



TARTU ÜLIKOOOL
RAKE



INDUSTRIAL RELATIONS IN ESTONIA: RECENT DEVELOPMENTS AND FUTURE CHALLENGES

Report
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INTRODUCTION

This report was created by researchers of the Centre for Applied Social Sciences of the University of Tartu within the framework of the project “Industrial Relations in Central and Eastern Europe: recent developments and future challenges” funded by the European Commission. The objective of the project was to provide deep insight into developments in industrial relations in the post-crisis period (2012 onwards), to evaluate changes in economic development, and provide recommendations as to the future challenges for industrial relations in Estonia stemming from various socio-economic, demographic, and other factors. This report is a follow-up study to a project funded by the European Commission – “Impact of the Economic Crisis on the National System of Industrial Relations: Policies as a Key Instrument for Recovery” (2012).

“Industrial relations”, as discussed in this report, stand for the entry into collective agreements at the company, sectoral and inter-sectoral level, as well the partaking in collective bargaining and social dialogue between state and social partners – organisations of employees and employers, resulting in changes in legislation and national-level collective agreements. As evident from this definition, industrial relations take place, and are discussed, at all three levels.

Estonia can be characterised as a country with a low level of unionisation (especially compared to other European Union members) and a weak tradition of collective bargaining. The trend of decreasing use of collective agreements, already highlighted in the previous report of 2012, continued into the recovery period, whereby union density decreased to 6.2%, and collective agreement coverage for workers rested at only 23% (ILO 2013; CASS 2012). Collective agreements are most often signed at the company level; collective bargaining also plays a large role in minimum wages negotiations. Traditionally, the reasons for low union density cited by members of trade unions include low awareness and low incentive to join a union, as collective agreements cover both union and non-union members, as well as perception of trade unions being unnecessary relics of the Soviet past (Study of industrial relations of the institutions of state and municipalities 2011). In addition, the sole fact that trade unions are perceived as weak precludes people from joining them, according to interviews conducted with union representatives.

The crisis hit the Estonian economy hard; however, the labour market and the standard of living rebounded rather quickly. Trade unions, present in sectors which withstood the recession and defended workers’ benefits, strengthened; furthermore, several trade unions appeared in sectors which were lacking them before. In general, union representatives hold an opinion that dialogue between the state and social partners has improved and gained a constructive nature. However, the priority of industrial relations and collective bargaining for the state remains low, as does the general population’s and workers’ awareness of the need to have strong and competitive collective bargaining.

This report looked into the possible future developments of the Estonian economy and society, as well as new forms of employment. Negative demographic trends combined with rapid growth of the market during the recovery years created a situation of labour shortage. On the one hand, rising salaries and living standards represent a positive side of this development; on the other hand, low productivity and increasing costs pose strategic risks for the competitiveness of the Estonian economy. Issues of the pension debate, immigration and long-term unemployment, all implicitly connected with decreasing competitiveness and labour shortage in the Estonian economy, were reflected upon with regards to their relation to collective bargaining and the overall situation of workers in Estonia.

Interactive interviews, focus groups and foresight workshops, held in the framework of this project, gave an insight into opinions as to the future scenarios of industrial relations in Estonia from the point of view of the representatives of social partners from various levels – from the company and sectoral to the national

level. Two case studies from various sectors of the Estonian economy (energy, medicine and transport) are included in the report.

The first chapter gives an overview of legislative developments in the recovery period. The second chapter presents analysis of economic and social changes and trends, and gives an overview of collective bargaining at different levels in Estonia. The third chapter of the report gives an overview of economic and social forecasts, as well as discusses the data received during the focus groups and interviews, conducted within the framework of three case studies (relating to three sectors of the Estonian economy – energy, medicine and transport) with regards to the future challenges for industrial relations in Estonia.

METHODOLOGY

The following research is the result of comprehensive data collection and analysis using both quantitative and qualitative methods, which took into careful consideration the various sources of information collected since 2012 in Estonia. The first stage of the research consisted of analysing the body of legislative literature that provided an insight into changes in various spheres of life in Estonia as regards industrial relations since 2012. It included analysis of scientific articles and an overview of legislative changes that were implemented since 2012 affecting collective bargaining, collective agreements and trade unions. The purpose of this stage of the research was to clarify how the challenges of the previous period were addressed through legislative means and what effect they had on the social dialogue in Estonia.

The second stage involved analysis of scholarly articles and recently-gathered statistical information by the Statistical Office of Estonia on the tendencies of economic development, quality of life and labour relations after 2012, as well as future challenges for the economy and labour market that have a potential to affect industrial relations. The potential impact of digitalisation, new forms of work and other factors emerging in modern European economies were analysed with the framework and current situation of collective bargaining in Estonia in mind.

The third stage consisted of conducting interviews in the framework of two case studies of industrial relations in two different sectors: the energy sector and the medicine sector.

As regards the energy sector, the interviews were conducted in one of the biggest companies in Estonia – Eesti Energia. The interviews were undertaken with the personnel director and trade union representative. The case study was developed in several consequent stages. At first, desk research was conducted to get an overview of the industrial relations in Eesti Energia. Following this, written interviews were done with both parties. This was followed by a phone interview with the representative of the trade union and an interview with personnel director via Skype. Following the gathering of the data, the case study was drawn up using the input gathered.

The case study on the medical sector was centred around input from interviews with representatives of the two biggest trade unions in the sector – The Doctors' Union and the Nurses' Union, with additional input from focus group representatives related to the sector. Firstly, the desk research was carried out, as the current situation of the medical sector in Estonia has its own specificities. Then, face-to-face interviews were conducted, and the subsequent case study was developed.

The fourth stage included analysis of the input from focus groups and foresight workshops. On the basis of information received in the interviews, three focus groups were conducted – two in Tallinn and one in Tartu. The first focus group conducted in Tallinn concentrated on state-level social dialogues and included representatives of state-level employees' organisations (EAKL and TALO), the Ministry of Social Affairs, the Labour Inspectorate, and labour market experts. The second focus group conducted in Tallinn focused on sector-level developments and included trade union and employers' representatives of different sectors with sector-level collective agreements in Estonia, as well as representatives of employers and employees in the Estonian chemistry sector. The third focus group was organised in Tartu and involved the trade union representative of the Estonian education sector, the representative of the local government, and a labour market expert. In the second and third focus group the emphasis lay on sector-level and enterprise-level industrial relations.

In all three focus groups the discussion was based on three main questions: 1) the most important developments in industrial relations, 2) the main problems in collective bargaining and social dialogue, and 3) good examples in Estonian social dialogue/industrial relations in the post-recession period. All participants were asked to write down the keywords they found important in light of the questions. Following this all three questions were discussed with the participants; every participant was given the floor to share his/her ideas.

Three foresight workshops followed the focus-groups. The participants and the methodological framework were similar to that of the focus groups. The questions discussed were as follows: 1) how should social dialogue/industrial relations develop in Estonia; and 2) what is the future of social dialogue/industrial relations in Estonia.

1. THE LEGISLATIVE FRAMEWORK OF INDUSTRIAL RELATIONS IN ESTONIA SINCE 2012

Industrial relations in Estonia operate in a system defined by several legislative acts. The basis is laid down in the Employment Contracts Act (hereinafter “ECA”), which primarily describes individual labour relations on an employer-employee axis in the private sector, but also touches upon a number of collective relations issues. The Civil Service Act, recently updated in 2013, guides employment relations in the public sector (Eurofound 2015). The new ECA (in force as of 2009) came as a result of a major effort to reform the Estonian labour market in the context of the economic crisis and loosen the rigid regulations of the previous ECA (Index of Economic Freedom; Eurofound 2015). On the one hand, the ECA, due to many reasons, discussed in the following chapter, still did not leave much to be determined by collective agreements – it extensively codified all issues of individual employment (e.g. working time, holidays, dismissal of employees, probation period, etc.); however, it also allowed for the use of so-called derogative agreements¹ on night work, rest time and issues of atypical employment in general (Pärnits 2013).

The ECA introduced *flexicurity* as a new underlying principle of organisation of the Estonian labour market. In practice, it made both employment and dismissal of workers much easier, at the same time aiming at providing security for the unemployed in the form of extended benefits (Riigi Teataja 2016). The system the ECA attempted to build was based on four pillars: flexible employment conditions, social security protection, lifelong learning and active labour market policy (European Labour Law Network 2010). However, during the economic crisis only the first pillar was introduced, resulting in the rising insecurity of the Estonian labour force and the severe tensions and deterioration of social dialogue between the government and various umbrella trade union organisations, which agreed to the facilitation of employee dismissal only in exchange for increasing the amount of benefits for the unemployed (CASS 2012). Introduction of extended benefits was postponed until 1 January 2013; however, in the post-crisis period the proposal to entitle workers who resigned by choice or by agreement with the employer to unemployment benefits on the whole was removed from the government agenda (European Observatory of Working Life 2012). The ECA was amended several times, in 2011, 2012, 2013, 2015 and 2016, but only as regards the transposition of European norms into Estonian legislation (*inter alia* concerning temporary agency workers).

In Estonia, industrial relations are regulated in the following acts: the Trade Unions Act (TUA), the Employees’ Trustee Act (ETA), the Collective Labour Dispute Resolution Act (CLDRA) and the Collective Agreements Act (CAA). The table below gives an overview of the content of the main legislative acts that concern industrial relations and the changes that have occurred since 2012.

¹ Derogative agreements can be concluded both by employees and trade unions representatives. They compensate derogation from imperative law on working and rest time by additional occupational safety, health promotion and rest time opportunities (Pärnits 2013).

Table 1. Legislation on industrial relations with amendments.

Act	Year/in force	Year/last amended	Content
Trade Unions Act	2000	2016	<p>The Act regulates the foundation and functioning of trade unions, their capacity and the rights of employees arising from membership; management, competencies and rights of trade unions; relations between trade unions and employers. The role of state supervision and procedures of resolving disputes are covered as well.</p> <p><i>Amendments</i> concern the free right to found/join a trade union (except for servicemen), the passive legal capacity of trade unions (as non-profit organisations); the right to supervise compliance with labour laws, etc.</p>
Employees' Trustee Act	2007	2015	<p>The Act governs the responsibilities of a trustee representing employees; his election and authority, rights and obligations of all parties; the trustee's proceedings for consulting and informing; state supervision and liability.</p> <p><i>Amendments</i> concern the trustee's right for wages during training; exercise of state supervision; violation of obligations to inform and consult and resulting liability of a trustee, etc.</p>
Collective Labour Dispute Resolution Act	1993	2015	<p>The Act covers the procedure of resolution of collective labour disputes; the conciliation procedure; organisation of strikes and lock-outs; liability resulting from participating in strikes and lock-outs, hindering resolution of collective disputes, etc.</p> <p><i>Amendments</i> concern possibility of resolution of disputes through federations of employers and employees; restriction to organise strikes in the Defence League, courts and rescue services; unlawful strikes; liability, responsibility of the participants of the strike.</p> <p>A recent important amendment (2015) concerns sympathy strikes and the election procedure of the Public Conciliator. According to the Act, the term for giving advance notice of a sympathy strike is extended from three working days to five working days. As concerns Public Conciliator, similarly to the previous procedure, the employers' and trade union confederations have to reach an agreement on the candidacy. However, now they have to do so no later than 3 months before the term of office of the current Public Conciliator ends. If this does not occur, the Ministry of Social Affairs must organise a public competition for the position. If the competition fails to find a suitable candidate, the appropriate minister will name a candidate. In connection with the unregulated situation where the</p>

