

uatuc info



Union of Autonomous Trade Unions of Croatia

No.6 July/Aug 2009



ISSN 1847-2079

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Dear readers,

Since the last edition of the UATUC Info, Croatia got a first woman Prime Minister since independence, but also a "crisis tax" on salaries and retirements. Although Government induced negotiations with social partners about amending the budget and stabilisation of Croatian economy, the way this negotiations were conducted proved once more that the current Government, even after its reconstruction, does not have a clear and consistent policy on how to deal with the crisis and current problems in economy and state budget.

The introduction of the crisis tax and the 3rd revision of the budget this year have been timed right before the season of summer holidays in order to buffer a growing public discontent. At the same time, real structural problems of Croatian economy and state's oversized budget were left intact - obviously the aim was only to keep state finances as stable as possible on the short run, no matter if new tax measures will turn out to be unproductive for the economy and could even worsen the crisis, as UATUC has been warning all the time.

The Act on Reduction of the Work Week has finally been passed, as probably the only active anti-recession measure so far, but it came far too late and its complicated procedure for applying for subsidies resulted in only one application so far.

After not receiving salaries for four months, three shop stewards from Split Ironworks started a hunger strike, which was cancelled only after a meeting with the Prime Minister was arranged and money for unpaid salaries finally provided.

After a year of negotiations between Croatian Government, European Commission and the trade unions, privatization of Croatian shipbuilding industry has finally started. Tenders for sale of six large state-owned shipyards have been published, but trade unions ask if the middle of recession was the right time for such move and are concerned about job losses and the future of Croatian shipbuilding industry itself, as continuation of shipbuilding activities in shipyards after the privatization is not the required. <<

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THE OTHER SIDE OF CROATIAN SUMMER:

DISORIENTATED GOVERNMENT AND GROWING PUBLIC DISCONTENT

Croatian Prime Minister **Ivo Sanader**, who was holding the position since November 2003, unexpectedly and without explanation resigned and announced his withdrawal from the active politics on 6 July. As he has never given any explanation, besides calling his decision a “private one”, Croatian and regional media have been speculating until today about the reasons for resignation, going from his heavy involvement in cases of corruption in the banking sector to his disappointment with Government’s inability to combat the corruption.

Reconstruction of the Government and leadership of the ruling party

As Ivo Sanader also resigned from the position of the President of the Croatian Democratic Union (HDZ), which he was holding since April 2000 and the first party convention since the death of party founder **Franjo Tudman**, only few days later special party convention took place. Around ten thousand delegates, constituting the largest party convention held in Croatia since independence, accepted by acclamation all the changes in party leadership proposed by the resigning President - the fact that was by many described as a big setback for young Croatian democracy.



Ms. **Jadranka Kosor**, until then Vice Prime Minister and Minister of the Family, Veterans’ Affairs and Intergenerational Solidarity, thus became new President of HDZ and party candidate for position of Prime Minister. At the same time, convention acclaimed a number of other changes on highest party positions which clearly marked the turn from the modern conservative political line, encouraged during Sanader’s era, to more right and nationalist coloured one. The clearest example of this was the choice of **Andrija Hebrang**, one of most controversial party hard-liners as the HDZ candidate for the Presidential elections in December this year.

As was expected, next week the tiny parliamentary majority, formed by HDZ and few small coalition partners, voted Jadranka Kosor as new Prime Minister, who thus became the first woman on the leading position of the Croatian Government since independence in 1991, and the third one ever. Four new Ministers were also appointed, two of them replacing Ms. Kosor and Education Minister who resigned simultaneously with Sanader, **Davorin Mlakar** heading the newly formed Ministry of Administration and **Bianca Matković**, former State Secretary in Ministry of Foreign Affairs in charge of coordinating EU accession becoming the Minister without portfolio. The latter two changes were explained as a demonstration of the Government’s determination in reforming the state administration and speeding up the EU accession process, although not many were convinced with this explanation.

Anti or pro recession measures?

