



# „An attempt to revitalize social dialogue and national industrial relations systems in some of the CEECs” – lesson learnt and best practices in the way out of the crisis

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## Country Report Latvia - 2015

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## EXECUTIVE SUMMARY

Tradition of trade union's work in Latvia stretches from 1920-ies, when first trade unions were established. In Soviet state trade unions were strong and financially well provided organisations. They were respected organisations not only because they protected workers' rights, but also because they provided social services (vouchers to sanatoriums, recreation facilities) and participated in distribution of deficit material benefits such as cars, apartments and similar. 76% of workers were members of trade union in end of 1991. Employers organisations also existed but they did not participate in collective bargaining.

In early 1990-ies, the discussion started that better cooperation between employers and employees could benefit to economic development. On 19 October 1993 the Cabinet of Ministers approved *Conception on main principles and necessity of tripartite cooperation in Latvia* and first three tripartite consultation councils were established. Latvian Free Trade Union Confederation was appointed as a single national level employees' representative, and Latvian Employers Confederation was established in 1993 and nominated as a single national level employers' representative. The system was improved in 1998, when independent councils were united into a single National Tripartite Co-operation Council and its sub committees.

Operation of the social dialogue is provided for in the *Labour law* and more than ten other legislation acts. This legislation has been relatively stable. However, in 2014 two important changes occurred in legislation concerning social dialogue – new *Trade union law* was adopted and massive amendments were introduced in existing *Labour law*.

Overall, legal and institutional framework is beneficial for successful social dialogue. Even in crisis period that started in Latvia in 2008 social partners were not excluded from the decision making process. Trade unions and employers organisations were considered as main social partners. Therefore we focus on „increasing” rather than „regaining” of negotiation power. On other hand, economic structure has changed and this facilitates introduction of new approaches in social dialogue activities.

Intensity and quality of social partners' participation depends on capacity of these organisations. Negotiation power might be increased by:

- increasing membership;
- increasing capacity;
- increasing impact.

Majority of social partners activities are organised together in order to increase their collective efficiency. The roles, goals and opinions may differ, yet the cooperation between employers and employees is strong. Following the existing situation, practice of improving negotiation power is divided in three groups: common policies and measures, policies and measures organised by national level employee representative (LBAS) and policies and measures organised by national level employers' representative (LDDK).

## I. INTRODUCTION

### **Background**

Social dialogue system in Latvia was created anew in middle 1990-ies - soon after beginning of transformation from planned to market economy.

### ***Trade unions***

Trade unions appeared in Latvia in 1920-ies. They existed in the planned economy. During the soviet period, trade unions were used for demonstration of democracy in a partocratic state. Trade unions were financially strong organisations. They owned large part of social infrastructure objects (recreation facilities, sanatoriums and similar).

The role of soviet period trade unions differed from traditional role of trade unions in two aspects. First, soviet period trade unions were strongly dependent on the Communist Party. Second, they were involved in a socialistic distribution system. Cars, apartments, summer houses, land plots for individual houses and other benefits could be obtained through application to trade union's waiting list.

Trade union's membership was not obligatory, nevertheless almost all workers became trade union members simultaneously with signing of their working contract. It was usual and useful practice, because trade unions had an important role in providing social as well as material benefits. In result, trade union's density was almost absolute – total membership was 1062 thousand people in end of 1991, when total number of employed was 1397 thousand people (density rate 76%).

<sup>1</sup> High trade unions' coverage was also promoted by economic structure where large state enterprises dominated. Trade unions were partners in negotiations with managers of state enterprises and institutions on working conditions and social guaranties. Collective agreements were common practice not only in large state enterprises but also in small units.

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<sup>1</sup> Source: CSP, LBAS.

Trade unions were organised in a centralised system. All large economic sectors had their sector level trade unions that united enterprise level trade union organisations in the sector. Sector level trade unions were united in a single national level organisation. Created system was convenient for use and easy for managing. No trade union could exist outside the centralised system. Trade unions were independent as far as they were loyal to the existing political system.

Trade unions were among the first organizations supporting the transition from the planned economy to the free market system as early as in end of 1980-ies. Besides the Communist Party, trade unions were the most important organized national level formation. They supported transition forces in local government elections in 1989 and elections of the Parliament (Supreme Council) in 1990. Centralised institutional setting at the national level enabled fast and easy institutional self-reorganization of trade unions.

The whole process after 1990 can be divided in four typical movements:

- 1) establishing of the new type trade union system and core organization – the Latvian Free Trade Union Confederation (LBAS);
- 2) reforming of the established system (dividing and amalgamation of trade unions – LBAS members);
- 3) expanding of the trade union system beyond the established LBAS system and core organization;
- 4) organisational stabilisation and intensive capacity building process.

The first movement (approximately 1990–1995) showed intensive development in trade union sector. In order to disengage from the Communist Party’s control, “new” type trade unions appeared, while “old” type trade unions endeavoured to survive. In sectors, where “old” trade unions were not loyal to the transition, former trade union organizations were „re-established” and their managers were changed, or new trade unions were established.

On 25-26 May 1990, 26 trade union organizations founded new trade union confederation – the Free Trade Union Confederation of Latvia which replaced the former high level management institution – the Republican Trade Unions’ Council of Latvia, and the new era in trade unions development began. Some elements of

previous system, such as pyramid organisation structure based on a single national level organisation, remained unchanged.

Law *On trade unions* was adopted on 13 December 1990. The Law set forth the concept of trade unions in Latvia as follows: “Trade unions of the Republic of Latvia are independent public organisations, which express, represent and protect labour and other social and economic rights and interests of their members in accordance with the Law of the Republic of Latvia *On trade unions*, other current legislation of the Republic of Latvia, and the by-laws of trade unions of the Republic of Latvia, as well as observing the principles and norms specified in the *Universal Declaration of Human Rights* and other international covenants and conventions.”

In 1992, the number of LBAS members had increased to 33. Besides LBAS there were 32 independent trade unions and two trade union confederations: one uniting two soviet type trade unions and other uniting five independent transport worker trade unions – LBAS members.

The second movement was characteristic in about 1995 to 2010. It was tampered to a great extent by privatisation and dramatic decline in Latvian economy. Some trade unions ceased to exist; others joined together or were absorbed by stronger ones. Since 1995, number of trade union members declined year by year. Characteristic feature of this period was dominance of the centre-oriented system with independent LBAS in the centre and independent trade unions and federations of trade unions around it. Trade unions outside this system did not play significant role. Two other previously established confederations ceased to exist.

The third movement started after 2000, when the circle of independent trade unions outside LBAS system expanded. It included not only newly established trade unions, but also trade unions that shifted away from LBAS system. Trade unions outside LBAS operated separately.

The fourth movement started after joining of European Union (EU in 2004, when social partners became eligible for financial assistance from EU Structural Funds for capacity building activities. It was characterised by increasing involvement of social partners in training, research and consultation work.