			Public Conciliator is temporarily unable to perform the duties of his or her office, the institution of the Deputy Public Conciliator-Adviser will be established for conducting the conciliation procedure. In addition, the office and position of the Local Conciliator is terminated.
Collective Agreements Act	1993	2014	<p>The Act covers the definition of, parties to, forms of, entry into, amendment of, and dissolution of collective agreements, liability, etc.</p> <p><i>Amendments</i> concerns the cancellation of collective agreements: previously, expired collective agreements became open-ended (lasting “forever”), which demotivated employers and employees from initiating new collective agreements. Currently, an open-ended collective agreement can be terminated unilaterally with a 3-month prior notice.</p>
Civil Servants Act	2013	2016	<p>The Act defines, among other things, the rules of employment and rights of workers of public sector. Firstly, the number of employees was cut by 25%. The Act changed the status of some employees: only those who actually work in central public administration are defined as public servants; previously, all state or local government agency employees, irrespective of duties and responsibilities, were counted as civil servants. The work of the latter is now governed by the Employment Contracts Act; they also received the right to strike (but this right does not extend to civil servants – those who enforce public authority). Also, several benefits for civil servants were lost.</p>

Summarising the table above, after 2012 most legislative acts that regulate industrial relations in Estonia were amended numerous times in response to specific challenges of a regulative nature. At the moment, the Ministry of Social Affairs is planning a reform of the industrial relations legislative framework. In March 2014 the Parliament (Riigikogu) decided to start the procedure of the “Collective agreement and collective labour dispute act”, which would combine two acts, namely the Collective Agreements Act and the Collective Labour Dispute Resolution Act. The main aim of the reform is to modernise the industrial relations legislation. As stated by the chairman of the social commission: “The aim of the draft act is to create a modern legislative framework for collective agreement bargaining and collective labour dispute resolution, which takes into account the social-economic situation” (Sotsiaalkomisjon... 2014). The proceedings of the act were terminated due to the elections of the Riigikogu and met resistance from the social partners². In the focus groups, several representatives of the sector-level unions shared the opinion that in the form developed by the Ministry of Social Affairs, the new act would have not met their needs and in this situation it was better that the reform had not been implemented.

² For example, the opinion of the Estonian Education Personnel Union is available here (in Estonian): <http://ehl.org.ee/2013/12/18/ehl-avaldas-arvamust-seoses-kollektiivlepingu-ja-kollektiivse-tootuli-lahendamise-seaduse-eelnouga/>.

The most important development as regards legislation was introduced in 2012 and concerned collective agreements: amendment of the Collective Agreements Act allowed for the termination of open-ended agreements unilaterally by one side provided prior notice is given, while previously collective agreements could be terminated only on the agreement of both parties (CAA 2012). Several focus groups participants also mentioned this as the most important legislative change that has been implemented since 2012. Therefore, currently, when a collective agreement expires, it becomes open-ended, but can be cancelled through a simplified procedure. The change aimed at giving employers an opportunity to withdraw from agreements that have already expired and restructure, if necessary, in the light of new economic challenges, among other things, stemming from the crisis (Eurofound 2012). This change, as well as other minor attempts to improve legislation as regards collective bargaining, were conducted without proper consultation with trade unions (ELLN 2012). The amendment was received negatively by the employees' associations and further contributed to the worsening of social dialogue with the state (ELLN 2012).

Another noticeable development happened in 2014 in the sphere of labour dispute resolution – the government started a process of reforming the role of Individual Labour Dispute Committees (LDCs) with a view to enhancing their capacity (Eurofound 2015). The Ministry of Social Affairs drafted a proposal which sought to make LDC procedures clearer, including those regarding:

- the refusal of applications;
- the termination of proceedings and the withdrawal of applications;
- delivery of proceedings documents;
- filing of counter-claims and merging claims;
- a formula for recognising dissenting opinion among LDC members;
- announcement and delivery of the LDC's decision (Eurofound 2015).

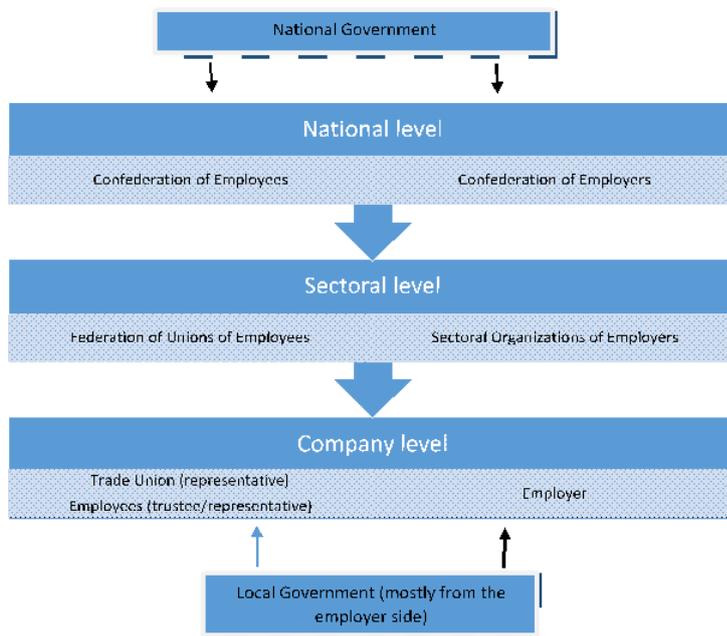
To conclude, the legislative framework of industrial relations in Estonia has largely remained the same since 2012, and the minor changes that were introduced in the post-2012 period did not affect the overall dynamic of collective bargaining. However, the change introduced as regards collective agreements, aimed at allowing more flexibility for employers, arguably weakened the position of unions in collective bargaining. It can also be seen as incentivising employees' unions in Estonia to engage more actively in negotiating collective agreements.

The need to restructure and update the whole body of legislation concerning industrial relations has been recognised at the state level, and is being addressed through legislative initiatives, which have the potential to effect positive change.

1.1. The Main Actors in Industrial Relations in Estonia

In the period after 2012 there have been no major changes in the structure and hierarchy of the main actors participating in collective bargaining in Estonia. The latter occurs between the representative of employees (at the level of confederations, federations and at the company level), employers (same) and often involves central and local governments.

Figure 1. The hierarchy of the main actors in collective bargaining



1.1.1. Trade Unions and Workers' representatives

The main representatives of employees in Estonia at the national level are the Estonian Trade Union Confederation (EAKL) and the Estonian Employees' Unions' Confederation (TALO)³.

EAKL (18 unions⁴) unites state and municipal government officials, intellectuals, health care workers, transport workers (including road, railway, sea and air transport), industrial workers (including energy, light industry, food industry, timber and metal industry) and people employed in the service sector (postal, communication, trade, hotel and cleaning sector workers, etc.) (CASS 2012). Its membership is decreasing – from 2010 to 2013 EAKL lost approximately 4,000 members (in 2013 it had an estimated 29,852 members) (Eurofound 2015). EAKL plays an important part in Estonian collective bargaining as it partakes in national minimum wage negotiations, bilateral and trilateral talks involving the Government, and usually contributes to the development of employee-favourable legislation. In the post-2012 period EAKL made several

³ In addition, there are trade unions that are not members of EAKL and TALO. Some of them are large, like Estonian Nurses' Union, Doctors' Union and Education Personnel Union.

⁴ As of December 2016.

statements about the disadvantages of the Estonian system of industrial relations and attempts by the state to curb strike rights (ERR 2015).

TALO (7 unions) is a much smaller confederation that unites cultural workers, engineers, radiologists, national broadcasting employees, journalists, trainers, farmers and the customs officials working in the capital (CASS 2012). Its membership has decreased significantly – from 15,000 in 2009 to around 3,000 in 2011 (Eurofound 2015).

Currently, the two confederations cover approximately 3–5% of employees (Eurobarometer 2013).

At the sectoral level, employees are represented through federations of unions. These usually consist of unions belonging solely to one sector; however, unlike other federations of unions, the Federation of Trade Unions of Workers of State and Local Authorities (ROTAL) is cross-sectoral and unites workers in the police force, tax, customs, etc.

At the sectoral level, there have been several developments in the recent years: the first Estonian trade union in the financial sector was created in 2013 (the Union of Estonian Financial Sector Employees, with 335 members) and other trade unions were established in the commerce and hotel sectors (Eurofound 2015).

At the company level, employees may be represented in negotiations with an employer either by a trade union, or by a trustee, elected from among employees of a given employer. Activities of the former are governed by the Trade Unions Act, while of the latter – by the Employee Trustee Act. As of 2013, approximately 19% of employees were represented by trade unions⁵, and 40% by trustee representatives; 5% of establishments by trade unions, and 35% by trustees (ECS 2013).

⁵ In Estonia it is possible to be represented by a trade union without having to be a member of said trade union through so-called *extended agreements*, which are negotiated by trade unions, but apply to all workers of a certain company/establishment/sector.

Figure 2. Representation of employees and establishments by trade unions or elected trustee (Eurofound 2015)



Trustees represent employees when there is no union to defend their interests (as trade unions have the prior right to take part in collective negotiations); therefore, the big part played by trustees in collective bargaining suggests that union activity is alarmingly low. Often, as previous studies show, the roles of trustees and union representatives are complementary; trustees face the problem of insufficient financing (as they are not covered by membership fees), and both trustees and union representatives encounter the usual difficulties of the lack of time for training, resources, etc. (CASS 2012). The main duties of union representatives and trustees consist of:

- examining working conditions
- communicating information
- informing about violations of collective agreements
- suggesting amendments to drafts
- cooperating with state and government institutions, etc.

Unlike a trustee, a union representative can also organise meetings, pickets and strikes, and, in case of violations of working conditions by the employer, he/she can bring the matter immediately to the Labour Inspectorate, while a trustee in the same situation must inform the union, or the federation of unions (Ministry of Social Affairs).

1.1.2. Employers' associations

At the national level, employers are represented by the Employers' Confederation (ETTK).

The Employers' Confederation is the only national-level body representing employers that is involved in collective bargaining. It comprises both associations of employers and enterprises, and overall represents around 25% of Estonian employers. It has an estimated 95 members (of them 23 are associations) and

represents around 1,500 companies (Eurofound 2015). It unites enterprises and associations both from industry and the tertiary sector, from textiles to the defence industry, construction entrepreneurs, etc. (Employers.ee 2015).

The Estonian Chamber of Commerce is another large-scale organisation that unites 3,162 members. However, it does not partake in collective bargaining.

At the sectoral level, in some sectors employers are united in associations.

1.1.3. Central and local governments

Central and local governments can participate in both bilateral and trilateral negotiations as regards various aspects of industrial relations in Estonia.

Two-party negotiations involving local government can occur when the latter is an employer, and, therefore, local government can enter into collective bargaining with a union or federations of unions of employees – the bargaining will happen at either the organisational or sectoral level, depending on the employee representation). The above pattern could be expected in the public sector (where local governments are employers); however, it has not been used in practice (CASS 2012). That said, local governments (as a source of funding) sometimes participate in the signing of agreements between representatives of a public agency and employees (e.g. in case of museums, schools, etc.) (CASS 2012). The content of the agreements signed with the participation of local governments usually concerns wage and working conditions, conditions for lay-off or suspension of working contracts, occupational health and safety, vocational training, compensations, labour dispute resolutions, etc. (Nestor et al. 2011, cited in CASS 2012).