As Croatian state budget, already amended in April, was again showing the alarming gap between income and expenditure, the first move for the new Prime Minister was to start work on its next revision. The second revision of the budget was sent to Parliament already on 11 July, lowering budget income for 5.86% and expenditure for 0.64%, thus making expected budget deficit of 3.3% GDP. At the same time, one more budget amendment was promised before the end of summer, with the explanation that more radical cuts need time for preparing legislative changes and agreement with social partners.



The week starting on 20 July saw a series of meetings in the Government premises, including Government officials, trade unions, Croatian Employers' Association and other political and interest groups, in order to find acceptable solutions. Although the public at the first moment welcomed the approach taken by the new Prime Minister, which looked as ready to talk and negotiate with all interested sides, in the end three day-long meeting sessions turned out to be completely unstructured and chaotic. The Government had different proposals every day, without bothering to back them up with figures, estimations and calculations about potential savings or income. The UATUC President **Ana Knežević** later described the negotiations as "more bargaining at the market-place than serious discussion and negotia-

tions between social partners concerning the Croatian reality and future".

With such approach, it became impossible to decide on any structural or systematic saving measures, so in the end budget expenditure was lowered for only 0.22%, while the incomes were increased by 1.24%, making the expected budget deficit at 2.8% of the GDP.

As none of the interest groups participating in negotiations was ready to accept lowering budget spending for its constituency, the only possible solution was found in the introduction of new taxes - VAT was increased from already high 22% to 23%, and extra tax on salaries, retirements and other incomes, the so-called "crisis tax", was introduced - salaries and other incomes higher than 3000 HRK per month (approx. 400 EUR) will be taxed by 2% and the ones higher than 6000 HRK (approx. 800 EUR) by 4%. The special tax is to last until the end of 2010. New 6% tax on conversations and text messages over mobile phones was also introduced.

At the press conference held on 23 July UATUC warned that new taxes inevitably start a cyclic circle in which the consumption is decreased, hence also the production and overall economic activity, which in the end results with dismissals and even larger expenses for the state. Instead, UATUC positions declared at the beginning of negotiations were based on protecting citizens' purchasing power and balancing the burden of the crisis by introducing new or higher taxes on capital gain, luxury properties and real estates.

Public discontent growing, but massive anti-Government demonstrations still under question

Although traditionally quiet August in Zagreb and unexpectedly good results of the tourist season temporarily put aside the discussion about Government's economic policy, it again reached the focus of public debate in the last week of August. First the international consultant group KPMG International published the study which put Croatia on the second place in world by the level of taxes and contributions from salary for employees earning up to 100,000 USD per year, average tax burden for Croatia being 53.5%, as compared to the EU average of 36%. A week after, the World Bank published a study which once again outlined well known problems of unsustainability of Croatian social and pension system, describing them as "fostering the culture of unwillingness to work and dependence on state support".

Six months had passed since the ex-Prime Minister Sanader presented Government's package of ten antirecession measures and so far the only action taken was revision of the budget, which was not done with sufficient cutting on the expenditures side and could anyway doubtfully be called an antirecession measure, and the introduction of the state subsidies for non-working Friday in industry (read more on this in a separate article). Most of the other

announced measures, such as combating insolvency by ensuring timely payments from public companies or lowering the parafiscal taxes to boost up entrepreneurship activity, did not result in any concrete actions or results.

Moreover, recent weeks saw discovery of few big corruption cases in public railway and electricity companies, as well as some important omissions in recent Government decisions, like the fact that the Law on special tax on salaries, pensions and other income was formulated in a way that people working in the so-called free professions (lawyers, private doctors and dentists, public notaries etc.) are not falling under its scope, or that the state will actually pay this tax for the management in public companies, resulting from their contracts defining salaries after tax. As Croatian President **Stipe Mesić** was first to file a case against the controversial law, followed by UATUC and a number of citizens, the Constitutional Court will decide on its legality during September. So far many legal experts are predicting it will be proclaimed illegal on the grounds of discriminating citizens.

General opinion that Government does not have a clear and consistent antirecession policy that could set Croatia on a way out from the crisis is also reflected in general public - regular public opinion pool "Crobarometar", conducted in July and August by one of biggest country's pooling agencies, says that 80 percent of citizens think Croatia is heading in wrong direction, which is the highest level of pessimism ever recorded in this survey. 69 percent of the citizens do not approve of Government's decisions made during August.

