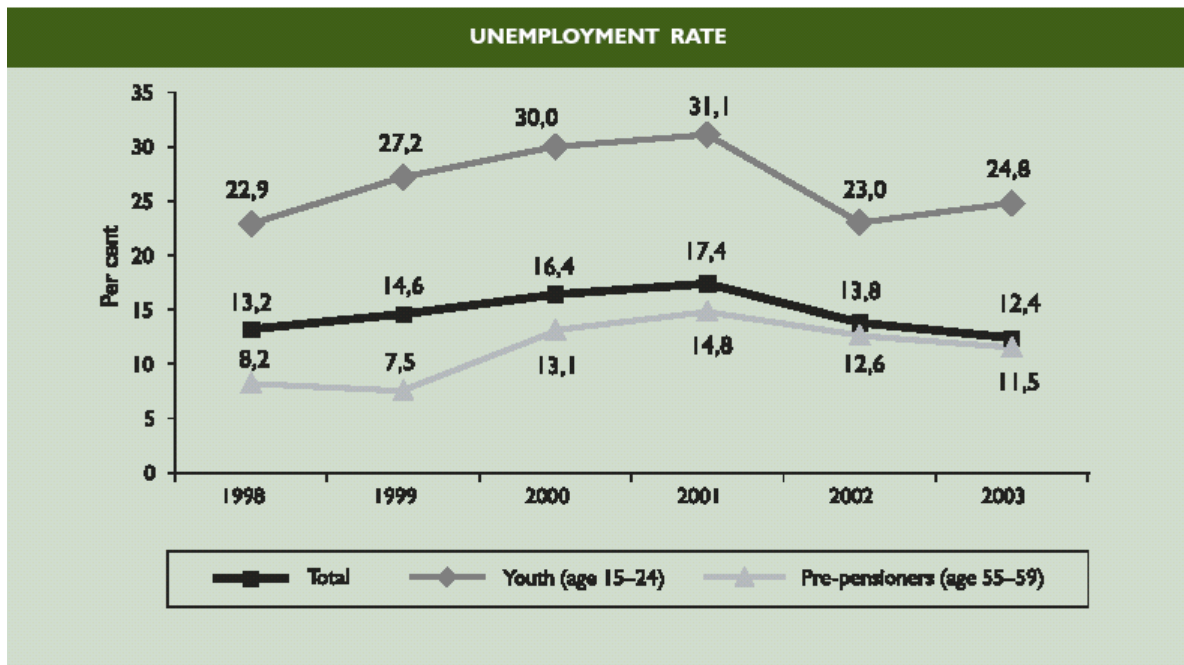
Source: *Social Report 2003*, Ministry of Social Security and Labour of Lithuania, pg. 14

Figure 11 Unemployment trends in Lithuania, 1991 – 2003



Source: Lithuanian Department of Statistics; IMF; Bank of Lithuania

Figure 12 Unemployment rates according to age cohorts 1998 – 2003



Source: Social Report 2003, Ministry of Social Security and Labour of Lithuania, p. 16

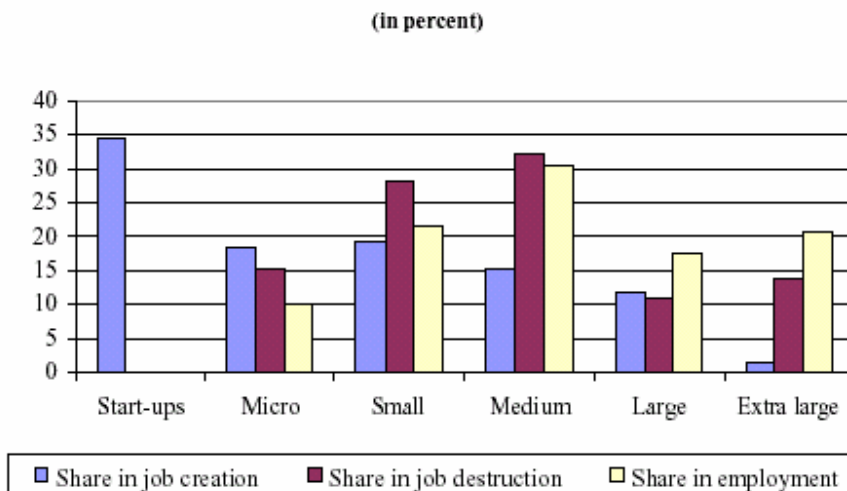
Figure 14 Industries with highest rates of job creation