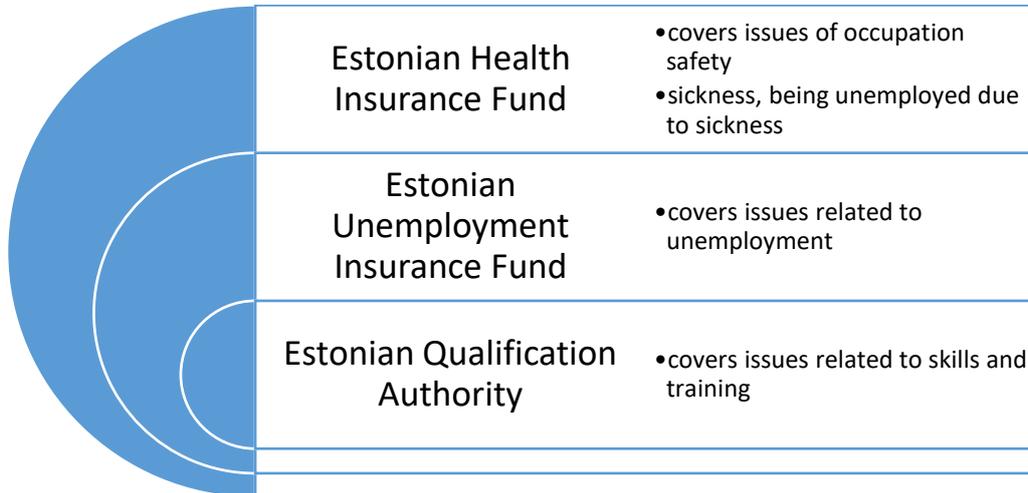
Three-party negotiations involving central and local governments can happen at the national and sectoral levels: between national confederation of unions of employees, employers and the Government; and between sectoral/local federation of unions of employees, association of employers and local governments (CASS 2012). The above negotiations usually lead to the signing of so-called social partnership agreements. These agreements might concern minimum wage, additional guarantees (of employment, safety, health), supervision of collective agreements, etc. (CASS 2012). However, other partners in tripartite negotiations involving central governmental bodies reported continuous dissatisfaction with the framework of tripartite negotiations, where they are usually not included or included only in later stages (Eurofound 2015). The incident of withdrawal from previously achieved agreements, as in the case of the Employment Contracts Act, contributed to the dissatisfaction with the role played by the central government.

Since 2003 the national minimum wage negotiations are bipartite: EAKL and the Employers' Confederation decide on the desirable minimum wage level between themselves, while the Government only legalises their decision as to the national minimum wage via a decree. Therefore, the Government is not actively involved in the negotiation process.

The Central government provides a framework for other social partners to participate in so-called social concertation – through contributing at the stage of drafting legislation and functioning as members of supervisory boards of the Estonian Health Insurance Fund (EHIF), the Estonian Unemployment Insurance Fund (EUIF) and the Estonian Qualification Authority (EQA) (Eurofound 2015). For example, the topical

question of an unemployment insurance premium, as well as temporary employment programs, are discussed within the framework of EUIF (Eurofound 2015).

Figure 3. The main tripartite bodies that contribute to collective bargaining (Eurofound 2015)



2. ECONOMIC RECOVERY AND SOCIAL TRENDS IN ESTONIA SINCE 2012

2.1. Economic and social situation in Estonia since 2012 and onwards

The dynamic of economic and social developments in Estonia, throughout the economic crisis and in the recovery years, is presented in the table below:

Table 2. The main statistical indicators of the economic development of Estonia (Statistical Office of Estonia 2016)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP growth	7.1%	-3.6 %	-13.9 %	1.8%	7.6%	5.2%	1.5%	2.9%	1.1%	
GDP per capita (euro)	12 118	12 353	10 600	11 052	12 556	13 559	14 332	15 030	15 405	
Consumer Price Index (inflation)	6.6%	10.4%	-0.1%	3%	5%	3.9%	2.8%	-0.1 %	-0.5%	
Business profits (bln. euro)	3.3	2.5	1.1	2.0	2.7	2.9	3.2	3.3	3.0	

Labour productivity (productivity per employee, change from the previous period)	7.5%	-5.2%	-5%	7.6%	1%	2.6%	0.2%	2%	-1.4%	
Unit labour costs (change from the previous period)	4.7%	8.5%	1.8%	-6.2 %	-5.2%	0.6%	0.6%	0.4%	6.1%	
Foreign direct investment to Estonia (mln. euro)			10 996	11 638	12 634	14 352	15 374	16 236	17 373	
Export (bln. euro)	8.03	8.5	6.5	8.7	12.0	12.5	12.3	12	11.6	7.7
Import (bln. euro)	11.4	10.9	7.3	9.3	12.7	14	13.9	13.8	13.1	8.8
Foreign trade balance (mln. euro)	-3 405.6	-2 426.4	-783.0	-525.3	-723.5	-1 575.4	-1 614.4	-1 782.0	-1 545.0	-1 152.5
Foreign trade balance (change compared to previous period)	-14%	29%	68%	33%	-38%	-118 %	-2%	-10 %	13%	25%
General government debt (as a share of GDP)	3.7%	4.5%	7%	6.6%	6.1%	9.7%	10.2%	10.7%	10.1%	
Unemployment rate (persons 15–74 years; as share of population)	4.6%	5.5%	13.5%	16.7%	12.3%	10%	8.6%	7.4%	6.2%	
Minimum monthly wage (euro)	230	230	230	278	278	290	320	355	390	430
Average monthly wage (euro)		825	784	792	839	887	949	1005	1065	
Minimum wage as a % of average wages		27.8%	29.3%	35.1%	33.1%	32.7%	33.7%	35.3%	36.6%	
GINI coefficient	31.25		31.59		32.69					
Share of population at risk of poverty	19.5%	19.7%	15.8%	17.5%	17.5%	20.7%	21.8%	21.6%		

During the economic crisis Estonia suffered an economy and labour market contraction on a bigger scale than other European countries – manifested in a significant decrease in GDP and a sharp rise in unemployment for males, young people and non-natives, particularly in such sectors of the economy as agriculture and manufacturing. However, Estonia’s recovery following the economic crisis was relatively quick, followed by stable growth in real GDP (2015 – 1.1%) – highest among the three Baltic states, and higher than the EU average of 0.3–0.5% in 2016 (Statistical Office of Estonia 2016; Eurostat). Growth was influenced the most by the information and communication sector, and the agriculture, forestry and fishing, and trade sectors. In contrast, a contraction was seen in the energy sector, mining and quarrying and real estate activities (Trading economics 2016). Stable economic growth supported a quick and comprehensive

recovery of the labour market, where unemployment stabilised at almost “natural” levels, and the trend of decrease in inequality continued (Masso et al. 2014).

At the same time, the recovery period was characterised by further negative population trends, including low fertility rates and high emigration, which, combined with active market growth, led to labour shortage, (among both low-skilled and high-skilled workers) (Masso & Espenberg 2013; Masso, Mierina and Espenberg 2016). This resulted in an increase in average salaries (from 825 euro in 2008 to 1065 euro in 2015), whereby employers had to offer higher salaries in order to keep employees, which also contributed to the rise in wage inequality in the recovery period (Masso et al. 2014).

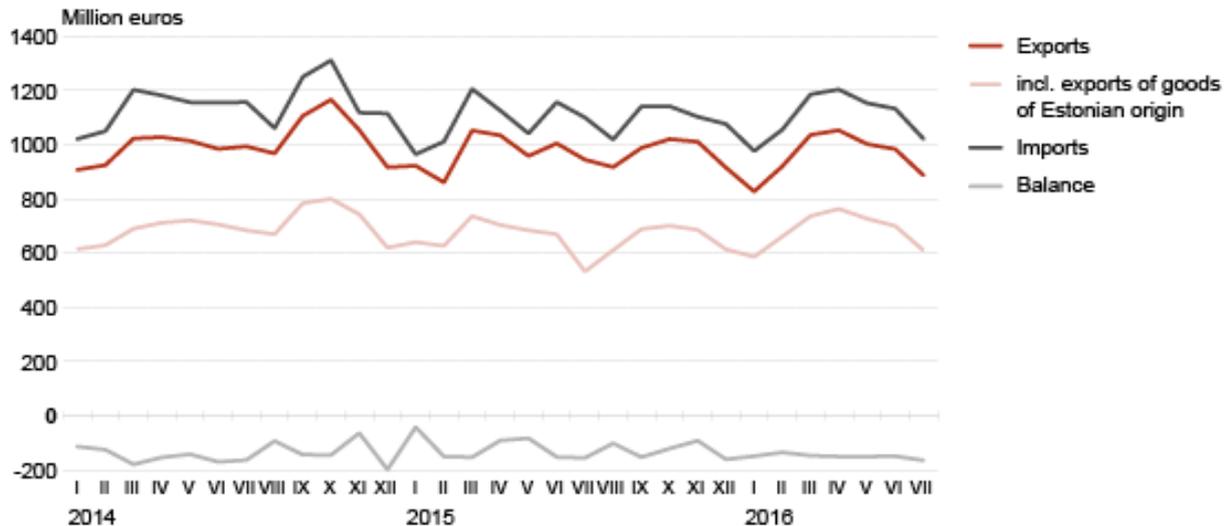
The rise in salaries, not accompanied by an increase in productivity (down by 1.4% in 2015 over 2014), created a threat to the competitiveness of the Estonian economy: unit labour costs rose by 6.1% in 2015 over 2014 (as compared to a 0.4% change in 2014 over 2013), and business profits plummeted by 8% in the same year. The issues of labour productivity (which is lower than the EU average) and efficient income generation in Estonia are of high importance for future strategic development of the Estonian economy (Eurostat; Reiljan et al. 2014).

Rising wages only emphasise the structural problems of the Estonian economy, related to labour productivity: the country’s industrial production and services sector continue to use a relatively low degree of technology and human capital, which correspondingly leads to a low level of productivity. As regards foreign trade, Estonia continues to export material and labour-intensive products (Reiljan et al. 2014).

The issue of productivity and resulting competitiveness is also reflected in the dynamics of foreign direct investment and the export/import balance of Estonia: the overall trend of FDI net inflow is that of decrease; Estonia remains a net lender; moreover, it consistently imports more goods and services than it exports (the trade deficit reached some 1.15 bln euro in 2015).

Figure 4. Estonia's foreign trade by month, 2014–2016 (Statistical Office of Estonia)

Estonia's foreign trade by month, 2014–2016



Vissak and Roolaht (2005) pointed out already several years ago that the main risk of high FDI dependence for Estonia is rising wage level and the probability that the main investors (Sweden and Finland account for most investments in Estonia) would start looking elsewhere. In addition, trade with other countries of the European Union is falling, which mostly explains the slightly negative (“slowing-down”) tendencies in Estonian foreign trade – in 2016 exports contracted by 6% and imports by 4% (Statistical Office of Estonia 2016).

Another concern raised in connection with labour shortage is that Estonia hosts a large inactive work force (Estonian Migration Network report 2010). Firstly, the majority of incomers from non-EU countries come for family or study-related reasons (National Audit Office of Estonia 2015). They tend to receive lower amount of state support and have bigger hurdles in entering the labour market. The inactive part of population is not a burden for the Estonian state (as noted in the report of the National Audit Office), but remains an unused resource, locked out of efficient communication with the state and opportunities to improve their quality of life.

In 2011 only 12% of companies explicitly manifested their desire to employ foreign workers due to complex legislative requirements (including salary two times the average wage in Estonia); however, again, the attitude and public discourse on this topic has changed since 2012 (Unemployment Insurance Fund 2011). The current position of the government and employers can be characterised as a mutual agreement on higher levels as regards the necessity to attract and retain both highly-skilled and low-skilled foreign labour, which can be exemplified by the recent decision of the Estonian Parliament to reduce salary requirements for foreign workers (Sarapik 2016). In response to this decision, the Confederation of Employers called for an additional increase in the annual immigration quota (Sarapik 2016). The main challenge in the coming few years is to adjust governmental services and make employers more aware of the aforementioned necessity to accommodate foreign workers.