Nevertheless, it seems Government carefully planned timing of the revision of the budget, making crucial decisions and legislative changes during the summer, so public discontent got somehow blown out thanks to holiday season and better than expected results from tourism. Although in late July and early August many announced or predicted series of demonstrations in autumn, including trade unions, retired people and youth organisations and other, so far it seems that protests capable to provoke Government's resignation or drastic change in its economic policy are not in sight.

Only one trade union confederation, Association of Croatian Trade Unions (HUS), announced a series of demonstrations in six Croatian cities from 9 to 15 September. As the actions undertaken by the Association of Croatian Trade Unions have not been coordinated with other confederations, whose members but not the leaders were invited to join, as demands from Government that have been put up were not coherent and realistic in short term, (and the very timing of these demonstrations - middle of the working week - was chosen in a manner which is practically impossible to attract large masses), the UATUC decided not to support these demonstrations. Instead, UATUC will for the time being continue its work on formulating tangible and achievable measures for dealing with the crisis in the best interest of the workers and Croatian citizens, and try to realise them through negotiations and dialogue with the Government. However, if during the next weeks no improvements in Government's policy and cooperation with trade unions will be made, UATUC will again discuss the possibility of organising general demonstrations.<<

ACT ON THE REDUCTION OF WORKING WEEK - A POINTLESS AND LATE ATTEMPT FOR THE SALVATION OF CROATIAN INDUSTRY



Zagreb, 17 August 2009 - The Union of Autonomous Trade Unions of Croatia (UATUC) and the Croatian Employers' Association (HUP) had long discussed the shortening of the working week as an anti-crisis measure for protecting the industry and avoiding layoffs. The joint HUP-UATUC proposal was related to certain industries which could temporarily reduce their working week for one day without losses in technological processes. They demanded the urgent adoption of the Regulation on a reduced working week. Within the joint HUP-UATUC antirecession proposal, which includes the stimulation of liquidity, reduction of business expenses, maintaining employment level and reduction of working week, it is necessary to put focus on joint activities with the aim of reducing the working week. Industrial trade unions affiliated to the UATUC and HUP Cro Industry representatives agreed they would cooperate more closely also on other activities which would enable the creation of better competitive conditions for industrial, construction, agricultural and food-processing sectors.

However, in mid July, despite the failure to agree with trade unions and employers, the Croatian Government finally adopted a law on subsidizing a shorter working week; the law came into force at the

beginning of August and will remain in force until the end of 2010.

The Act on Subsidies for Maintaining Employment provides that all employers wishing to use subsidies for the workers whose working week will be reduced can submit a request to local offices of the Croatian Employment Service (HZZ) according to the headquarters of the employer or "organisational unit".

Family farms, employers in difficulties and employers using employment subsidies are not entitled to the reduced working week subsidy.

According to the Act employers can, in agreement with trade unions, reduce the working week to 32 hours and obtain state subsidies in the amount of the difference of contributions. The state will compensate the difference of the reduced net wage in the amount of 10 percent, or 13 percent for workers with children. Workers receiving minimum wage will be compensated only up to 20 percent of the difference in contributions before and after the reduction of the working week.

In order to get state subsidies for "Friday off", companies must meet a number of requirements, one of them being the fact that in 2007 they did not operate at a loss. According to Government's estimations, about 250.000 workers could be entitled to state subsidies and about 200 million Kuna is provided for them through cancellation of a part of measures for employment stimulation and reduction of unemployment benefits.

However, one question still remains - will anyone use state subsidies? A part of employers in production sector, especially exporters, have already reduced the working week without state subsidies. Legal sub-

Late implementation and complicated procedure resulted with only one application for subsidies so far

sidies, the aim of which is to prevent job losses for about 50.000 industrial workers, will hardly meet their purpose. This is the argument of both trade unionists and employers which have for weeks been participating in negotiations on working week reduction.