### ***Employers' organisations***

Employers' organisations are new phenomenon in Latvia. In soviet state business oriented organisations could be established, but they did not negotiate with trade unions. Social dialogue as a format for cooperation of employers and employees did not exist.

After 1990, mass privatisation changed the economic structure. Existing business organisations strived to adapt to market economy, many of them were closed. Instead, large number of business oriented and professional organisations were established in a chaotic process. These organisations were focused exclusively at protection of business and professional interests of their members. In December 1990, leaders of trade and industry enterprises from several sectors established independent, politically neutral national level non-governmental institution – the Latvian Chamber of Commerce and Industry (LTRK). The main mission of this organisation was to support development of the national economy, to promote entrepreneurship, to facilitate improvement of economic environment as well as to help enterprises organisationally and financially in education and product promotion fields (organising training courses, local and international exhibitions).

None of existing business oriented or professional organisations pretended to be involved in the social dialogue. National level employers, organisation – the Employers' Confederation of Latvia (LDDK) was established on 6 September 1993 specifically for social dialogue purposes.

## II. INITIAL INDUSTRIAL / SOCIAL DIALOGUE SYSTEM OF THE COUNTRY

In early 1990-ies, the discussion started that better cooperation between employers and employees could benefit to economic development. On 19 October 1993 the Cabinet of Ministers approved *Conception on main principles and necessity of tripartite cooperation In Latvia*.

It was decided that at national level, employees will be represented by a single trade union organisation the Free Trade Union Confederation of Latvia, and employers also will be represented by a single representative –Employers’ Confederation of Latvia.

In August 1993 – May 1994 the first national dialogue institutions were established: the Tripartite Work Protection Consultation Council (26 August 1993), Tripartite Consultation Council of Employers, Government and Trade Unions (28 December 1993) and Tripartite Social Insurance Council (17 May 1994).

On 22 June 1996, LBAS and LDDK concluded *General agreement on principles of social partnership*. In 1998 the Cabinet of Ministers approved the *Conception of tripartite cooperation*. The Conception firmly determined a single organisation representativeness of employees and employers and set forth institutional system of the social dialogue, based on the National Tripartite Co-operation Council (NTSP).

On 1999 the *Employers’ organisations and their associations law* was adopted. Section 2 of the law defined that „An employers’ organisation is a public organisation established by at least five employers which represents and protects the economic, social and professional interests of its members, as well as other interests that conform to the objectives and functions of the employers’ organisation. Members of an employers’ organisation may be natural or legal persons who on the basis of a contract of employment employ at least one employee.” In compliance with the law, employers’ organisations and their associations have a duty to represent the interests of their members in relations with trade unions and State and local government institutions.

NTSP started operation on January 1999. In the beginning it has three subcommittees:

- the Subcommittee for Vocational Education and Employment,
- the Subcommittee for Labour Matters; and
- the Social Insurance Subcommittee.

Social dialogue in Latvia included bilateral and trilateral consultations among social partners.

At the national level bilateral social dialogue resulted in *General agreement on principles of social partnership* and *General agreement on minimum wage*, concluded between LBAS and LDDK on 5 May 1999.

Major bilateral social dialogue are at company level where it results in collective agreement or other agreements (on social funds, strike funds etc.).

Several changes occurred in established social dialogue system after 2000. Until 2003 main parts of labour legislation were fully modernised (*Labour law*, package of labour protection legislation, *Labour disputes law*, *Law on strikes*). New *Labour law* became valid on 1 June 2002. This law and following amendments to the law specified and effectively developed rights and obligations of social partners, principles of collective bargaining and representativeness in labour relations and social dialogue.

On 1 October 2004, new *Tripartite co-operation agreement* was signed among the President of Ministers, LDDK and LBAS. This agreement specified LBAS as single employees' representative and LDDK as single employers' representative. Explicit definition of the status of these organisations was necessary due to condition that neither organisation was convincing representative of partners in terms of represented share of a whole.

The agreement also expanded list of issues that are included in consultation within the social dialogue, included international aspect in the social dialogue and established new consultation institutions in four fields: in transport, communication and IT; in environment protection; in regional policy; and regarding unified labour remuneration system.

Since 2006, NTSP is subordinated directly to the Cabinet of Ministers. It is affiliated to the Cabinet of Ministers and led by president of ministers (currently Laimdota Straujuma) on Governments side, president of LDDK Vitālijs Gavrilovs on employer’s side and Chair of LBAS Pēteris Krīgers on employees’ side.

Ministries cooperate with social partners in their fields of responsibility. The government is represented in NTSP by minister of welfare (vice-chair of government representative), minister of economics, minister of finances, minister of environment protection and regional development, state secretary of the Ministry of Education and Sciences, state secretary of the Ministry of Communication, state secretary of the Ministry of Justice.

In 2006, NTSP had seven subcommittees.

The importance of collective bargaining fell markedly after 2008, because not only agreed advantages of collective agreements but also rules of the *Labour law* were violated due to harsh austerity policy. Collective agreements were frozen in state undertakings, and this facilitated neglecting of collective agreements in private companies as well. In addition, the number of trade unions in enterprises declined. In 2001, 2,972 primary trade union organisations were members of LBAS, while in 2009 the relevant figure was 2,430, in 2011 it was 2,266, in 2012 – 2176 and in 2014 – 2088.<sup>2</sup>

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<sup>2</sup> Source: LBAS.

### III. CURRENT INDUSTRIAL RELATIONS / SOCIAL DIALOGUE SYSTEM OF THE COUNTRY

#### General information

Current industrial relations / social dialogue system is regulated by:

- new law *Trade unions' law* (adopted on 6 March 2014, valid from 1 November 2014; <http://likumi.lv/doc.php?id=265207> );
- *Employers' organisations and their associations law* (adopted on 19 May 1999, <http://likumi.lv/doc.php?id=24467>);
- *Labour law* (adopted on 20 June 2001, remarkable amended in 2014 (35 Sections of 157 were amended, <http://likumi.lv/doc.php?id=26019> );
- *Labour protection law* (adopted on 20 June 2001, <http://likumi.lv/doc.php?id=26020> ) and supplementing legislation (more than 20 normative acts, adopted in different years, the full list available at <http://www.lm.gov.lv/text/599>, normative acts available at <http://likumi.lv> );
- *Labour dispute law* (adopted on 26 September 2002, <http://likumi.lv/doc.php?id=67361> );
- *Strike law* (adopted on 23 April 1999, <http://likumi.lv/doc.php?id=48074>);
- Regulation of the Cabinet of Ministers Nr.300.(adopted on 7 April 2009, <http://likumi.lv/doc.php?id=190612> ) that provide participation of social partners in decision making process;
- several normative acts regulating pay for special groups of workers and other specific issues;
- law *On Informing and consulting employees of European Community-scale undertakings and European Community-scale groups of undertakings*” (adopted on 29 March 2001), replaced by new law, *Law on informing and consulting employees of European Community-scale undertakings and European Community-scale groups of undertakings* (adopted on 19 May 2011).