The other strategy that has the potential to address labour shortage concerns youth and long-term unemployment within the country. While general unemployment is low, youth unemployment (15–24 years old) is comparatively high – 22% for those aged 15–19 years, and 11% for those aged 20–24 years, which is, though, lower than the EU average (18.6% for EU-28, and 20% for the euro-zone) (Eurostat 2016). The years preceding 2012 saw unprecedentedly high levels of youth unemployment (up to 40%) (Statistical Office of Estonia 2016). The consequences of this peak might still reveal themselves in the longer-term, as there is a considerable number of young people who have gone through 1–2 years of unemployment, and, as feared by the Estonian National Youth Council, are at risk of not developing proper working habits (ERR 2010). Whether it means that they are (or are likely to be in the future) employed in jobs with lower salaries, or those that have lower levels of skills required, or be forced to choose temporary employment over a stable job, is not entirely clear (ERR 2010). Due to the post-EU accession education boom, the process of occupational upskilling is taking place at much slower rates than the expansion of higher (tertiary) education, which means that the labour market is experiencing a devaluation of professional degrees and an oversupply of, among others, young unexperienced professionals (Unt 2012).

Recent developments in the industrial relations sector, in particular adoption of the new Employment Contracts Act (2009), were partially aimed at tackling the youth unemployment problem by making it less risky for employers to hire unexperienced youth. However, it also implies that labour market entrants are likely to have a more volatile start to their career (Unt 2012). Youth unemployment is also tackled through several Ministerial initiatives, such as salary support, work practice, business start-up support, training for people with no vocational skills, etc., as well as through Individual Action Plans, launched at the Unemployment Agency from March 2013 (ENL Report 2014). However, the Estonian National Youth Council has consistently spoken out for the necessity of a specific youth unemployment benefit to which unemployed youth would be entitled (ENL Report 2014).

Another major challenge to overcome is the significantly lower level of youth being registered with the Estonian Unemployment Agency, as compared to other European countries. In 2013 only one in five youngsters (aged 15–29) was registered with the unemployment services, which is much lower than the EU average (Eurofound 2016). Moreover, a disturbing tendency is evident about the inactive population when you take sex into account (15–29 years old): females constitute 60%, while males account for only 40%; at the same time, most unemployed young males are short-term or long-term unemployed, while most young females are unemployed due to family responsibilities (Eurofound 2016).

The long-term unemployed group of population also represents a major problem in the context of the need to generate more income and provide labour force for the Estonian economy: the share of people who stay unemployed for more than a year remains much higher (43%) than the OECD average (36%) (OECD 2014).

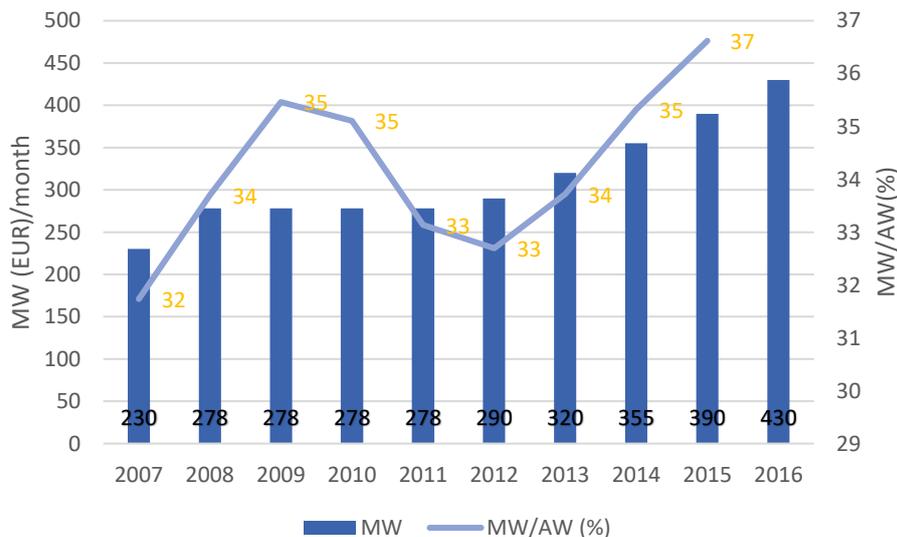
2.2. Social dialogue and collective bargaining in Estonia in the context of the economic recovery

Social dialogue and collective bargaining in Estonia take place at the national, sectoral and enterprise level. Social dialogue and collective bargaining do not exist at the inter-sectoral level.

2.2.1. National level

One of the main questions addressed through social dialogue in the recession and recovery period was the issue of minimum wages. At the national level the statutory minimum wage is set through consultations with social partners. During the economic recovery the minimum wage increased rather quickly – from 290 euros in 2012 to 430 euros in 2016. This process has been accompanied by the rapid increase in average wages and the pressure caused by labour shortage in many economic fields in Estonia. While in the course of the crisis the minimum wage (MW) stayed at the same level during 2008–2011, the average wage (AW) increased, resulting in a decrease in the MW/AW ratio. Since 2013 the increase in the minimum wage has been a bit higher and the MW/AW ratio has increased (Figure 5). The minimum wage negotiations have been rather efficient, whereby each year EAKL and ETTK have come to an agreement. The participants of the focus groups also pointed out, as an example of good practice, the fact that social partners have managed to come to an agreement in the minimum wage negotiations before the end of the year during this period and in 2015 they signed the agreement for the minimum wage increase for subsequent two years (2016 and 2017).

Figure 5. Minimum wage, average wage and their ratio 2007–2016.



Note: MW – minimum wage; AW – average wage.

Social partners are actively involved in social dialogue. Both EAKL and ETTK participate in several bodies, such as the supervisory board of Töötukassa (the Estonian Unemployment Fund), and the council of the Estonian Health Insurance Fund. The focus groups participants noted that the social dialogue has moved from contrasting dialogue to cooperation negotiations. State level relations between social partners has improved, with the Ministry of Social Affairs in particular involving employees` and employers` representatives on a more comprehensive basis. This is considered to be in part the influence of the EU level developments. Even in cases of disagreement, the negotiation culture has improved in the opinion of

the focus groups participants. However, the media tends to pay more attention to tensions and therefore people might be misled as to the actual nature of relations between the state and social partners.

One example of good cooperation also mentioned in the focus groups was the decision to decrease the unemployment insurance premium. In August 2014 the council of the Unemployment Insurance Fund made the proposal for the Government to decrease the unemployment insurance premium to 2.4% for the subsequent four years (2015–2018). The proposal was approved by the Government. The chairman of the Unemployment Insurance Fund told the press that he was glad that the decision had been made by common consensus. For greater detail about unemployment insurance premium negotiations and percentage during the crisis, see Masso et al. 2013.

It was also pointed out that in 2015 changes in the Collective Disputes Act and Public Conciliator Electing Procedure (see section 1) were made in close cooperation with social partners.

In addition, the focus group participants pointed out that the range of questions discussed with social partners had widened and the administrative capacity of the social partners had increased due to the help of structural funds.

The focus group participants considered the lack of acknowledgement of the importance of industrial relations at the state-level to be the biggest problem. In part, it can be attributed to the lack of political interest, and in part the state's strategy of avoiding tension and conflict. There have been some positive developments, however. In October 2013 the Ministry of Social Affairs established the gender equality council. The council is board-based and consists of a high-level advisory board that gives advice to the Government on strategic issues related to promoting gender equality. There are 22 members in the council, including the main umbrella organizations of employees (EAKL), employers (ETTK) and local governments, organisations representing the interests of women, schools and students, the Network of Estonian Nonprofit Organizations, representatives of university rectors, state bodies of statistics, public health, lifelong learning, and employment, the Gender Equality and Equal Treatment Commissioner, and all parties represented in the Riigikogu (Estonian parliament). The council has given its opinion about the need for a gender equality strategy, has submitted to the Riigikogu's parties proposals how gender equality should be promoted during 2015–2018 and in 2015 ordered a study entitled "Implementing the gender equality act"⁶.

2.2.2. Sectoral level and enterprise level

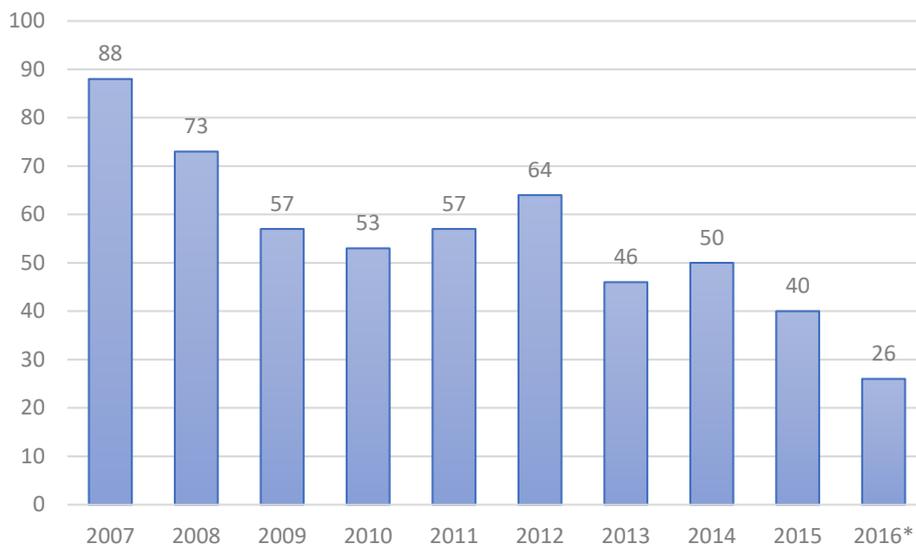
There are some sectors where social dialogue and collective bargaining actively takes place in Estonia. In the transport sector the parties have come to an agreement without major problems, the extended contracts having entered into force in 2012, 2013 and 2015. In the education sector the developments have also been rather smooth. The wages of teachers have increased and the tensions which resulted in the teachers' strike in 2012 have decreased. Also, the extended collective agreement was signed in the medicine sector in December 2014, which was in force until the end of 2016.

⁶ https://www.sm.ee/sites/default/files/content-editors/Ministeerium_kontaktid/Uuringu_ja_analuusid/Sotsiaalvaldkond/uuringuaruanne.pdf (in Estonian, with summary in English).

However, the latter sector has been problematic in terms of collective relations in the recent period. The doctors' and nurses' representatives arranged a token strike on 20 September 2016 demanding an increase in funding. This reflects structural problems in the Estonian economy, whereby the budget for the next four years foresees additional cuts in funding for an already struggling medical sector, which will entail further increases in queues behind the doors of doctors. According to the strike participants, the problem is not simply the unsustainability of the system of financing the medical sector, but also the lack of government will during the past 10 years to enact any changes.⁷

At the enterprise level, the number of collective agreements signed has gradually decreased since 2007, except in 2012 and 2014 (see Figure 6). As can be seen from the figure below, only a marginal number of enterprises have signed collective agreements (for comparison, according to Statistics Estonia, there were more than 76,000 active enterprises in Estonia in 2014).

Figure 6. Number of collective agreements signed in Estonia (*Collective agreements database*⁸, Ministry of Social Affairs)



Note: * As of 10 August 2016

As can be seen from table below, there is no clear pattern as to the sectors in which the signing of collective agreements is more prevalent. This, perhaps, does not apply to the public administration sector, which has always been active in this sphere.

Table 3. Number of collective agreements signed by field of activity

Field of activity	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*
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⁷ <http://baltnews.ee/economy/20160907/1015142218.html>

⁸ According to law, all collective agreements signed in Estonia should be registered in the Collective Agreements Database. However, since we do not know whether all parties follow this rule, we cannot guarantee that the information provided by the database is 100% accurate.