The Government has in the end passed the act without agreement with employers and trade unions, and at the same time introduced crisis tax because of which, according to employers, no worker will accept the further reduction of wages. Trade unions however said that the act, the aim of which was to prevent dismissals and which does not protect about 150.000 workers with minimum wages, is pointless. Also, both employers and trade unionists believe that the act is passed too late. <<

STARVING FOR DIGNITY - SPLIT IRONWORKS TRADE UNIONISTS ON HUNGER STRIKE



Split, 29 August - Three shop stewards and a worker from the Split Ironworks (Željezara Split) started a hunger strike on Monday, 24 August, stating that they will not stop until their demands are fully met.

"We have been pushed into this strike because of non compliance with our conclusions, signed by the representatives of the Government and the Croatian Privatisation Fund as early as on 20 May. This is not a strike with political connotations, this is wretched poverty", a shop steward from the Metalworkers' Trade Union of Croatia (SMH), affiliated to UATUC, **Mladen Bekavac**, told a news conference in the Adriatic city of Split, speaking about the hardship of 460 workers who have not received salaries for several months.

The trade unionist blamed the Croatian government, the Privatisation Fund and the Ministry of Economy as well as the ironworks' owner, the Polish company Zlomrex, for the factory's agony. Unionists insist on the payment of salaries in arrears, talks with a Russian company interested in taking over the Split Ironworks, on the immediate restarting of production in the plant, on determining the responsibility

for such a dire situation in the ironworks as well as on the lowering of high wages of managers which are determined contrary to the provisions of the collective agreement.

In late February, Željezara stopped production because its local gas supplier ceased delivering gas and blocked the factory's bank account due to its debt. The production started anew after some time only to be suspended again in mid-April after all production reserves were exhausted and all workers were sent on leave. In the meantime, the ironworks' accounts were blocked as its debt exceeded HRK 46 million (6.26 million EUR).

Also this spring, the plant's workers asked the government on several occasions to intervene and cancel the sales contract with Zlomrex as it failed to pay workers' salaries and meet other financial obligations. During 2008, because of majority owner Zlomrex's poor business, the ironworks suffered losses to the amount of HRK 100 million, Bekavac said during one of the industrial actions in the spring, while in 2007 it earned a profit of HRK 170 million.

Despite the workers' wishes, shop stewards who went on hunger strike did not want to include in it other workers, saying that they are already living on the verge of poverty, and that it is their duty and obligation as trade unionists to do so and to fight for their rights. If their demands are not met in the next ten days, workers will join them in hunger strike.

Polish Zlomrex stopped every communication with workers, CEO has been in Poland for the past several months, production has been stopped, and telephones disconnected, etc. hence the justified demands of the trade unionists to terminate the contract with this company and to start finding a new buyer who is ready to continue with production.

A turning-point was reached on 28 August when the Government negotiated with the trade unionists and decided to pay the wage in its minimum amount to the workers of the Split Ironworks. The Prime Minister Ms **Jadranka Kosor** promised to find the way to pay the other due wages as well as to meet the demands and solve the problems in Ironworks by the end of October. The Government will involve trade union representatives in this process. Metalworkers' Trade Union shop stewards announced that in this period, until the end of October, the trade union will sustain from all trade union actions, stating that they are satisfied with what has been achieved, and that this is a maximum at the moment. <<

Desperate action of trade unionist provoked quick reaction from Government

SHIPYARD PRIVATISATION FINALLY STARTED, BUT IS IT A RIGHT MOMENT?

After more than a year of intensive negotiations with the European Commission, in which the privatisation model of six Croatian shipyards was finally agreed, and a number of meetings with trade union and management representatives, in July the Croatian Government finally reached the decision on privatisation of shipyards. On 1 August the Croatian Privatisation Fund published a public tender for the purchase of shares of shipyards *3. maj*, *Brodogradevna industrija Split*, *Brodogradilište Kraljevica*, *Brodotrogir*, *Uljanik* and *Brodosplit - Special Vessels Shipyard (BSO)* with the deadline for submitting offers on 30 September 2009.

Shipyards *BSO* and *Uljanik* will be sold for the nominal price of shares and the other shipyards for one Kuna. Bidders will have to make their own investment and operation plans and cover at least 40 percent of restructuring expenses but will decide for themselves which part of shipyards' debts they will cover while the remaining part will be covered by the state budget. The bidders must also accept the collective agreement, and in case of redundancies, redundant workers must be provided for in accordance with the Labour Code.

