

STANDING COMMITTEE ON SOCIAL CONCERTATION

COMMITMENT FOR EMPLOYMENT, GROWTH AND COMPETITIVENESS

Summary of Main Policies Agreed upon with Social Partners
and Government

january 2012

Commitment for Employment, Growth and Competitiveness

Shortly after its inauguration, the new Government invited the Social Partners (Unions and Employers' Organizations) to a round of talks on the structural reforms needed for restoring competitiveness, growth and employment creation to Portugal.

Building upon the objectives and measures set forth on the Economic and Financial Adjustment Programme, on January 18th a successful agreement was reached and signed by all major partners.

This document lays out the main changes in Labour Market Regulations and the proposed Active Labour Market Policies. The final section presents a brief overview of the broader context of this government's economic policies.

- I. **Employment Legislation, Unemployment Insurance System and Labour Market**
Relevant changes to Labour Market and Regulations
- II. **Active Labour Market Policies**
Definition of active labour market policies to be implemented
- III. **Economic Policies**
Definition of basic cornerstones for economic policy

I. Labour Legislation

Labour rigidity is one source of low competitiveness of the economy. The Government and Social Partners recognize the need to adapt labour legislation to provide a more flexible landscape. The agreement reached includes the following measures:

- A. **Working Time Arrangements** - social partners agreed upon the creation of a "banks of hours" to be set up between a company and an employee directly ("Banco de Horas Individual") or with a group of workers, allowing companies to better address fluctuations in demand. Reduce additional overtime pay to a maximum of 50% (25% for the first hour, 37.5% for second hour and subsequent and 50% for holidays or weekends). Eliminate compensatory time-off equal to 25% of overtime hours worked;
- B. **Holidays and Vacations** - reduce three to four of the compulsory holidays. Eliminate the possibility of having three additional vacation days based on the level of assiduousness. Also, from now on, when a company chooses to close on a day which is immediately before or after a holiday, then that day counts as a vacation day for the employees.
- C. **"Layoff" in crisis situation** - develop legislation regarding interruption of workers' activity based on economic crisis, by turning it into a more agile procedure (eg: shorter prior notice periods, right to extend special regime without prior consent of unions/workers);

- D. Dismissal - eliminate the need to follow a specific order of dismissal (seniority-based) in the cases of extinction of work position. Allow the dismissal based on unsuitability to happen even without the introduction of a new technology. In the aforementioned cases, forfeit the obligation to transfer the employee to another suitable position;
- E. Severance Payments - align severance payments of current employees with the new ones (20 days/year, cap of 12 years), preserving accrued to date rights. Set the severance payment entitlements aligned with EU average from November 2012 onwards. Create a compensation fund (or equivalent mechanism) to finance part of the severance payments;
- F. Labour Conciliation - implement the “Centro de Relações Laborais” (Labour Relations Center) to act as a conciliation center with the mission to support collective negotiation as well as to monitor developments in the labour market;
- G. Unemployment benefits - reduce the unemployment benefits to a maximum of 18 months (plus an additional bonus of up to 8 months depending on the length of the contributory career), with a cap of 2,5 IAS (social support index worth about 400€) and a reduction of 10% after 6 months. Extend unemployment benefits to certain category of self-employed people (cases where 80% or more of the income comes from the same company);
- H. Collective Agreements - define through collective agreements the cases where workers’ councils can conclude firm level agreements on their own. Unions will be able to delegate powers to workers’ councils for the negotiation of agreements (applicable to companies with at least 150 employees).
- I. Promoting Labour mediation and arbitration - promote out of court mechanisms for resolving labour disputes with the aim of accelerating and facilitating the process, whilst ensuring that access to courts is still an option. Until the end of 2012 the partners will analyze and propose concrete measures to expedite court decisions in labour matters.

II. Active Labour Market Policies

Labour Market Policies and professional training have a fundamental role in increasing productivity of the labour force and addressing labour market mismatches. In light of this, the Government and the Social Partners have agreed to implement a set of measures, among others

- A. Employment Centers - restructure the employment center network and reinforce its role as a support system for unemployed people (eg: reinforce the role as a gatherer of employment opportunities; increase connection to the Training Centers; create a “career manager” role; develop monitoring tools to assess performance of employment centers);
- B. “Estímulo 2012”- implement measure to support the hiring of medium-long term unemployed by companies. Under this measure the State supports up to 50% of the workers wage over the first 6 months of job (conditioned to net employment creation) with a maximum of one IAS. In exchange employers



commit to provide professional training to worker over the duration of support;

- C. Cumulative unemployment benefit - the unemployed can continue receiving 50% of their unemployment benefit for the first 6 months (and 25% for the following 6), if they accept a job offer with lower wage than the unemployment benefit they currently have;
- D. Education/Training - ensure education/training to the medium to long term unemployed as well as baseline training to all unemployed. Develop monitoring tools to assess the efficiency of training programs (eg: employability rates). Implement “cheque-formação” (“training check”) that enables individual workers to invest in their education. Implement a new certification standard (“Modelo de Certificação Profissional”).