Public administration and defence; compulsory social security	20	18	13	9	3	11	7	5	8	6
Construction	7	4	9	3	1	3	2	5	4	1
Electricity, gas, steam and air conditioning supply	1	5	9	2	4	6	2	2	5	0
Financial and insurance activities	1	0	1	1	0	1	0	0	0	0
Administrative and support service activities	2	0	3	3	4	3	0	11	3	1
Education	6	2	3	7	5	7	3	3	5	4
Wholesale and retail trade; repair of motor vehicles and motorcycles	2	3	0	2	4	1	3	1	0	1
Information and communication	5	0	1	5	0	4	1	0	0	1
Real estate activities	3	1	0	1	0	1	0	0	0	0
Arts, entertainment and recreation	10	9	7	5	1	1	2	1	2	2
Professional, scientific and technical activities	0	2	0	0	1	0	0	6	1	0
Accommodation and food service activities	0	3	0	0	0	1	1	2	0	2
Other service activities	5	4	0	1	4	8	2	6	2	0
Mining and quarrying	1	1	0	0	0	1	0	1	1	0
Agriculture, forestry and fishing	1	5	4	0	4	3	2	2	0	1
Human health and social work activities	14	8	7	4	5	10	8	1	2	1
Manufacturing	5	4	6	4	2	3	3	3	8	4
Water supply; sewerage, waste management and remediation activities	3	2	1	0	0	2	2	0	1	0
Transportation and storage	17	11	7	1	13	6	9	13	7	4
TOTAL	103	82	71	48	51	72	47	62	49	28

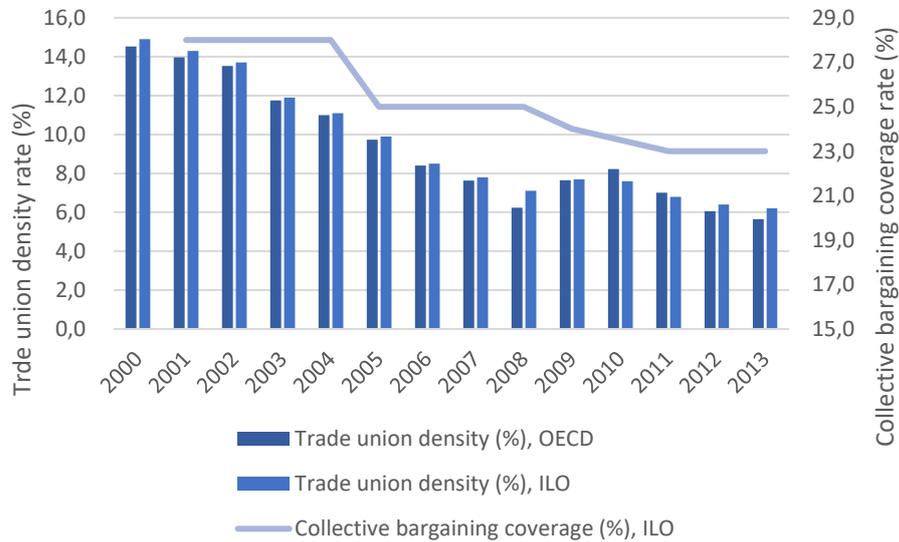
Note: * As of 10 August 2016.

Number of collective agreements signed is not equal to the sum of fields of activity because more than one employer may be involved with the collective agreement and in this case fields of activities of all employers are taken into account.

Source: Collective agreements database, Ministry of Social Affairs

Trade union membership and collective bargaining coverage have continuously decreased in Estonia. These developments (or, as some participants of the focus groups said – no developments) – decreasing trade union membership (with the exception of some sectors like medicine and maritime transportation), low collective bargaining coverage and the small number of collective agreements – were also marked by several focus groups participants as the most important characteristics of industrial relations in Estonia during the recovery.

Figure 7. Trade union density rate (on the primary axis) and collective bargaining coverage rate (on the secondary axis) (ILO, OECD)



On the other hand, participants of the focus groups also noted that trade unions and their members, as well as workers in general, developed a better understanding of the need for trade unions and their changed role in the labour market and state policy development. Employers started to take trade unions more seriously, to have more interest in the negotiations, and be more responsible about collective negotiations and agreements in some sectors. The most important collective agreements have remained in force. In sectors where there were collective agreements before the economic recession, the crisis strengthened industrial relations, according to the representatives of the sector-level trade unions. Furthermore, different trade unions have started to increase cooperation in the medical sector. Therefore, a conclusion can be made that the trade unions that successfully defended the interests of their workers during the recession came out strengthened and with more support in the recovery years.

The fact that there are strong trade unions in some sectors in Estonia, such as health care and rescue services workers, was mentioned as a good characteristic of industrial relations in Estonia; likewise the emergence of first trade unions in such sectors as finance was also seen as a positive.

Unity, cooperation and dialogue between the employer and employees in industrial relations were also mentioned as the most important keywords to describe the developments of industrial relations during the recovery period

Focus groups participants noted that at the sectoral level more emphasis is put on job safety and occupational health care. Collective agreements have become more comprehensive, according to some sector-level trade union representatives in the focus groups. In addition, some issues have been regulated in a more flexible way. For example, in February 2015 a “well-intentions agreement” was signed in the education sector by the Ministry of Education and Research, the Estonian Education Personnel Union, the Estonian Teachers’ Union, and the Association of School Principals. Among other matters the agreement stipulated that a full-time working teacher with a work load of 35 hours a week should teach a maximum of 24 one-hour-long classes a week in case he/she receives the statutory minimum wage set for teachers.

To conclude, collective bargaining in Estonia has slightly changed in the recovery period. While the overall trend of decrease in the bargaining and negotiations remained, bringing a further contraction of the number of collective agreements signed, the nature of relations between the state and social partners has arguably become more amiable and efficient. At the same time, it is harder for trade unions to ascertain their importance in the context of the labour shortage and naturally-rising average wages (although they have contributed to securing high minimum wages). Unions remain strong, albeit in sectors which require stronger governmental financing and those which successfully withstood the crisis.

3. THE FUTURE OF INDUSTRIAL RELATIONS IN ESTONIA

3.1. Economic and social developments

As regards the future development of the Estonian economy, it is expected that in the coming years it will gradually strengthen, mainly as a result of the rebounding economic growth of Estonia's main trade partners and increasing internal consumption, which is the driver of economy at the moment (OECD Country Report 2016). The main challenges ahead will concern productivity and labour supply shortage, resulting from negative demographic trends.

Major developments expected as regards the Estonian economy are summarised in the below tables.

Table 4. Main indicators forecasted 2015–2019 (Ministry of Finances 2016)

	2015	2016	2017*	2018*	2019*
GDP real growth (%)	1.1	2.0	3.0	3.3	3.0
GDP (in nominal terms, bln EUR)	20.5	21.3	22.6	24.0	25.4
GDP deflator (%)	1.4	2.1	2.9	3.0	2.9
Consumer price index (%)	-0.5	0.3	2.7	2.9	2.8
Employment (15–74 year-olds, thousands)	640.9	635.2	634.8	633.2	631.8
Employment growth (%)	2.6	-0.9	-0.1	-0.3	-0.2
Unemployment rate (ILO)	6.2	6.6	7.6	8.8	9.7
Average wage (EUR)	1 065	1 117	1 170	1 234	1 305
Wage real growth (%)	6.5	4.5	2.0	2.5	2.9
Growth of Labour productivity	0.6	3.2	3.8	3.6	3.3
Current account (% of GDP)	1.9	0.6	0.5	0.6	0.3
Deficit (-)/Surplus of state budget (% of GDP)	0.4	-0.4	-0.5	-0.3	0.6
General government consolidated debt (% of GDP)	9.7	9.8	9.9	10.1	9.7
Exports of goods and services	-0.5	3.5	5.0	5.5	5.5
Imports of goods and services	-1.5	4.0	5.1	5.7	5.8

Table 5. Comparison of economic forecasts 2016–2017. (Ministry of Finance, European Commission, Bank of Estonia, IMF, OECD)

	Economic growth, %		Consumer price index, %		Current account, %	
	2016	2017	2016	2017	2016	2017
IMF	2.2	2.8	2.0	2.9	1.2	0.5
OECD	2.5	2.9	1.3*	2.4*	2.3	2.4
European Commission	2.1	2.3	1.0	2.5	1.6	0.3
Bank of Estonia	2.2	3.1	1.5*	3.1*	-0.6	0.2
Ministry of Finance	2.0	3.0	0.3	2.7	0.6	0.5

* Harmonised consumer price index

On the one hand, production and trade halted in 2015–2016, but are expected to recover moderately in the upcoming years. GDP growth is expected to be lower than in the previous forecasts (and lower than in other CEE countries), though a positive scenario envisages it stabilising at 3% (OECD Country Report 2016). The main reasons for moderate prognoses concern both external and internal factors. External factors include slowing of growth of the main trade partner for Estonia – Finland – and the loss of the CIS market (Russia, Ukraine, etc.), the drop in the oil shale industry affected by low world prices for oil, and an overall decrease in FDI (Estonia Economic Outlook 2016). As for internal factors, the decrease in productivity was cited as the most influential factor and challenge for the Estonian economy (OECD Country Report 2016; Reiljan et al. 2014).

On the other hand, on average, various forecasts envisage a positive outlook for Estonia – economic growth is expected to strengthen gradually, supported by private consumption, which in turn is positively affected by rising average salaries and low energy prices (OECD Country report 2016). Exports and investment are expected to gain some momentum in 2017 as European trade partners experience growth.

As regards competitiveness, labour productivity is expected to recover only gradually (Kuusk et al. 2015). The main objectives of the Estonian government in its strategy to improve productivity are outlined as follows:

- Encourage the collaboration of firms with domestic and foreign research institutions.
- Implement plans to expand access to European transport networks and improve inter-modal transport connections.
- Remove barriers to entrepreneurship by shortening corporate insolvency procedures.
- Strengthen incentives for employers to offer apprenticeships and improve access to vocational education (Kappeler 2015).

A major trend, affecting the future of the Estonian economy and society, as mentioned before, involves depopulation. According to Statistics Estonia estimations, in 2040 there will be 100,000 people less in the Estonian labour market compared to 2015. A decline in the working-age population and a shortage of skilled workers (Figure 8) are further expected to keep the labour market tight and wage-pressure high, negatively affecting the competitiveness of Estonian enterprises.

Figure 8. Demographic trends for various age groups compared as of 2015 and 2025 (Statistical Office of Estonia)

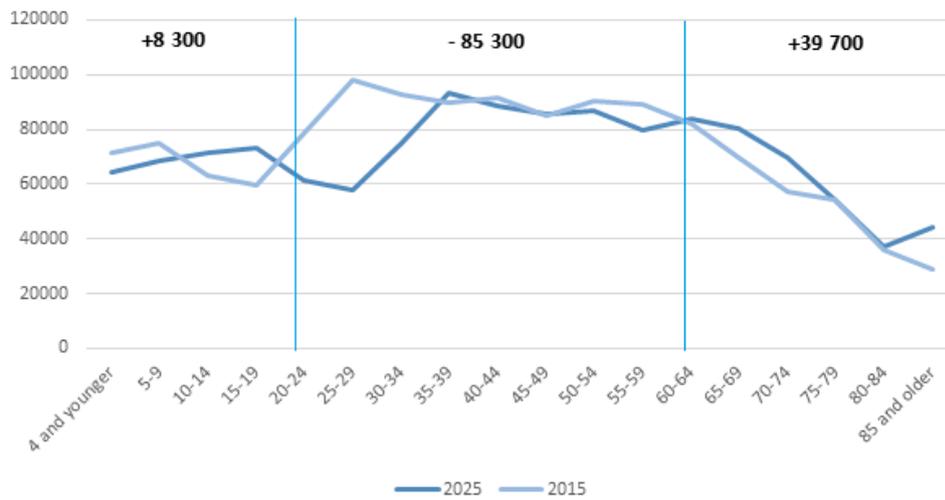
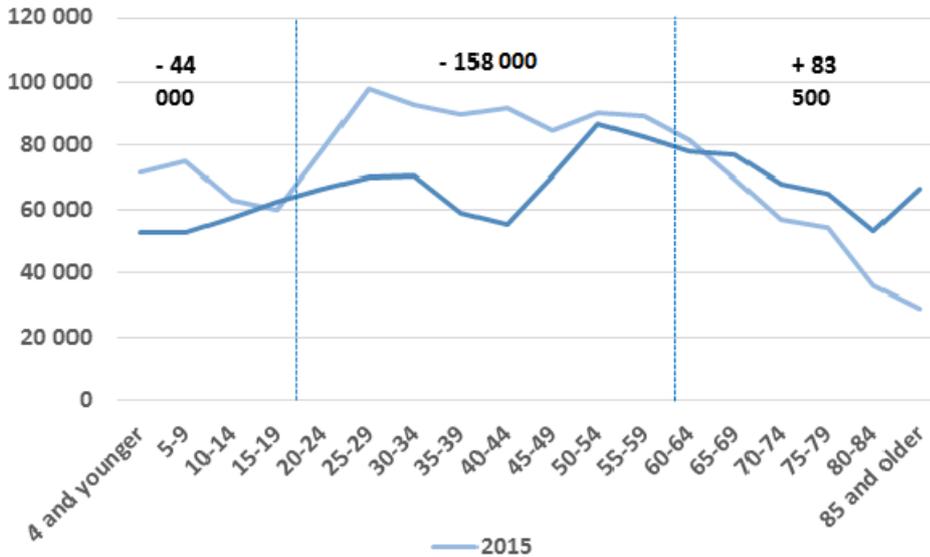


Figure 9. Demographic trends for various age groups compared as of 2015 and 2040 (Statistical Office of Estonia)



Governmental statistical studies suggest that with current trends, the country will lose nearly 10 percent of its population by 2040 (Figure 9), while the percentage of people of retirement age will shoot up from its current level of 18 percent to 27.6 percent (Statistical Office of Estonia 2016).