Before 2001 labour relations were regulated by the Soviet time *Labour code* (valid since 1 October 1972) and independent law regulating collective bargaining. The new *Labour law* was adopted in 2001 in order to modernise labour relations in Latvia and to amalgamate major labour legislation into a single law. Legislation norms on

collective bargaining were incorporated in several chapters of the *Labour law*. Overall, the current law includes four parts, 35 chapters and 157 sections.

From the very beginning the Latvian *Labour law* was envisaged protective towards employees. Flexibility and security of employment was provided on the basis of “not prohibited” principle. Mainly because of this reason, international experts assess Latvian labour legislation as rigid. To some extent, rigidity is determined by the role of trade unions and company level collective agreements in ensuring of employees right. Experts’ opinion has encouraged employers to raise discussion on amendments in the *Labour law*, while trade unions support the current version.

Social dialogue institutional setting includes NTSP and eight subcommittees:

- Budget and Tax Policy Tripartite Co-operation Subcommittee;
- Labour Affairs Tripartite Cooperation Subcommittee (DLTSA);
- Social Security Subcommittee (SDA);
- Vocational Training and Employment Tripartite Cooperation Subcommittee (PINTSA);
- Health Care Sector Subcommittees (VANA);
- Transport and Telecommunication Sector Tripartite Cooperation Subcommittee (TSNTSA, established in 2008);
- Environment Protection Tripartite Co-operation Council (VALTSA);
- Regional Development Tripartite Co-operation Subcommittee (RAPLTSA, established in 2010);
- Public Security Subcommittee.

The National Tripartite Consultation Council (NTSP) has its Secretariat. NTSP meetings are held regularly once a month. Urgent issues may be discussed in extra meetings. During its meetings, NTSP discusses policy decisions before they are adopted and follows their implementation. NTSP may initiate discussion on topical problems independently and keep their on agenda until achieving of final solution.

Besides NTSP, social dialogue peak organisations are represented in Consulting Council of National Economy, affiliated to the Ministry of Economy, and all of its committees. The Council has rotating leadership. Social partners have a duty to chair the Council and supervise its committees in due period.

At national level social partners are involved in policy debate practically on all items. Issues of specific value are annual state budget, minimum wage, non-taxable minimum of population income tax, cost of living and subsistence level, living conditions, tax system, pensions, salaries of education and health care workers. Trade unions are more focused on social issues, while employers organisations – on creation of favourable business environment for their members.

Major activities in the framework of bilateral social dialogue are at company level. Main negotiation issues are financial bonuses, social guaranties, working time, working conditions.

### **Number of players**

Consequently, at national level there are two official social partners – LBAS as a single representative of employees and LDDK as a single representative of employers. Number of national level or sector level trade unions and employers' organisations outside official partners is not precisely known, and hence this report focuses only on number, membership and representativeness of official social partners.

In 2014, LBAS had 20 affiliated organisations - trade unions, associations of trade unions and federations of trade unions. Trade unions unite company level trade union organisations. Trade union organisations (one or several) are established mainly in public sector institutions (in education, healthcare, culture and public management institutions) and current or former state commercial enterprises – for instance, energy company Latvenergo, Latvian Railways, Latvian Post, Lattelecom, Latvian Television, Latvian Opera and Latvian University. Of LBAS affiliates, the largest are the Latvian Education and Science Employees' Trade Union (LIZDA) (30,785 members, 32.1% of the total LBAS membership), the Latvian Railway and Transport Industry Trade Union (LDzSA) (12,635 members, 13,2% of the total membership), the Trade Union of Health and Social Care Employees of Latvia (LVSADA) (11,731 members, 12.2% of the total membership), the Latvian Trade Union of Public Service and Transport Workers LAKRS) (6,858 members, 7,2% of total membership).<sup>3</sup>

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<sup>3</sup> All figures from LBAS internal database for 2014.

In 2013 LDDK united 109 enterprises with more than 50 employees; and 63 sector associations and federations representing more than 5000 enterprises, of which 2529 were SMEs (Annual Survey 2012-2013). The organisation currently unites 110 sector leading enterprises with more than 50 employees; and 66 sector and regional associations and federations of entrepreneurs representing more than 5000 companies, of which 3036 are micro and small enterprises (LDDK homepage).

Strong employers' organisations (LDDK members) are in metalworking sector, wood industry, trade, electronic industry, communication sector, construction sector, hotels and restaurants sector, tourism, transport, business consultations sectors.

## **Capacity**

Capacity of social partners may be assessed from the point of view of membership (representativeness factor) and skills (performance factor).

Latvian legislation includes general normative for social partners' representation. Representative is eligible to represent wider scope of persons than is its own membership if it corresponds to certain requirements:

- it performs the same activity as the represented group, or is closely related to this (ex. agriculture organisation represents not only farmers, but also people involved in agriculture education or trade in agriculture products);
- it is recognised by the represented group in terms of leadership and in terms of reputation;
- it provides representative proportion of its membership to the number of the whole group, where representative proportion is based on statistical meaning of representativeness;
- it provides significant share of activity (production) of the group;
- it has sufficient human, organisational and financial capacity to fulfil representation function,
- it is equally neutral to all participants of the represented group (no corruptive ties between representative and particular members of the represented group).

## **Representativeness factor – national level**

In the current system of social dialogue employees and employers are represented at national level by a single representative each, however, Latvian law envisages wider approach regarding employers’ representativeness (less regulations regarding employees representation). In the initial version of the current *Labour law* representativeness of employers’ organisation was identified by one criterion – members of employers’ organisation or an association of employers’ organisations had to employ more than 60% of the employees in a sector. In 2006 this norm was changed to “50% of the employees in a sector” and in 2010 parallel criteria was introduced – “or the turnover of their goods or the amount of services is more than 60% of the turnover of goods or amount of services of the sector”.

LDDK reports that it has achieved stable support for development of entrepreneurship and competitiveness from the state institutions in Latvia. 75% of its proposals were taken into account. Opinion of LBAS is also respected. Nevertheless, implementation is a key issue in improving effectiveness and importance of social partners.

## **Representativeness factor – sector level**

The number of trade union members in LBAS affiliates has fallen from 625,000 in 1992, to 95,879 in 2014. At the same time the number of employed has fallen from 1.35 million people in 1992 to 885 thousand people in 2014. Trade union density, calculated as the proportion of trade union members to the total number of employed, was 46% in 1992, 27% two years later and just 10.8 % in 2014 (Source: CSP, LBAS). In 2014 LBAS affiliates united trade union organisations in 2093 enterprises with 17000 employees in total (approximately 20.1% of total number of employed in enterprises with trade union organisation) (Source: CSP, LBAS). Actual representativeness is larger due to extension of collective agreements.

In compliance with LDDK data (Annual Survey 2012-2013), its membership increases year by year. In 2013 LDDK members employed 41% of employees. In 2020, the organisation hopes to represent enterprises that employ more than 50% of the total number of employees (LDDK homepage).

Negotiations at regional and sector level are still is problematic because there is no institutional parity at the employees and employers side.