A. Top 10 industries with highest rates of job creation		
Industry	Job creation rate	Share in employment
	%	
Financial intermediation	60.7	1.1
Wholesale trade	22.5	6.3
Other business activities	19.9	2.7
Wood	18.5	2.6
Recreation & culture	14.6	0.9
Hotels & restaurants	14.5	2.3
Car sale & repair	14.4	2.9
Furniture	14.3	1.9
Retail trade	13.9	9.0
Rubber & plastic	13.9	0.9

Source: *Rapid Labour Reallocation with a Stagnant Unemployment Pool: The Puzzle of the Labour Market in Lithuania*, World Bank Policy Research Working Paper 2946, January 2003, p. 21

Figure 15 Job creation by firm size, 2001

Figure 1 Job Creation by Firm Size, 2001



Source: *Rapid Labour Reallocation with a Stagnant Unemployment Pool: The Puzzle of the Labour Market in Lithuania*, World Bank Policy Research Working Paper 2946, January 2003, p. 17

Annex 2

Restructuring case VADB Drobe

Organization	VABD Drobe
Established	after II World War
Ownership	used to be public, now controlled by government (main shareholder)
Sector	textile
Structure	4 companies reduced to 2
Employment	5000 people; reduced to 2000 (3000 persons laid off over 4-5 years)
Trade unions	4 different trade unions

Reasons for restructuring

The company had to be restructured as its competitiveness was very low, it suffered from overemployment. Old methods of production were used and the company was not able to effectively compete with the textile products from China and India. The demand had changed as fashion changed - recently the company's products became to some degree outdated; now customers are interested in different types of material.

Restructuring process

In 1991 all workers received shares (for the calculated profit). In addition, it was possible to buy shares. The government kept 90% of the shares. Soon after, the company's economic standing worsened significantly, as besides the share allocation, there were no organisational changes or changes in the production methods. In the following years the loss of the company was at the level of LTL 1.5 - 2 million. The company started to search for a strategic investor, but wanted to avoid a situation where the company buy out would only facilitate access to its the market. The company received a loan from

European Bank for Reconstruction and Development (EBDR) and the World Bank (WB). There were also 2 Norwegian investment funds involved in the process.

There were 2 plants that were foreseen to be closed down: 1 in Druskiennikai and 1 in Silute. The trade union in Silute did not fight; the main issue of negotiations was to protect the plant infrastructure. Eventually, the operations of the plant were significantly reduced, but the plant was not closed down completely. At present there is a textile plant located at the same site which cooperates with the Kaunas headquarters, they place the orders there when there is an increase in the demand for their products.

Trade unions in the Druskiennikai plant were against the restructuring process and they suggested closing down the plant in Kaunas, as it has a bigger labour market and it would therefore be easier for people to find a new job. As a result the restructuring process started later, but the factory was ultimately closed down. All the employees were laid off and remained unemployed during 6 months. Now there are different small enterprises being established by different investors.

Communicating the restructuring process

The restructuring process and its consequences for the employees were communicated 2-4 months before the process started. This is exactly the time of the dismissal notice handed to workers.

Restructuring plan

There was a restructuring plan, but it included only the issues required by the restructuring law. There were no additional social protection measures. *Darbo Birža* was informed about the planned redundancies and almost all dismissed employees received job offers. Most often the job offers did not correspond with the workers' qualifications; they were offered part-time jobs or less qualified jobs with lower pay than their previous ones, sometimes at minimum wages.

Trade unions were consulted as to which plant should be closed down.

Results of the restructuring process

Productivity has increased by 8 times. In 2004, the company achieved the break even point.

Lessons learnt

- The process could have been announced earlier.
- Social issues should be more carefully taken into account. There should be an inquiry in order to identify who wants to stay and who is willing to leave.
- There should be a strategic analysis to determine which part of the company should be maintained and which one should be sold, as well as better planning of the restructuring process.
- The strategic investor should be carefully chosen.
- The restructuring process could be shorter: 6 month instead of 3-4 years. It should be a more radical process, not a gradual one.

Annex 3

Interviewed persons

Name	Organization and affiliation
Marius Busilas	UNICE
Marija Zokaite	LPK: Confederation of Lithuanian Industrialist
Elena MacyteDanguole Grebliauskaite	Preile: HR Company
Janina Matuziene, Arturas Cerniauskas, Karolina Petraityte	ETUC LPSK: Lithuanian Trade Union Confederation
Laima Mazutaitiene	Unification of Lithuanian Metalworkers' Trade Unions
Janina Svediene	ETUC
Vydas Puskepalis	LDF: Lithuania Labour Federation
Rimvydas Velička Kestutis Butkus	National Association of Business Administrators
Danas Arlauskas, Agne Rackauskyte	UEAPME LVDK: Lithuanian Confederation of Business Employers Rotundo 5
Kazimieras Kuzminskas	Deputy Mayor of Kaunas
Antanas Liutkevicius	Solidarumas

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