On one hand, increasing labour demand will yield more power to employees and will probably ensure a decent level of salaries for workers, which might also give momentum to trade unions. On the other hand, social contributions for the working population might increase. The challenge for employers and collective relations in general will consist in ensuring competitive working conditions in the context of high labour

force demand and high emigration levels of the Estonian working-age population (especially middle-skilled workers).

The demographic trends are also expected to affect the nature of jobs. According to the Estonian public conciliator, there are several developments that may have a significant influence on industrial relations. The future of collective bargaining will depend on whether or not Estonian industry branches will follow the so-called “Scandinavian way”; whether there will be an increase in flexible ways of working such as remote and rental work; whether new ways of working will firmly establish themselves in the Estonian labour market. In addition, the so-called Z and Y generations are found to be not as loyal to employers as the previous generations, which might lead to an increase of the role of trade unions and a weakening of the employer’s position as never before.

Industrial relations are also expected to be affected by the change in the distribution of job opportunities. Modest employment growth is predicted in specific areas: the biggest employment growth will be in business and other services, and most of the job opportunities, around 25%, will be for professionals, although the need for medium-skilled workers will increase as well. The job opportunities forecast for craft and related trades workers in Estonia, around 16%, is much higher than the EU average of 5%, while the share of job opportunities for technicians and associate professionals, around 11%, is below the EU average of 13% for this occupational group. Around 47% of the labour force is expected to have high-level qualifications compared to 40% in 2013, which is expected to positively affect competitiveness and labour productivity of the economy, since a significant proportion of the workforce is shifting towards high-skilled professions (CEDEFOP 2015)⁹. It is expected that the need for medium-level professionals, which will be the most urgent in 2025 (Figure 10), can be satisfied as a result of introduction of additional vocational education programs and encouraging inclusive labour migration to Estonia. The challenge for trade-unions lies in attracting this group of workforce and ensuring good working conditions for them (CEDEFOP 2015).

Figure 10. Distribution of job opportunities 2013–2025 (CEDEFOP 2015).

⁹ <http://www.cedefop.europa.eu/printpdf/publications-and-resources/country-reports/estonia-skills-forecasts-2025>

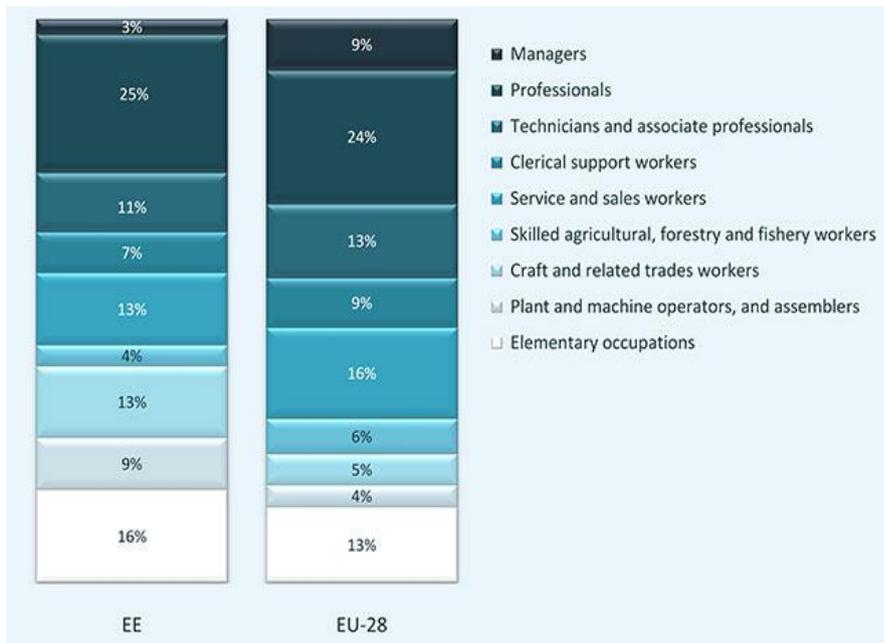
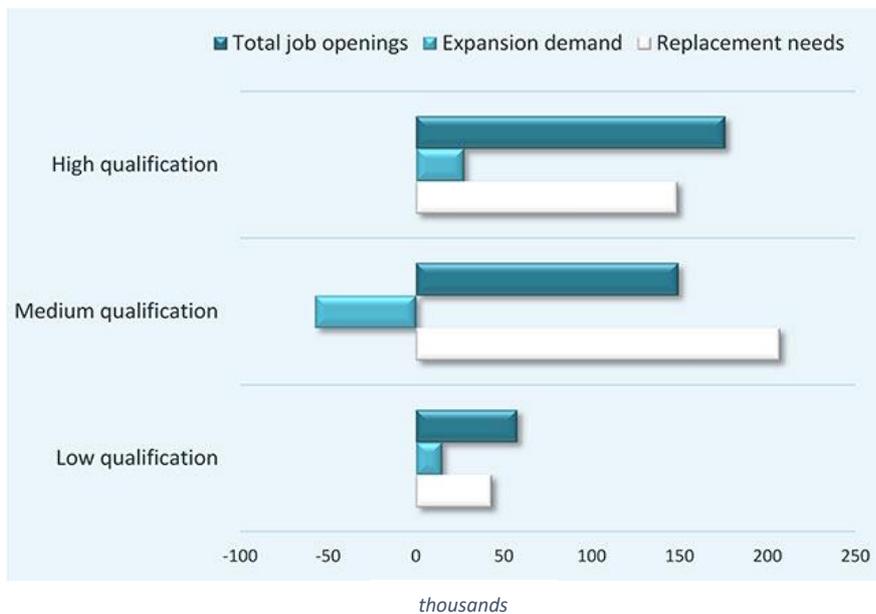


Figure 11. Job demand in Estonian economy 2013–2025; thousands (Cedefop 2015)



The Figures above (10, 11) illustrate that even in the short-term perspective, the labour market will experience shortage of workforce; most job opportunities in Estonia will require high-level qualifications; however, there will be a significant number of job opportunities requiring medium-level qualifications.

Therefore, the main challenges for the Estonian economy in the future will concern maintaining competitiveness and addressing the labour shortage. Another possible problem arises from the increase in wage differences and risks posed by low unionisation to maintenance of income equality levels in Estonia (the GINI coefficient, as estimated in 2012, and at-risk-of-poverty levels still remain slightly higher than the EU average, although lower than in Latvia and Lithuania).

The issues of competitiveness and labour shortage are closely connected with the debate about the pension system, immigration and certain specific characteristics of the current unemployment situation.

Labour shortage, together with rising life-expectancy, draws specific attention to the situation with the pension system. In 2016 every private employee already had to support 1.6 people, and in 2040 this number is expected to increase to 2 persons (ERR 2016)¹⁰. The most viable solutions to the problem include, on one hand, further adjustment of the pension system, and, on the other hand, increasing attractiveness of Estonia to immigrants, loosening regulations for resettlement and facilitating labour market integration. In that regard, the Estonian Confederation of Employers has called for changing the state's approach to immigration and addressing the demographical challenge strategically, in particular, in their Advice for the new coalition agreement for the newly formed Estonian government¹¹. In 2016 the Estonian Confederation of Employers adopted a clear course on raising public awareness about the needs of the Estonian labour market (ERR 2016)¹².

Estonian employers emphasise that, while the current immigration situation is seen by the public in negative terms, the Estonian economy is not able to survive without an immigrant labour force. In recent years the influx of foreign specialists has increased; however, in the nearest future the shortage of labour will be evident not only in the field of high-skilled jobs, but also in low-skilled jobs (which experienced contraction during the recession period) (ERR 2016). The common goal is to attract people who can create added value, generate income and propel the economy forward. Several steps have been taken in that direction – establishment of Enterprise Estonia (a body that focuses on the promotion of Estonia worldwide), facilitating settlement rules for EU specialists, creating online sources for prospective workers, etc. (Oll 2015). The main goal is not only to attract people to Estonia, but also to ensure that local specialists and workers, especially healthcare workers, stay in (or return to) Estonia. In 2016 a development happened in that domain, as the net migration rate in Estonia became positive for the first time since regaining independence (Statistical Office of Estonia 2016).

The perspective of the Estonian government consists of addressing the hurdles to economic growth resulting from negative demographic trends, mainly through increasing labour-market inclusiveness and radically improving the competitiveness of the economy. The two central objectives of the “Estonia 2020” Strategy, for example, are increasing productivity and employment in Estonia, and the main focus in the coming years, according to the government, will be on education and employment. The main objectives are said to include integrating long-term and young unemployed people into the labour market and developing their skills (Riigikantselei 2016)¹³. The government has already taken some steps in that regard, which are expected to positively affect the situation in the future: the reform of disability benefits (Work Ability Reform 2016), which will increase the labour supply by introducing stricter assessments of work capacity and additional counselling and training; an extension of the apprenticeship program; and an introduction to forecast programs to predict demand for specific workers. All the above are expected to ensure a slightly

¹⁰ <http://news.err.ee/v/news/aa997d34-5042-4947-b39e-391e5394da23/employers-want-immigration-made-easier>

¹¹ <http://www.pealinn.ee/newset/tooandjad-ueue-valitsusele-votmekoht-on-voortoojou-sissetoomine-n179665>

¹² <http://news.err.ee/v/business/5cada76c-a549-4461-9457-e8da1e261aa8/solve-migration-issues-quickly-move-on-to-real-problems>

¹³ <https://riigikantselei.ee/en/supporting-government/national-reform-programme-estonia-2020>

bigger labour market supply (OECD Country Report 2016). The Action Plan for the “Estonia 2020” Strategy includes a large number of measures aimed at supporting life-long learning, internationalising university curricula, supporting young workers in their first jobs and raising support for school and vocational education teachers, in particular, in disadvantaged areas (Riigikantselei 2015).

Another strategy of the government is aimed at boosting private consumption as a means of driving economic growth by, among other things, alleviating health care contributions, shifting the tax burden and introducing other structural changes. The changes which are in line with the economic policy priorities set in the State Budget Strategy 2015–2018 for 2015 are: (1) reducing the tax burden on labour (reducing the implicit tax rate on labour to 33.2 percent), and (2) sustainable public finance (General Government’s budgetary position being a 0.2 per cent structural surplus) (Estonia.eu, 29.09.2015).