Even though the model agreed with the European Commission obliges to non-discrimination in tenders, in other words obliges to acceptance of even those offers which foresee conversion of shipyards, the Government claims that, since the highest offer is not the only criterion, the offers which foresee the continuation of activities will be favoured.

Prior to the publication of tenders in mid-July, Metalworkers' Trade Union of Croatia (SMH) requested the postponement of privatisation. SMH Acting President Vedran Dragičević pointed out that it was not the time to sell shipyards and that the situation was dramatic. In shipyard *3.maj* there is no money for workers' wages and the situation is similar in Trogir and Split, shipyards are not solvent and 11,500 workers live in fear, so trade unions are considering withdrawing their representatives from privatisation committees in certain shipyards. SMH requested a few months' postponement in order to prepare a serious privatisation, not like the privatisation carried out in Split Ironworks. Prior to privatisation, it is necessary to find a model for temporary financing of shipyards and reduce the number of employed for 1,500 workers which should retire or get severance pays, what would also be more favourable for the future buyers.

If the privatisation is still carried out according to Government's decision, trade union will offer a social agreement to potential buyers which would

Privatisation during recession will not secure keeping jobs and continuation of shipbuilding activity



oblige them to ensure the continuation of activity, investment in shipbuilding development and 25 plus one share for workers as a control mechanism for at least five years.

Until the end of August the tender documentation, which enables the insight into shipyards' business, was bought by 16 potential buyers. Trade unions are cautious regarding potential buyers because none of them has any experience in shipbuilding industry. The most serious candidate for the purchase of shipyards (five of them) is Danko Končar, the owner of *Kermas Investments* company. At the end of August he met trade union and works council representatives from *3. maj* shipyard.

It is interesting that till the end of August nobody has shown interest in *Uljanik* shipyard, the most successful shipyard in Croatia, which is the only one operating at a profit, has full order book and will most certainly make profits. The Ministry of Economy says that, in case there are no buyers, another privatisation model would be possible for *Uljanik* shipyard which includes public offering in the market but trade unions oppose this solution. According to the previous agreement between trade unions and the Government, in case no one is interested in *Uljanik*, it should remain in state ownership and considering that it operates at a profit its sale is not a matter of urgency.

ECONOMIC AND SOCIAL INDICATORS IN THE REPUBLIC OF CROATIA AUGUST 2009

GROSS DOMESTIC PRODUCT

First estimations of the Gross Domestic Product of the Republic of Croatia for the second quarter of 2009, recently published by the Central Bureau of Statistics, indicate GDP decrease of 6.3% on annual basis, as compared to the decrease of 6.7 in the first quarter.

INSOLVENCY

In May 2009 outstanding due liabilities of legal persons reached 16.7 billion Kuna, while the ones of natural persons reached 4.5 billion Kuna. May was the tenth consecutive month with a growth in the number of insolvent legal persons and amounts of their outstanding payment orders. More than half of total outstanding due liabilities are caused by late payments from public companies, especially national oil company INA, which owes more than 2 billion Kuna only to the state budget, national electricity company HEP and Croatian Motorways.

PUBLIC DEBT

At the end of March total public debt, including central budget, non budget funds and local authorities reached 105.2 billion Kuna (approx. 14.4 billion EUR). However, when the state warranties and the debt of Croatian Bank for Reconstruction and Development are included, the debt rises to 150.75 billion Kuna. On an annual basis the public debt increased by 20.87 billion Kuna (16%), mostly as a result of internal crediting of the state budget.

TOURIST SEASON

First data for the period from January to July say that Adriatic coast scored 5% less tourist arrivals than in the same period last year (total of 5,285,255 guests, out of which almost 92% from abroad), while the continental Croatia suffered a loss of 2% (234,901 arrivals). Although the average daily expenditure per tourist decreased more than the number of arrivals, first data are still better than results predicted in late Spring, when many expected a decrease of 10 to 15 percent.



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**UNION OF AUTONOMOUS
TRADE UNIONS OF CROATIA**

Publisher: Union of Autonomous Trade Unions of Croatia

Managing editor: Ana Knežević

Edited by UATUC International Department

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