### **Performance factor**

In beginning of nineties trade unions were weak financially and their personnel was not sufficiently efficient. Majority of leaders and staff of trade unions came from the previous trade union system and were familiar with specifics of trade unionists work, but did not have skills for effective work organisation and international activities (language). On other hand, trade unions hardly accepted new forms of work organisation.

Contrary to this, employers' organisations were financially better provided and could attract educated young people who were familiar with modern management methods and work organisation, while collective bargaining issues were less familiar for them. Moreover, members of LDDK (entrepreneurs) were more opened to new forms of work organisations.

Consequently, some disharmony appeared in performance quality between social partners at national level, and even more at sector level.

#### IV. THE SOCIAL PARTNERS AND THE CRISIS

In order to understand activities of social partners in connection with the crisis and after 2012, it is necessary to examine the whole period after 2004 when Latvia joined EU. As Chair of LBAS Pēteris Krīgers has recognised, five years period from 2006 to end of 2011 has actually been fifteen years worth – so intensive had been activity of national level trade union organisation.

In 2004 – 2007, massive financial resources flood in Latvian economy from EU structural funds and foreign owned banks. This promoted enormous economic activity. Gross domestic product at constant prices of 2010 was by 18.7% larger in 2008 compared with 2005. Salaries went up, prices also went up. In order to slow down wage pressure and to accommodate generous financial resources, collective bargaining was expanded. Trade unions and collective agreements appeared in companies where they did not exist before.

In 2008, the largest national bank - Parex Bank - collapsed and the government claimed for international assistance. This came together with austerity program – Latvia was one of four EU countries where austerity program was introduced.

##### **Austerity measures**

Latvia signed the *Memorandum of understanding between the IMF, European Commission and the Republic of Latvia* on 28 January 2009, and joined *Euro Plus Pact* on 24 March 2011. The “*Six-pack*” regulations applied to Latvia automatically.

Since 2009, legislative developments were strongly subordinated to the austerity policy and state budget consolidation needs. On 31 May 2012, the Latvian Saeima ratified *EU Treaty on stability, coordination and governance (TSCG)*. *National fiscal discipline law* was adopted on 31 January 2013 and became valid on 6 March 2013. The state budget for 2013, as well as budget perspective for 2013-2015 was coordinated with principles included in EU fiscal discipline package. The government ensured anti-cyclic fiscal policy within the entire period of austerity program.

The international aid was divided in six instalments. Every subsequent instalment could be granted only if sufficient progress in macroeconomic stabilisation was achieved in periods between instalments.

The international aid was based on the stabilisation program and amended budget of 2009. Both conditions were aimed at fostering competitiveness, contributing to sustainability of public finances, reinforcing financial stability. Stabilisation program was prepared by Latvian authorities, but following drastic instructions from the international donors. The *Memorandum* required that general bonuses, performance bonuses, vacation bonuses, management bonuses, additional payments for work in high intensity conditions and similar such payments were eliminated. Social guaranties were remarkable reduced and indexations mechanisms were frozen. Basic principles of collective bargaining such as priority and security of collective agreement were destroyed without compromise. Trade unions tried to protect existing collective agreements or at least to make violation of collective agreements legal, as well as to control that *Labour law* is observed but with little success.

In order to achieve agreed fiscal consolidation level, to ensure stability of public finance and sustainable social budget, the amended governments' stabilisation program envisaged increasing pension age in a middle term.

The government had to reduce employment in central government ensuring at least 5% reduction by the end of 2008, and total reduction of 10% by the end of June 2009. Public sector pay was cut. In compliance with the *Memorandum*, within medium-term budgetary ceilings, average public sector remuneration in nominal terms had to be reduced in 2009 by at least 15% relative to the pre-crisis budget, and a further 2% in 2010-2011, this had also apply to local governments, government agencies and state owned companies.

The government's tactics in difficult social issues was confrontation of social payments – for instance, pensions against family benefits or *vice versa*. Other popular approach was to invite social partners to seek sources for compensation in rejected proposals.

Economic development turned from decline to “less decline” in first two quarters of austerity period, and positive growth figures were achieved in two last quarters of 2010. Increasing exports from timber, metal processing and machine building industry were main contributors to the growth.

Latvian economy showed first positive growth figures as early as in end on 2010. On 22 December 2011, the IMF Board examined the last *Report of the IMF/EU mission*

*on the implementation of the international loan program in Latvia* and agreed that the program is completed and may be closed. A little more than half of the international aid (4.5 billion of 7.5 billion euro) was used for stabilisation of Latvia's economy. The general government deficit was 3.4% of GDP in 2011 and diminishing towards the 3% threshold.

Social partners were involved in negotiations. The consolidation was achieved mainly by increasing taxes and cutting social expenditures and this had to be agreed with social partners. They were collaborative and responsible, accepted government's proposals without long debates and thus helped government to achieve social agreement on difficult austerity measures. Simple organisational structure at national level ensured that only two partners should be persuaded, and agreement on drastic cuts of social expenses was easy achieved.

In 2010, during the conference of the Bank of Latvia, international donors admitted that fast negotiations on reforms were important for successful implementation of austerity policy providing further growth. However, LBAS Chair stressed in 2011, that trade unions were seriously misled, for instance, regarding amendments to state budget in June 2009, when the most painful austerity measures were introduced, and decisions could be less harmful.

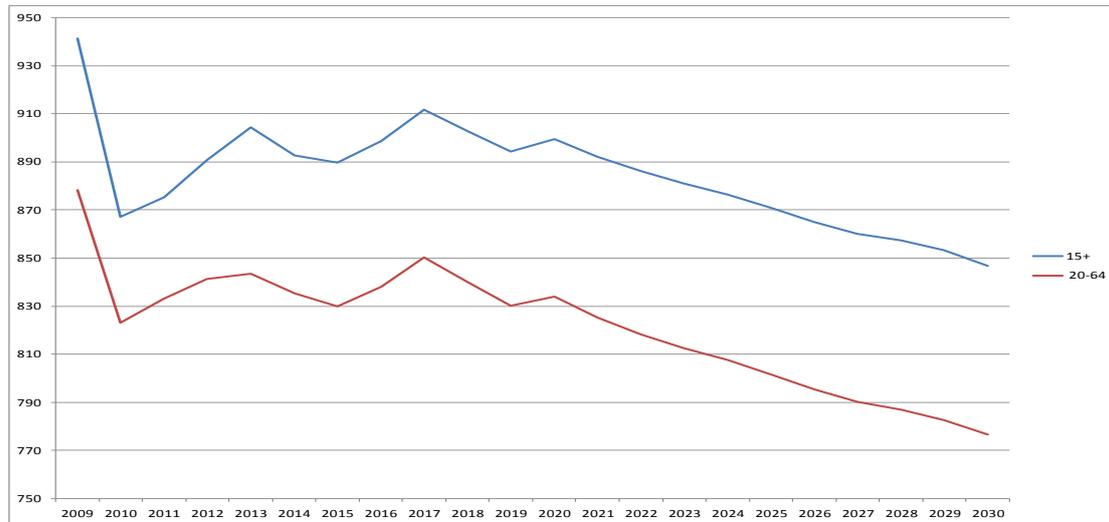
In 2012 crisis shock was over, and slow recovery process started. However, consequences of crisis are still present.