Concerning the issue of competitiveness, the problem is addressed from three different perspectives. Firstly, Estonian authorities exercise planned activities aimed at increasing business and entrepreneurship competitiveness, within the framework of the Estonian Entrepreneurship Growth Strategy (2014–2020). The main aim of the strategy is to increase the productivity of Estonian entrepreneurs to a level equivalent to 80 per cent of the respective average of the European Union (Riigikantselei 2016). Secondly, the investment attraction strategy “Made in Estonia 3.0” 2014–2017, aimed at increasing the export capacity of Estonian companies and involving foreign investments, envisages a large number of activities along different priority lines. Thirdly, Digital Agenda 2020 sets out to increase technological competitiveness and the “edge” of the Estonian economy and labour force (Riigikantselei 2016).

Therefore, the holistic approach of Estonian authorities consists in further pushing the research and technological development of Estonian companies, accompanied by the drive to make the youth and long-term unemployed enter/re-enter the labour market. This is a core goal in all governmental strategies (Ministry of Economic Affairs and Communication 2014).

The Confederation of Estonian Employers, though mainly in line with the governmental position, makes a stronger emphasis on human development. The Employers Manifesto (2014) underscores several challenges for the Estonian government and economy: to invest more in education; to ensure that all people willing to work and contribute to the economy can do so; to create a more flexible and inclusive social benefit system. At the same time, it points out that several aspects of labour market inclusion were overlooked – flexible employment, including telework, part-time working, etc., should be encouraged by the state through lower expenses for employers, and multicultural management and a multicultural working environment, which would support the employment of foreign workers and non-Estonian speaking Estonians also in medium-sized enterprises, should be developed (The Confederation of Estonian Employers 2014).

3.2. Social dialogue and collective bargaining

The future of the social dialogue and industrial relations is highly dependent on the above-mentioned economic and social developments in Estonia. The important factors, also pointed out in the focus groups, are income distribution (since there are few needs-based allowances in Estonia, the minimum wage and collective agreements are important here); population trends (decrease in population, aging population, demand for new skills), administrative reform (changes in the administrative division in Estonia influence the social dialogue in local governments), etc. Future developments are highly dependent on the economic

conditions. The focus group participants envisaged a possible future scenario, where the state budget costs exceed revenues, which leads to significant tensions in the society. If, as a result of that, economic growth turns into economic recession, it is likely that trade union membership will decrease for a while and then increase (if no strong political power to represent the interests of the workers develops).

Several focus groups participants pointed out that they do not see many opportunities for change in the current trends (decrease in union density rate and collective bargaining rate). Low density leads to low influence. This in turns leads to a situation where people see no benefit in belonging to the trade unions.

Case Study 1. Bargaining for unified collective agreement in Eesti Energia

Eesti Energia is a state-owned international energy company that operates in the unified electricity market of the Baltic and Nordic countries. Its sole shareholder is the Republic of Estonia. Eesti Energia has a long history. The predecessor of the Eesti Energia group, the public limited company Elektrikeskus, was established on 8 May 1939, when the President of Estonia, Konstantin Päts, signed its foundation document. Although Elektrikeskus was renamed Eesti Energia in 1945, its founding marks the beginning of the Eesti Energia group.

Eesti Energia has a long history of collective bargaining. After Estonia re-gained its independence, Eesti Energia was the first company that signed a collective agreement in Estonia. In the following years Eesti Energia was divided into different companies all belonging to Eesti Energia Group. With its approximately 6,300 employees (2015), Eesti Energia is one of the largest employers in Estonia. Eesti Energia Group consists of different companies that operate in the Baltic States, Poland, the US and Jordan, as can be seen in Figure 12.

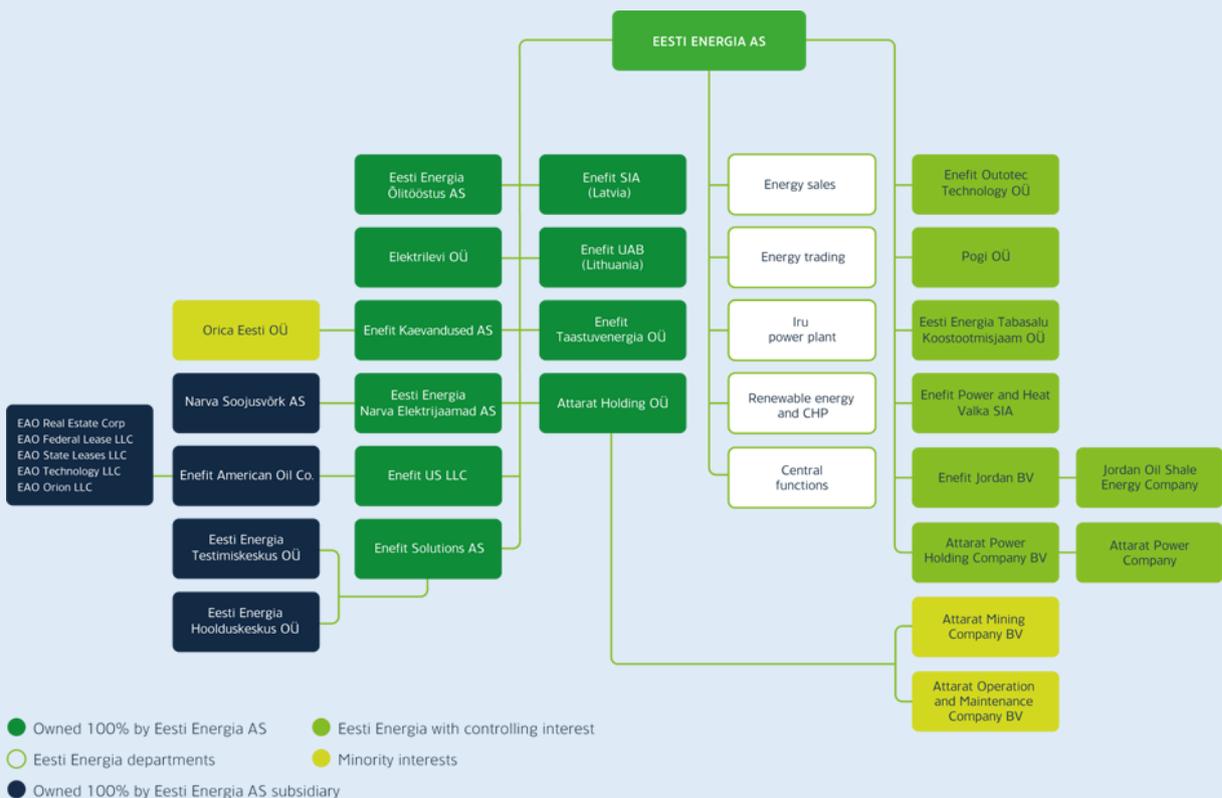


Figure 12. Structure of Eesti Energia Group (as of July 2016).

Different companies of the Group have their own collective agreements. As of November 2016, there are 8 collective agreements in force in Eesti Energia Group:

- Between Eesti Energia AS and the Estonian Energy Workers Trade Union Federation (Eesti Energeetikatöötajate Ametiühingute Liit)
- Between Eesti Energia Narva Elektriijaamad AS and the Miners and Power Engineers Independent Trade Union (Kaevurite ja Energeetikute Sõltumatu Ametiühing) and the Narva Energy Trade Union (Narva Energia Ametiühing)
- Between Eesti Energia Õlitööstus AS and the Narva Energy Trade Union (Narva Energia Ametiühing)
- Between Narva Soojusvõrk AS and the Baltic Electric Power Station Trade Union (Balti Elektriijaama Ametiühing)
- Between Eesti Energia Kaevandused AS (including Estonia mine, Narva quarry, Logistikaettevõte) and the Power Engineers Independent Trade Union (Kaevurite ja Energeetikute Sõltumatu Ametiühing) and the Narva Energy Trade Union (Narva Energia Ametiühing)
- Between AS Eesti Energia Tehnoloogiatööstus, OÜ EE Testimiskeskus and the Energy Service Trade Union (Energiateeninduse Ametiühing)
- Between Elektrilevi OÜ and the Estonian Energy Workers Trade Union Federation (Eesti Energeetikatöötajate Ametiühingute Liit)
- Between Eesti Energia Hoolduskeskus AS and the Energy Service Trade Union (Energiateeninduse Ametiühing), the Miners and Power Engineers Independent Trade Union (Kaevurite ja Energeetikute Sõltumatu Ametiühing) and the Miners and Power Engineers Independent Trade Union (Kaevurite ja Energeetikute Sõltumatu Ametiühing).

In these collective agreements the benefits foreseen for workers are not unified. In some collective agreements there are benefits (for example, Christmas bonuses, winter holidays, returning from the holiday benefits, etc.) that are not included in other collective agreements.

The HR director of Eesti Energia admitted that although collective agreements in Eesti Energia Group include a clause declaring equal treatment of the workers, the different dispositions in collective agreements mean that the situation is rather unequal for workers employed in different companies belonging to Eesti Energia Group at the moment (as of November 2016).

This means that when a worker moves from one company in Eesti Energia Group to another company in Eesti Energia Group, he or she may be eligible for different benefits. Both the representative of the trade union and the employer admitted in the interview that this causes tensions because workers may be dissatisfied when they lose some privileges. The HR director of the Group also pointed out that this is an obstacle hindering the career opportunities of some people that do not want to change the employer in the fear to lose the benefits.

The representative of the trade union stated that the most important development after the recession is the pressure applied by the employer for there to be less benefits in the collective agreements signed in the Group. The HR manager of Eesti Energia Group also stressed that during the last decade and particularly after the recession unifying the collective agreements has become more topical in Eesti Energia Group, especially because of the consolidation of different subsidiaries. The challenge caused by this situation, she said, is related to mergers of the different companies belonging to the Group. According to Estonian laws, when companies merge and both companies (the merging one and the one being merged) have previously signed a collective agreement, the most beneficial articles of both collective agreements apply to the employees of the company being merged. This situation lasts until the company signs a new collective agreement. Until then there is a situation where 'old' and 'new' employees are treated unequally. A solution could be either to apply more beneficial conditions to all employees or to sign a new collective agreement that include conditions favourable to the employer. The first is not economically reasonable for the employer due to the cost increase, while the latter is likely to meet with the resistance of the trade union.

Therefore, it is not surprising that Eesti Energia as an employer has the goal of unifying the terms set out in the different collective agreements that are signed in the Group and would like to move towards one, unified collective agreement. The negotiations with trade unions, however, have not been successful so far. During the negotiation process some trade unions representing the workers of the Group have been more eager to accept the terms proposed by the employer than others. However, since the unified collective agreement must be accepted by all parties, no solution acceptable for all has yet been found. The representative of the trade union admitted that they would accept the unified collective agreement only if it consisted of the most beneficial articles from the different collective agreements in force at the moment. He said that there is currently no urgent need for a unified collective agreement and he admitted that he does not know what incentive could be strong enough to compel the trade unions to sign the collective agreement on the terms proposed by the employer.

However, the goal, according to the HR director of Eesti Energia, is still to move towards unified collective agreements in the Group. This, she said, would decrease the inequality in benefits between the employees of different companies belonging to the Group and allow the Group be more competitive in the market. She stated that there are large changes occurring in the energy sector and pressure for a price reduction at the same time. These developments force the organisation to change and modernise and this in turn has an influence on industrial relations. The representative of the trade union also stressed the importance of the market developments, especially the fact that there are competitors in the market that do not have collective agreements. This, in turn, means lower costs for these companies compared to those of Eesti Energia Group.

In recent years the negotiations have been conducted at the sub-company level and have been successful in all cases. In the companies where there are no benefits included in the collective agreements, the topic of wages has been a cause of tension in the negotiation process. In companies where collective agreements include different benefits, these (withdrawal from the benefits) have been at the heart of the discussion.