III. Economic Policies

The Portuguese Government and Social Partners, recognizing the urgent need for measures to promote economic growth and the creation of sustainable employment, agreed upon a set of guidelines and measures that will help Portugal restore its competitiveness and remove hurdles to growth

- A. Promoting Internationalization and Securing Investment - improve conditions for capturing FDI, increase exports and improve SME’s efficiency through the support of a clear economic diplomacy, leveraging on geo-strategic positioning of Portugal with Portuguese speaking countries (South America and Africa), creation of export passports for SME, joint-ventures between big and small corporations and implementation of double tax treaties in a more efficient manner;
- B. Guaranteeing Strategic Utilization of EU Funds - rescheduling of the National Strategic Reference Framework - QREN, in order to assure efficient and early utilization and allocation of those funds in projects that create employment and which are competitive. Support projects that have a high export capacity and ability to develop national clusters. On the Rural development Programme - PRODER and Operational Programme for Fisheries, rescheduling of the programme and the new co-financing rates of 85% should be used towards projects that create jobs and add value in the respective sector.
- C. Promoting Entrepreneurship and Innovation - support and encourage SME to invest in R&D, encourage SME to register and license patents, use strategic funds from QREN/COMPETE to increase the usage of R&D;
- D. Ensuring adequate Liquidity to the Economy - support SME on finding alternatives to the traditional sources of funding (Credit Line PME “crescimento” of EUR1.5bn, increase in moratorium for PME Invest credit lines, Export insurance, Programme for Payment of Arrears), re-organize the Public Venture Capital into one organization able of allocating funds more efficiently;
- E. Increasing the National Production Capacity and Deepening the Internal Market - increase awareness of consumers on national products, encourage



- consumers to have sustainable consumption patterns and fight disloyal competition from third parties through the usage of European laws;
- F. Revitalizing the Business Sector - reinforcement of instruments and simplification of processes available for corporations undergoing a restructuring process, new insolvency law and new legal framework for insolvency administrators;
 - G. Reducing Context Costs - New competition law, re-definition of powers of regulators, implementation of the SME Test as predicted in the Small Business Act; new public procurement code;
 - H. Reforming the Public Administration - continue to work on a set of measures that will reduce the weight of the Public administration in the economy as well as redefine functions of the Public Administration. Focus on diminishing the levels of bureaucracy;
 - I. Reforming the Legal System - encourage usage of alternative dispute resolution for out of court settlements, new code of civil procedures, new insolvency law, new courts on competition and Intellectual property rights;
 - J. Fighting Fraud and Fiscal Evasion - merger of domestic tax administration, custom administration and information technology is ongoing process, Large Taxpayer unit is being created, revenue administration audit force is being increased, transfer prices will be deeply scrutinized, temporary task force of judges for cases above EUR1mio to eliminate backlog;
 - K. Reducing the Informal Sector - introduction of compulsory invoice, review and simplify taxation regime for micro and small entities, establish quantitative goals for reduction of the informal economy;
 - L. Fostering Business Associations and Business Cooperation - encourage corporations and business associations, to continue and deepen work developed with Research Centers "Clusters & Polos de Competitividade".
 - M. Increasing Business Sector Technical Capacity - support to SME technical staff through articulation of measures defined by the Ministry of Economy and Employment, Ministry of Social Security and the Professional Education Institute (IEFP), support professional qualification programs and reinforce training and internship programs;
 - N. Restructuring SOE - execution of the Strategic Plan for Transport, ensuring minimization of social costs; involve labour unions on aspects of this plan that involve employment issues and changes to labour conditions;
 - O. Improving Cash Management - develop a project to introduce "IVA de Caixa" (a system in which VAT is only paid after the cash from the transaction is collected) for small corporations, introduction of measures that encourage payments to be realized in 90 days;
 - P. Promoting Urban Rehabilitation - setting up of an investment fund with leverage up to EUR1bn to support Urban Rehabilitation. This fund will have contributions from the European Investment Bank's JESSICA fund (Joint European Support for Sustainable Investment in City Areas), from the private sector and from the banking sector;
 - Q. Promoting Business Activities
 - i. Agriculture - promote the internationalization of the agricultural sector following the recommendations from the "Gabinete de Planeamento e Políticas" (2010), encourage the increase in land-usage for agriculture, the Government will make available its agricultural



- land, giving priority to young farmers, study the possibility of diminishing prices of “Green” electricity and Hydric Resources Utilization taxes, promote forest production, negotiate the reform of EU Fisheries Policy , define a national strategy for the Maritime Economy;
- ii. Industry, Retail and Services - measure the progress of policies developed for the so-called “Competitiveness Clusters”, simplify industrial licensing process, assess environmental taxes and charges at Local, Regional and Central level, revision of the system of “business location areas” with pre-approved licenses , review legal regime for adverse trade, new program MODCOM (for the modernization of commerce);
 - iii. Tourism - redefinition of National Tourism Strategic Plan, foster national tourism through better market segmentation (eco-tourism, senior, religious), fight seasonality and regional asymmetries, promote Portugal’s brand internationally, simplify legal regime for services and professions related to Tourism, review and simplify regulatory framework for the sector;
 - iv. Energy - parties have agreed on 5 main points: energy should be at the service of the economy, meet European efficiency targets for 2020, reduce energy dependence to 60%, assuring security of supply, and liberalize energy markets. In order to achieve these targets, the government will enter into a process of renegotiation of the guaranteed compensation mechanism (CMEC), Power Purchase Agreements (PPAs), costs associated with Power Guarantee Mechanisms, costs with co-generation and other special regimes. Review the National Plan for Energy (PNAEE), promote energy services corporations (ESO) with the goal of increasing in 30% energy efficiency in Public Services;
 - v. Transport & Infrastructure - define long term plan for the migration to the European-gauge rail connection, give priority to the railway interconnection between Ports of Sines, Lisboa, Setubal, “Plataforma Logística do Poceirão” and Madrid/RoE (Rest of Europe). Promote railway freight network connection between Aveiro - Spain/RoE, evaluate passenger growth constraints in national airports.



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