### **Labour market**

Number of employed reduced from 941.2 thousand people in 2009 to 867 thousand people in 2010 and then increased in 2011 to 875 thousand people (Figure 1). Contraction of labour market was assessed as normal phenomenon, and support measures were introduced through active labour market program for those who lost jobs instead of creating new jobs. Emigration increased.

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**Figure 1: Total number of employed (non-restricted age) and employed in age group 20-64, thousands people**

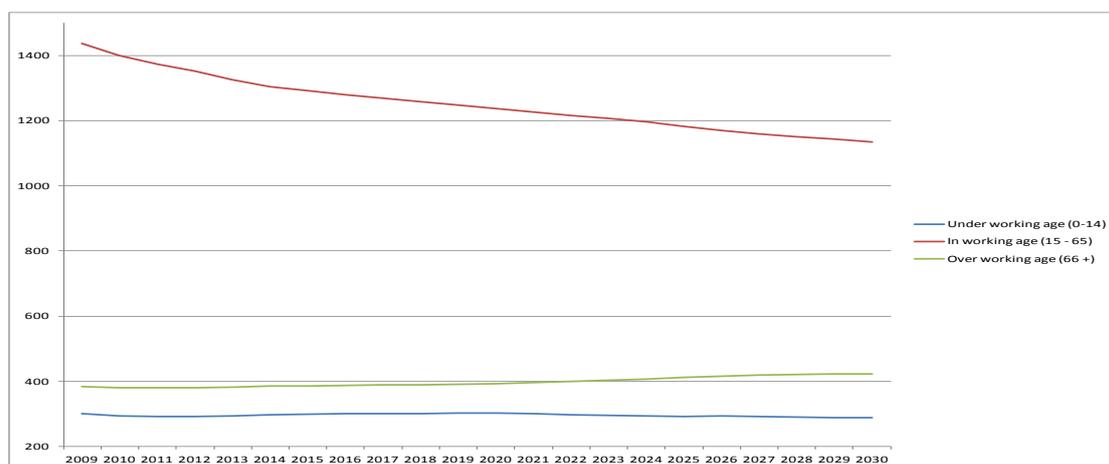


Source: CSP, EPC projections.

After 2012, labour market situation improved. Number of employed increased to 891 thousand people in 2012 and 904 thousand people in 2013, and then declined again to 892 thousand people in 2014 (Figure 1). Economic growth slowed down after 2012, still it was positive.

Labour market situation consequently deteriorates due to negative demographic trends. Number of workforce in future reduces and proportion between working and non-working population deteriorates (Figures 1 and 2).

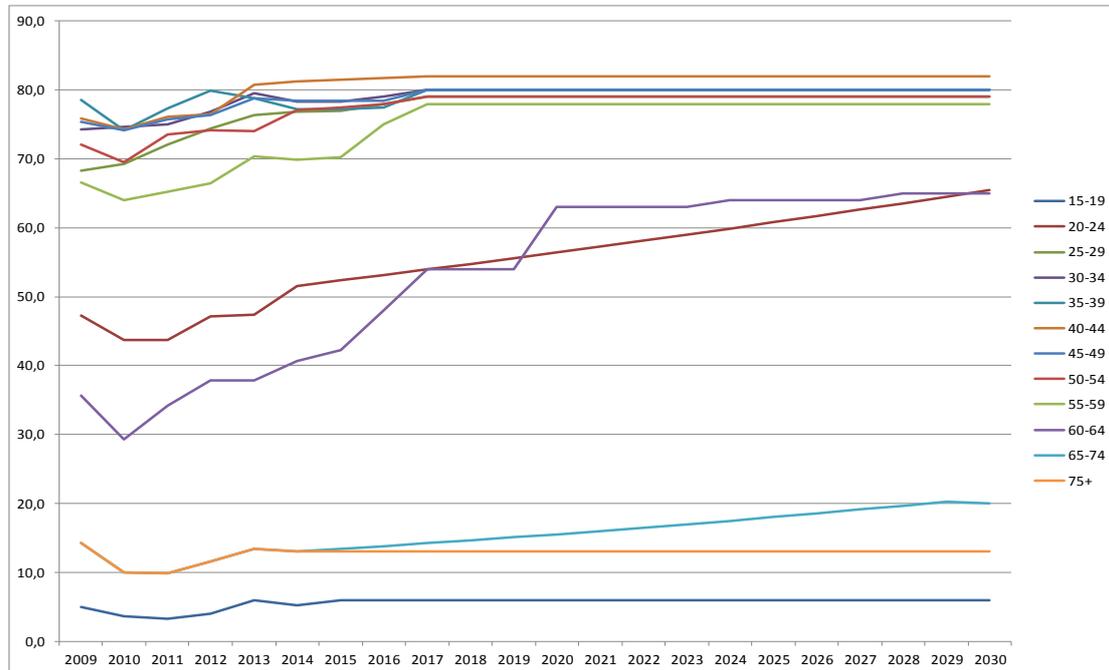
**Figure 2: Number of people in working age, under working age and over working age, thousands people.**



Source: CSP, EPC projections.

In compliance with the EPC demographic forecast demographic burden increases from 520 people over and under working age to 1000 people in working age in 2014 to 560 in 2020 and 630 in 2030. These figures are from the forecast that is based on favourable birth and death rates and very high employment level (Figure 3).

**Figure 3. Employment rate in percent of the total number of population in the relevant age group**



Source: CSP, EPC projections.

## Legislation changes after 2012

After 2012, two important changes in social dialogue related legislation occurred.

New **Trade union law** was adopted on 6 March 2014 and became valid in 1 November 2014. The purpose of the new law was to modernize the legal framework for trade union activities and to eliminate contradictions with other legal acts. It does not change the essence of trade union activities.

The new law affirms not only a person's right to establish a trade union and to become its member but also the right not to join a trade union.

In matters concerning social dialogue, tripartite cooperation, and the trade union's relations with state and local government institutions, the new regulation is made similar to the legal framework of employers' organizations.

In compliance with the new law, the interests of trade unions at national level are represented by the association of trade unions that unites the largest number of employees in the state. The interests of a specific sector are represented by the trade union within the association that unites the largest number of employees in the sector.

The association of trade unions that unites the largest number of employees nominates trade union representatives to the National Tripartite Council and its subcommittees. The trade union or association of trade unions that unites the largest number of employees in a given field, profession, or administrative territory nominates the representatives for its sector, profession, or territorial tripartite cooperation institutions.

In 2014 massive amendments were introduced in ***Labour law***.

Before 2014, the law had been amended 13 times. These amendments tackled comparatively insignificant issues: regulation of unpaid holidays, anti-discrimination norms, pay issues and some additional norms connected with implementation of EU Directives, as well as editorial improvements and reference to EU legislation.