The HR director of Eesti Energia continued by stating that the employer would like to move towards modernising collective agreements and making the remuneration of the employees more dependent on the quality of their work and economic results of the company. However, she said that this is complicated because social partners hold on to the old benefit system. In the director's opinion this system is not suitable for employees working in a successful company and does not motivate employees to do their best in delivering high-quality product to a customer on time. The terms of the unified collective agreement, she said, would be still stand as an example of good practice for other companies.

So, despite different views, the employer and trade unions share the opinion that the industrial relations system functions well in the Group. When asked in which ways Eesti Energia Group could be considered as a good example to other Estonian companies, the representative of the trade unions pointed out that in the Group trade unions are not frightened of the employer. He stated that he is in general satisfied with the functioning of the industrial relations, especially as regards employee-employer relations. The HR director recognised areas where the cooperation could be improved, especially in regards to the working environment. Workers, she said, do not need the benefits, but rather a better working environment. She sees that the trade unions could be more active in improving the compliance with the safety measures by workers.

One of the reasons for low trade union membership in Estonia is the institutional setting. Unlike in the Nordic countries, in Estonia social security guarantees are regulated in legislation in great detail. In addition, most benefits set out in collective agreements apply to all workers, not only to trade union members. In the focus groups trade union representatives mentioned that it is often the employer who wishes to extend the benefits to all workers, perhaps, to avoid conflict situations. Consequently, workers not belonging to the trade union do not have any incentive to join.

The focus groups participants predicted that at the state level traditional social partners will continue to exist and find new topics for negotiation. The main problem is that at least at the moment industrial relations are not considered important on the state-level. The question, therefore, is how to guarantee the sustainability of the system given the low priority of industrial relations for the state.

Most enterprises in Estonia are small and this is not likely to change much within the next 10 years. Therefore, it would be challenging to create a strong industrial relations system in the short term. In companies where collective agreements are in place, the positive attitude towards them will remain, in the opinion of the focus group participants, as employers need to keep their positive reputation in the context of rising competition.

The most important question is what the benefit of belonging to the trade union is. The focus groups participants who represented the trade unions pointed out that at the moment workers' attitude consists of believing that someone should fight for their rights, but not all of them are willing to make a contribution to the trade union, nor do they understand the benefit of doing so ("When the trade union becomes strong,

I will join it"). Therefore, trade unions need to prove their necessity in order to increase trade union membership. If they do not succeed in doing so, trade union membership will most probably continue to decrease.

Case Study 2. Bargaining for collective agreement in the Estonian health care sector

The health care sector is one of the most active sectors in Estonia as regards industrial relations. There are three active trade unions which represent a large number (and a large proportion) of different health care professionals. The total number of persons working in Estonian health care in November 2015, according to data from the National Institute for Health Development, reached 23 086 persons.

- The Union of Estonian Healthcare Professionals (ca 3500 members) – all natural persons with medical education or in the process of acquiring medical education; other employees in health and social services have the right to join the union.
- The Estonian Nurses Union (ca 4000 members) – all natural and juridical persons active in nursing (e.g. nurses, midwives) and other medical specialists; care workers can join the union.
- The Estonian Medical Association (ca 2800 members) – all natural and juridical persons qualified as doctors in Estonia can join the union.

Since 2012 there have been two state level collective agreements (signed in 2012 and 2014) in the Estonian health care sector, and negotiations to form a new agreement are ongoing. The planned duration of both of these agreements has been two years (2013–2014 and 2015–2016). The 2012 agreement was signed after more than three years of negotiations, which culminated in a strike by healthcare professionals in 2012. The process of negotiations to sign the 2014 agreement lasted for about half a year. The current negotiation process officially started at the beginning of 2016. Representatives of the relevant trade unions were doubtful about the probability of signing a new collective agreement before the end of the current agreement in the end of 2016. Parties have consulted the Public Conciliator and there has been an employee-originated protest action, entitled “At work with a pillow”, and a warning strike during 2016.

Parties negotiating the new collective agreement are: from the employees’ side – the Estonian Medical Association, the Estonian Nurses Union and the Union of Estonian Healthcare Professionals; and from the employers’ side – the Estonian Hospitals Association, the Union of Estonian Medical Emergency and the Estonian Society of Family Doctors. Trade unions also wished to include the Ministry of Social Affairs and the Estonian Health Insurance Fund as parties to the new agreement, but the ministry insisted that they cannot legally be involved as a party since they are not an employer of health care workers. Both institutions have since been actively involved in the negotiations, but have been left out from the last proposed drafts of the agreement.

Trade unions in the sector have shared similar views in the negotiations, but diverge on certain positions. The representative of the Estonian Nurses Union mentioned, for example, that they feel some inequality in treatment of nurses and doctors (e.g. additional vacation days in some workplaces for doctors but not for nurses), and that there are additional topics that could be included to the collective agreement (e.g. remunerations of assistant nurses and differentiated salaries for nurses that have additional responsibilities).

Two previously concluded collective agreements have focused mainly on fixing the minimum hourly wage rates for different health care professionals. The issue of work load has been also addressed by adding a point to the agreement that states that parties of the contract and involved organisations will together develop personnel standards to assess the work load of doctors, nurses and care workers in specialised medical care, which will be approved as an annex to the collective agreement. These standards should be compared to actual work load data and form the basis for local collective agreements.

Trade unions have not been completely satisfied with the fulfilment of the last agreement. In March 2016 they made a statement that one hospital had not fully complied with the agreement on minimum hourly wage rates and that the agreed upon personnel standards had not yet been developed. The Estonian Hospitals Association replied that the work towards developing personnel standards had been done in good faith and that the failure to reach the intended results cannot be interpreted as a breach of agreement.

There are two main topics besides wage rates that the associations of employees would like to add to the new collective agreement and about which they feel very strongly. One of them is the aforementioned issue of work load (incl. work intensity) and the other is working and rest time (incl. additional vacation days). According to the representative of the Estonian Nurses Union, the question of salary may previously have been of priority, but now the salary and work load issues seem to have become of equal weight in terms of importance for employees. The Representative of the Estonian Medical Association also added that the key issue is the lack of personnel, and that it is essential to start solving the issue of working time step by step. Representatives of both unions remarked upon how the Employment Contracts Act is sometimes violated: working and rest time provisions are not followed when scheduling on-call time of employees. The 2016 protest action "At work with a pillow" was also incited by the suggestion to change the law to allow longer on-call times, as well as by the behaviour and comments of some members of parliament.

The initial demands of the trade unions have not yet been met by the associations of employers. They have not only suggested smaller minimum hourly wage rates, but have also largely left out other topics from the collective agreement. This does not mean that their view of the problems currently existent in the Estonian health care is very different from that of trade unions, but rather it represents the fact that they are constrained by the financing of the health sector by the Estonian Health Insurance Fund. The representative of the Estonian Hospitals Association mentioned during discussions that currently they find themselves in a situation where they are in agreement with employees regarding big goals, and so find themselves fighting for a common purpose.

Although this mutual understanding has not brought the parties closer to signing the agreement, it shows that the focus of collective bargaining in the Estonian health care sector has changed. It has moved farther away from specific issues between employees and employers and more towards the wider issue of how health care in Estonia is financed and whether or not current conditions are sufficient to serve the interests of the Estonian people.

This shift is demonstrated by the answers to the suggestions of the Public Conciliator regarding the health care sector collective agreement (October 2016). The Estonian Hospitals Association stated in its answer to the proposals that the level of funding of the Estonian health care system had not corresponded to the real needs of society for a long time and that to resolve the situation it was necessary to adopt major decisions that were not limited only to the social partners and the Health Insurance Fund Supervisory and Management Board level. The trade unions made similar statements, saying that they were willing to enter into a collective agreement only if necessary medical treatment is available to patients, further emphasising the need for reconsideration of funding principles.

The new generation of leaders may change the situation in the education sector, where elderly managers prevail. In the opinion of the representative of the education sector, there are already some positive signs. The employers who do not have experience dealing with trade unions tend to be uncooperative. This could change if a new generation emerged that would hold a different leadership philosophy. The other focus group participant pointed out that people who have worked abroad in countries where there is a strong tradition of industrial relations and collective bargaining, may also change the attitude towards trade unions in Estonia. However, as other focus group participant pointed out, there are already such people in Estonia, but no remarkable change has been noticed to date.

The sector-level industrial relations need to be developed through the implementation of new forms of collective agreements. State-level social partners expressed their desire to have more activity in the sector level in the form of 'soft' regulations, such as good-will agreements that regulate the social protection and working condition of the sector's workers. The state sets the minimum level of the standards, but the good-will agreements could allow for better conditions.

The Ministry of Social Affairs was not planning any radical reforms in industrial relations regulations as of October 2016. Participants of forecast seminars, however, pointed out that the current legislation entered into force in the 1990s and requires reconsideration. Some important problems were raised during the forecast seminars. There is a need for a more effective implementation of state level supervision, as pointed out by several representatives of the state level trade unions. There is still no work or occupational disease insurance despite discussions having been held already for a long time. Some issues related to extending the sector level collective agreements, ending and cancelling the collective agreement, and equal treatment of workers in light of the possibility of affording some benefits solely to trade union members, were highlighted as problems by forecast seminar participants. Since there are no judicial decisions to reference, parties do not know which solutions are correct.

Furthermore, in sectors that are mostly financed from the state budget (for example, medicine and the rescue sector), there is no long-term planning because financing depends on the allocation in the state budget. In these circumstances, it is difficult to have a long-term development strategy, according to the representatives of trade unions. The representatives feel the need to include the state as a party to those collective agreements where financing is provided from the state budget, and local governments to collective agreements that include workers of the local government institutions distributed across country

(e.g. museums, libraries, schools, etc.). This would help to make wages and other working conditions more equal.

The question of how atypical work relations will influence the industrial relations in the future was also discussed in the forecast seminars. Participants predicted that atypical forms of working will increase somewhat, but will not dominate in the future. They will require special regulation in the future through new legislative acts and will demand for new types of representative form. However, what forms they will take and how they will work is still not clear.

CONCLUSION

The recovery from recession turned out to be rather smooth and fast for the Estonian economy, with the market growing, salaries and standard of living rising, inequality decreasing further, together accompanied by overall political stability. There were no drastic changes introduced into the framework of industrial relations, except for specific areas such as dispute resolution and termination of collective agreements, and the collective bargaining itself arguably became more efficient and amiable.

However, the density of unionisation and general workers' awareness about trade unions continues to fall – the trend is self-enforcing, since the weaker the unions are, the fewer the people willing to join them are. On the positive side, employers themselves often encourage the concluding of collective agreements. Despite the state involving social partners in negotiations in many areas, trade union representatives still note that the state does not perceive them as having a high priority. This situation poses certain risks in the context of structural problems faced by the Estonian economy at present. A falling population, stalling productivity levels and rising salaries (due to shortage of labour force) make the labour market tight, which also threatens Estonia's competitiveness on the world's markets. Exports and imports are slightly contracting, together with foreign direct investment, which reflects the above-mentioned problems.

The issues of long-term unemployment, immigration and pension reform debate are deeply intertwined with the future development of industrial relations in Estonia, as well as with its economic development in general. Economic scenarios foresee a moderate growth and emphasise the necessity to invest more in human capital, increase productivity and strive for a more competitive edge. Similar topics have been reflected upon in both strategic state documents and manifestos of the Employers' Confederation.

The conducted interviews and focus groups revealed that while in some sectors trade unions remain strong (medicine, public administration), on average their power is declining. The state is planning a revision of industrial relations regulations; however, some of the changes are being met with opposition. The medicine sector trade unions are vigorously calling for better financial planning, while other trade unions recommend that more attention is devoted to developing "soft" regulations, e.g. good-will agreements, in addition to state legal requirements governing labour relations.

The main recommendations as regards the future development of industrial relations in Estonia concern drawing attention of the general public to the benefits of union membership. In addition, given the challenges faced by the Estonian economy, the widening of cooperation between the state and social partners on issues relating to human potential development, immigration, education, and long-term unemployment is crucial.

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