While previous amendments were easily adopted, the last amendments (in 2014) met serious trade unions' opposition. Two years long discussion on proposed amendments finished so that agreed norms were adopted on 23 October 2014, while contestable issues remained for further discussion.

The agreed part included amendments to 35 sections of the *Labour law*. Concerning collective employment rights, the most important changes were regarding minimum wage, calculation of average earnings; restrictions on deductions made from work remuneration; vocational training and raising of qualification; the period of notification about the collective redundancy; prohibitions and restrictions on a notice of termination by an employer; notification of termination; restrictions of employment regarding children in age over 15, foreigners and employee's health condition; duration of overtime work; work of night employee whose work is associated with a

special risk; supplementing weekly rest for work during the week's day of rest; annual supplementary leave to employees who have not less than three children.

The contested issues proposed by employers were:

- to reduce supplementary pay for an employee who performs overtime work or work on a public holiday from “not less than 100 per cent of the hourly or daily wage rate specified for him or her” to 50 per cent rate;
- to abolish a norm that an employer is prohibited from giving a notice of termination of an employment contract to an employee – member of a trade union – without prior consent of the relevant trade union.

## Trends

There is no reason to argue that crisis has made important changes in social partners' activities or discussed topics or that 2012 is a turning point in social partners' activities. Still there are several factors that have encouraged progressive evolution of social partners work:

- EU policies concerning industrial relations and working conditions issues (for instance, focusing on more flexible labour relations in EU have encouraged amendments in *Labour law*);
- global competition (internationalisation of social partners activities in fields such as pay, social dumping, workers posting);
- changing factors that impact companies' and individuals' competitiveness at the labour market (increasing focus on education issues, working conditions issues);
- economic crisis and austerity measures, administrative regulations regarding implementation of collective agreements in the public sector, questioning implementation of existing collective agreements (increasing focus on legal issues of industrial relations);
- long-lasting lack of financial resources in public sphere and social sphere increasing social tension (increasing significance of basic social protection issues and family support issues);

- changing structure of the field of activity (increasing service sector with low trade union's coverage, decreasing industry sector traditionally supporting trade unions, increasing share of micro and small enterprises where trade unions are not typical, closing of large enterprises with strong trade unions);
- larger availability of financial resources provided by the European funds (used for capacity building, technological improvements, activities like consultations and training, and research and expertise);
- technology development and ability to obtain new technologies, increasing effectiveness of social partners' activities;
- long-lasting lack of financial resources in public sector that forces trade unions to find new methods of lobbying of wage issue in education and health care sector;
- higher capacity of employees of social partners in variation of methods and activities aimed at achieving of stated goals due to better professional education;
- loss of membership due to restructuring (more flexible membership requirements).

An important factor is shrinking economy and declining population. Due to shrinking economy entire sectors have lost trade union coverage (for instance, metal working sector that before was served by several independent trade unions is now integrated into the common industrial sector trade union).

## V. BEST PRACTICES OF THE SOCIAL PARTNERS TO „MANAGE” CHANGES

In 2009, the government adopted a norm that social partners should be involved in decision making process in all issues that are connected with their field of activities (Regulation of the Cabinet of Ministers Nr. 300 on *Rules of operation of the Cabinet of Ministers*, Article 91). Main participation activities at national level are: information and consultation, participation in government level working groups and commissions, meetings of the Cabinet of Ministers and its Committees, and Parliament commissions.

Moreover, it is required that drafts of legislation are supplemented by annotation that includes Chapter VI on “What consultations have been held in the process of elaboration of the draft legislation act”, where responsible state institution should inform what NGO and social partner organisations and other organisations were consulted, what is their opinion (support, their proposals are included, formulations are changed in their interests, do not support), and which measures were used for consultation and information.

Thus, even in crisis period social partners were not excluded from the decision making process. Trade unions and employers organisations were considered as main social partners. Intensity and quality of social partners’ participation depends on capacity of these organisations. Therefore we should focus in „increasing” rather than „regaining” of negotiation power.

Negotiation power might be increased by:

- increasing membership;
- increasing capacity;
- increasing impact.

Majority of social partners activities are organised together in order to increase their collective efficiency. The roles, goals and opinions may differ, yet the cooperation between employers and employees is strong. Following the existing situation, practice of improving negotiation power is divided in three groups: common policies and measures, policies and measures organised by national level employee

representative (LBAS) and policies and measures organised by national level employers' representative (LDDK).

## **Common policies and organised measures**

### ***Increasing membership***

Common activities in increasing membership were not found to this moment.

Notion of social partner's membership is not equally understood. Both organisations have affiliates – organisations as members, however, LBAS pays more attention to number of members – individuals in its affiliates, while LDDK pays more attention to number of affiliates – companies and their turnover. This difference in understanding of membership influences tactics of increasing membership. LBAS through its affiliates works more within enterprises, informing workers about advantages of trade union's membership, while LDDK works directly with enterprises, motivating advantages of membership for companies from the business aspect rather than directly for workers from the employment aspect.

### ***Increasing capacity***

Main source for capacity building measures of social partners is EU Structural Funds. The government has opened EU Structural Fund's program *Human resources and employment* that includes priority direction 1.5. *Strengthening of administrative capacity*. Within this priority direction there is measure 1.5.2. *Strengthening of capacity of human resources* that includes activity 1.5.2.2. *Strengthening of capacity of social partners, NGOs, and local governments* and sub-activity 1.5.2.2.1. *Strengthening of administrative capacity of social partners*". This sub-activity is divided in projects, among which there are projects *Strengthening of administrative capacity of the Free Trade Union Confederation of Latvia* and *Strengthening of administrative capacity of Employers' Confederation of Latvia*.

*Sustainability index* (introduced in 2010) is one of commonly organised annual measures that results in dissemination of social responsibility and social dialogue idea and helps to develop social dialogue skills.

### ***Increasing impact***

At national level, impact should spread towards the decision making institutions, but also towards the process of social dialogue and its lower level actors – affiliates of peak organisations and their member organisations, employees and employers.

Simple representativeness system of social dialogue at national level facilitates improving impact in both directions because it excludes any conflicts between peak players. This system is questioned time to time, still existing social dialogue partners are united in providing that circle of national level representatives is not expanded.

Before and short after crisis newly established trade unions accumulated membership, and they claimed for the role in the national level social dialogue system. Recently activities of „outsiders” trade unions and other employees’ representatives have slowed down. On employer’s side, LTRK appears as national level player, but this organisation is not involved in collective bargaining.

#### *Impact towards the decision making institutions*

Besides participation in the decision making process through NTSP and working groups, commissions and similar formations and especially in crisis period social partners used other impact methods:

- 1) Mutual agreements on cooperation and understanding aimed at creation of favourable economic environment and social peace (first mutual cooperation agreement between LBAS and LDDK was concluded in 1996, overall, LBAS and LDDK have concluded four mutual cooperation agreements – in 1996, 2004, 2007 and 2013 (valid until 2020);
- 2) Agreements with the high level government officials (prime ministers), and other governmental organisations - ministries, state institutions, for instance, in 5 May 2007, co-operation agreement was set forth between LBAS and the State Labour Inspectorate (VDI), on 7 October 2008 the government, LDDK and LBAS agreed on social peace: that social partners will not apply proposals that might increase state budget deficit more than by 1.85% of GDP, and that minimum wage will not increase);
- 3) Agreements with leading political parties and coalitions of parties;
- 4) Common petitions to high officials on topical problems (for instance, a letter from LBAS, LDDK and Local Government Association of Latvia (LPS) to State

President with request to abolish Article 81 of Latvian Satversme that sets forth that in urgent cases between Saeima sessions the government is eligible to take decisions that are equal to adoption of law, because this article was wrong used);  
5) Active policy measures (public actions, demonstrations, meetings, piquets).

Social partners have expanded involvement into social negotiation process to national level local governments' centre. Cooperation agreement among LBAS, LDDK and LPS has been valid since May 2006. In June 2011, LDDK increased cooperation with local governments by signing cooperation agreement with the Latvian association of large cities (LLPA). Cooperation agreements are concluded with the Latvian Academy of Sciences (LZA). LTRK has also activated its negotiations with the government and is included in joint actions of social partners.

Common *informative and training campaigns* organised together with responsible state institutions – the State Revenue Service (VID), the State Labour Inspectorate and the State Employment Agency (NVA) are aimed at increasing impact, but also facilitate increasing capacity and knowledge of member organisations.

#### *Impact towards the process and actors of social dialogue*

Developing and strengthening of social dialogue process is among issues discussed in NTSP (subcommittees, new instruments, regularity of meetings, timely submission of proposals for consideration and similar issues).

Within the Latvian Presidency in the European Union Council (from January 1 to July, 2015) several events were dedicated to social dialogue issues. Events were organised jointly or individually, yet the tradition was observed that each social partner attends partners' events. This principle is commonly used in everyday practice, and social partners are well informed about „hot topics” and „red types” in partner's organisation, may envisage reaction on their proposals and coordinate their policies. Not without reason former head of LDDK Elina Egle, speaking about cooperation of social partners, admitted that opinion of employers and employees differ still Latvian peak organisations are able to find consensus and to comply with partner's opinion on behalf of common benefits, and this is key to success.

Among Presidency events, social partners commonly organised a measure *Responsible business week, final event of the Sustainability index 2015* that included ceremony of awarding and congratulations for winners of annual *Sustainability index*.

## **Policies and measures organised by employee’ organisation (LBAS)**

### ***Increasing membership***

Total membership in LBAS affiliates reduces year by year. It is explained by changing economic structure, reducing number of population and employed and low wages. Manufacturing that has always been basis for trade union activities is less than 14% in GDP and 14.6% in employment.<sup>4</sup>

Trade unions do not exist in small enterprises that form large part of Latvian economy. Currently just 8.2% of market sector enterprises in Latvia may have trade unions due to sufficient number of employees in enterprise. 85% of enterprises are micro-enterprises with less than 10 employees (average 1.5 employees) where employees’ representatives cannot be established. 6.7% are non-market sector enterprises.<sup>5</sup>

Some activities for increasing membership in new conditions are:

- improve evidence of benefits from trade union membership with help of LBAS newspaper, journal, printed reports - overviews on LBAS activities between congresses that are published before LBAS Congresses, legal consultation service;
- introduce youth with trade unions work – LBAS has active Youth Council, has established annual competitions and skills promotion projects in schools and even kindergartens: “ToDo safety home” campaign on safety issues for younger children from lower grades and kindergartens (2009); SMARTS (started in 2011 in general education institutions); PROFS (started in 2010 in vocational education institutions);
- increase direct membership (LBAS and its affiliates accept individual members in addition to company level organisations);
- cover all levels, improve social dialogue at sector and regional level;
- improve image of LBAS and increase effectiveness of trade union instruments in order to demonstrate to potential members that trade unions are effective

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<sup>4</sup> Source: CSP.

<sup>5</sup> Source: CSP, author’s estimations.

modern and powerful organisations, able to protect their rights (public actions, tradition of orienteering competition in Riga).

LBAS promotes proposal that enterprises that have introduced collective agreements may receive special tax regime. The idea has emerged that representation model of cooperating trade union units would help to cover small and micro-enterprises.

LBAS has introduced free of charge legal consultations for workers in LBAS office. This service introduces workers with LBAS and facilitates improvement of LBAS image as useful organisation.

### ***Increasing capacity***

Training and information are main activities aimed at increasing capacity. Besides before mentioned EU supported project *Strengthening of administrative capacity of Latvian Free trade Union Confederation*, trade unions are involved in other capacity building project *Strengthening of trade unions capacity in tripartite dialogue* and several skills promoting and information projects:

- practical application of normative of industrial relations and safety at work in sectors and enterprises;
- development of labour market in democratic society through tripartite social partnership;
- qualitative practices for labour market;
- creation of sectors qualification system and increasing of effectiveness and quality of vocational education.

### ***Increasing impact***

#### *Impact towards the decision making institutions*

LBAS participates in the whole decision making process, however some fields of activity are more important than others. These are: labour rights, labour security, gender equality, education in general and vocational education, youth, employment, social guaranties, pensions.

LBAS is deeply involved in the process of elaboration of the state budget. Minimum wage, non-taxable minimum of personal income tax, subsistence minimum, as well

as taxation are items that are annually discussed in NTSP before adoption of the state budget. The discussion results in recommendations and proposals of social partners that are not always observed, nevertheless social partners are able to influence at least partly decisions on general right of workers. For instance in October 2007 trade unions opposed the project of state budget that envisaged cut of social expenditures, and this was reason for demission of Prime Minister Aigars Kalvītis. On other hand, the final version of the state budget of 2009 was not submitted for discussion in NTSP at all. In many cases documentation appear in NTSP very late and social partners are not able to provide qualitative decisions.

Strikes and other active protest actions are not typical for Latvia. Before crisis LBAS used active protest methods, and was supported. For instance, on 2 August 2008 LBAS initiated referendum on amendments to section 78 and 79 of Latvian Satversme (Constitution) aimed at increasing of responsibility of politicians for taken decisions. Amendments would provide that 1/10 of individuals having the right to vote could initiate dissolution of the main legislation body – Latvian Saeima (Parliament). This action attracted more than 629 thousand of potential voters, of which 609 thousand supported LBAS proposal.

However, support for protest actions on general topics diminished in crisis period and LBAS changed tactics. LBAS youth section organised several effective thematic public actions on work protection issues, and these measures were noticed.

#### *Impact towards the process and actors of social dialogue*

LBAS pay great attention to increasing of unity of its affiliates. Besides LBAS Congresses every four years it:

- organises informative and social events for its members;
- publishes informative materials on topical labour legislation and social dialogue issues;
- conducts series of studies on socio-economic issues (18 studies) and legal issues;
- organises informative conferences and seminars.

In 2007 LBAS introduced annual award for the best company level trade union. In 2007 12 company level trade union organisations received LBAS awards, in 2008 – 16 organisations, in 2009 15 organisations and in 2010 – 20 organisations. In 2011 best trade unions were nominated by region and number of awarded organisations increased to 72 organisations and individuals. Ceremonial meeting in honour of awarded organisations is usually organised in autumn.

LBAS effectively used the Latvian Presidency in European Union Council for discussing role of trade unions and social dialogue in nation's development. It organised several events (LDDK participated in guest status):

- three conferences on following topics: *Role of trade unions in sustainable growth and creation of qualitative jobs; The role of trade unions in creation of secure working environment; The role and power of trade union as social partner in development of Latvia* (final conference in implementation of the ESF project *Strengthening of administrative capacity of Free Trade Union Confederation of Latvia*);
- European Economic and Social Committee Workers Group Extraordinary meeting;
- two regional events and Ceremonious event in favour of LBAS 25st anniversary aimed at strengthening of trade union activities outside the capital city by encouraging discussion on the role and power of trade unions in development of Latvia;
- four high level meetings on social dialogue issues in Riga;
- two measures organised by LBAS Youth section: LBAS Youth forum *Trade unions – Your challenge!* (continues activities of LBAS Youth organisation in popularisation of trade union movement among young workers) and International trade union youth forum *Strengthening the trade union youth participation in decision making at European and national level* (continues activities of LBAS Youth organisation aimed at increasing international activity of trade unions and strengthening of trade unions' capacity to work internationally).

## **Policies and measures organised by employer’s organisation (LDDK)**

LDDK has formulated its goals in the *Strategy of Employers’ confederation of Latvia (LDDK) for 2014-2020*, that includes work plan for 2014 and 2015.

### ***Increasing membership***

LDDK motivates participation by promising to protect business interests of its members – business enterprises. This motivation is better accepted by managers of business enterprises than protection of workers right. Indeed, LDDK is an organisation that together with LTRK monitors creation and changes of business environment and protects ideas that are more beneficial for employers than for employees. Potential support in business issues attracts entrepreneurs. LDDK membership increases year by year, however not every of newcomers meets requirements of Latvian law on employers organisations. For instance, rare organisations outside LDDK are involved in collective bargaining – an activity that is expected from true employers’ organisation.

LDDK has also organised measures for young people, for instance, action *Experience for future* in 2010.

### ***Increasing capacity***

At the same time, LDDK provides development of necessary skills of social dialogue immediately after an employers’ organisation or enterprise became its member. Capacity building activities are organised in two directions – strengthening of capacity of national level organisation and strengthening of capacity of LDDK members through information and training.

The main motto in work with LDDK members is social responsibility.

LDDK provides for its members theoretical and practical information about corporate government, social responsibility and social dialogue, and involves its members in practical training activities that are organised as competition or game. *Sustainable index* that was mentioned before is one of involvement activities; others are *Assessment of responsible business* and *Assessment of family friendly business*. These measures are based of voluntary participation and self-assessment of companies. Number of participants increase year by year. In its practice LDDK has used also *Innovation award*.

On other hand, LDDK provides useful information and instruments for improving working conditions. It has conducted two of three existing *Working Conditions and Risks* reports (in 2010 and 2013) and has published informative reports on work protection in enterprises. It also has provided for its members electronic tool for work safety risk assessment.

By using internet resources, LDDK has developed interactive games, for instance, explaining incidental of intentional daily participation in the shadow economy and individual consequences of such participation.

Main instrument for increasing capacity of employers' organisation are EU Structural Funds' projects.

### ***Increasing impact***

#### *Impact towards the decision making institutions*

LDDK main activity is participation in decision making process. Along with improving organisational and professional skills participation in decision making process increases and becomes more effective. LDDK representatives are practically everywhere where important socio-economic issues are discussed, including Latvian Science Council and Latvian Research and Innovation Strategic Council established in 2014 in direct subordination to prime minister (LBAS is not represented in these two institutions).

LDDK do not organise public actions and do not participate in LBAS public actions. Its major instruments are proposals, conclusions and arguments, supported by expert opinions and opinions of its members.

#### *Impact towards the process and actors of social dialogue*

At national level LDDK co-operate with LBAS regarding further development of the social dialogue system in Latvia. The organisation demonstrates firm position regarding usefulness of the social dialogue.

Taking into account that sector level social dialogue is weak point of the social dialogue system, LDDK has contributed to understanding of reasons of low development and ways of improving of sector level social dialogue. It has published two reports on this topic: *Analysis of sector level social dialogue in Latvia* (in 2013) and *Guidelines for strengthening of sector level social dialogue* (in 2014).

Assistance to member organisations and enterprises forms important part of LDDK activities. It is understandable, that main impact is made through information and consultation activities aimed at improving of skills of its members in social dialogue and collective bargaining. The expected result is higher participation of employers in collective bargaining and social dialogue.

LDDK has established regional offices (regional coordinators of social dialogue, project financed from EU Structural Funds (started in 2009, office closed in Liepaja in 2015)). LDDK regional coordinators co-operated with regional business clubs and NGOs in order to promote entrepreneurship and cooperation with local governments. In Talsi (small city in Kurzeme) regional coordinator assisted in signing of agreement on social dialogue between local government and Talsi Merchants' Club, in Kuldiga she assisted in integration of business representatives in local government institutions, in Liepaja the first regional tripartite consultation council was established (employers, employees and local government). Several new business organisations were established in surrounding towns.

LDDK also used Latvian Presidency in European Union Council for promoting of its ideas. It organised (LBAS was invited): BusinessEurope Council of Presidents Meeting, Eastern Partnership Business Forum (part of the 2nd Summit of EU Eastern Partnership) and international conference "*First Innovative Enterprise week. Access to Finance for Research, Innovation and SMEs 2015*" and participated in Eurochambres Plenary Assembly and Forum *Economic Cooperation Opportunities between Europe and Central Asia*.

## VI. CONCLUSIONS

Latvia does not have long lasting tradition of social dialogue; nevertheless it has created working social dialogue system. Main institutional body of this system – NTSP has regular meetings and discusses essential issues such as macroeconomic development scenarios, the state budget, tax regime, social security issues, pay and education, health care. Latvian labour legislation and Regulations of the Cabinet of Ministers Nr 300 provides legal background for presence of social partners in decision making process.

The quality and power of social dialogue depends in large from financial and professional capacity of social partners. As EU member, Latvia has received funding from EU funds for capacity building of social partners organisations. This made possible to conduct training and research, as well as consultations for members and outside social dialogue organisations. In other words, organisational aspects have been beneficial for development of social dialogue organisations. On other hand, economic structure has changed and this encourages new approaches in social dialogue activities.

Both social partners recognise that they have been able to work together, to organise common measures, to openly express and motivate and coordinate opinions and to find reasonable compromises, and NTSP is a real platform where such compromises are achieved. Working together is a key to successful social dialogue.

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