Estonian Employment Contracts Act: Cornerstone in Applying the Flexicurity in Estonia?

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Over the past ten years, the EU has been seeking ways to increase the adaptability of employees and enterprises, as well as the flexibility of labour markets. Since 2006, the keyword has been flexicurity, and the implementation of this concept is intended to achieve the desired changes in labour relations. Accordingly, Estonia has attempted to reform labour relations in the light of the idea of flexicurity and adopted the Employment Contracts Act in 2008. This law comprises several amendments, the aim of which is to make labour relations more flexible. This article focuses on some critical aspects of the reforms that have had the greatest impact on the functioning of labour relations in Estonia. The author analyses whether the implementation of the idea of flexicurity in Estonia has been successful.

Keywords: principle of flexicurity in European Union; new Estonian Employment Contracts Act and flexicurity; confusing rules in Estonian Employment Contracts Act.

Contents

Introduction	76
1 Concept of flexicurity and its components	7
Situation in Estonia	78
2 Flexible employment conditions – do we understand what this should mean? 17	79
Situation in Estonia	79
3 Limitations to flexibility in labour relations?	32
Summary	3
Sources	
Bibliography	3
Normative acts	34
Other resources	34
References	34

Introduction

Discussions about the flexicurity at the moment are modest. It can be admitted that the idea of flexicurity has already reached its limits. Although the European Union has published a series of documents on flexicurity and modernisation of labour law in the European Union and in Member States, the question about the limits of labour relations' flexibilisation and intensity of social security remains open. There are a number of Member States, where the level of labour relations' flexibilisation is quite high, but at the same time the necessary level of social security is modest or missing. Estonia is one of these states. In Estonia the maximum level of flexibilisation in labour relations has been achieved, but the necessary level of (social) security is missing.

One of the aims mentioned in the concept 2020 for the European Union is "an agenda for new skills and jobs" to modernise labour markets and empower people by developing their skills throughout the lifecycle with a view to increase labour participation and better matched labour supply and demand, including through labour mobility.² It has also been stated that in order to raise the level of employment it is necessary to implement the flexicurity principle and to enable people to acquire new skills for adaptation to new conditions and potential career shifts. The EU also has set a goal to define and implement the second phase of the flexicurity agenda together with European social partners to identify the ways for improved management of economic transition, fighting unemployment and raising activities. In order to achieve the goals set by the EU, the Member States also will need to implement their national pathways to flexicurity, as agreed by the European Council, to reduce labour market segmentation and facilitate transitions as well as to facilitate the reconciliation of work and family life. Obviously, the idea of flexicurity is still important in order to achieve a higher level of employment and to find new approaches to addressing the elderly people with regard to the labour market.

Here the question could be raised whether there are or should be any connections between the labour law and the social security law in order to guarantee the flexicurity. At the first sight it is difficult to find any connections between the labour law and the social security law. These are different fields of law – the labour law is usually viewed as a part of the private law, on the other hand, the social security law is a part of the public law. Social security law does not guarantee flexible employment conditions, but it could partly help to finance "flexible labour conditions" or at least partly to cover the costs of terminating the employment relations (e.g. payment of compensation in case of redundancies). Furthermore, sometimes the training or retraining of the unemployed can be viewed as a part of social protection of unemployed and also as a part of social security law. This means that both fields of law can contribute to the effectiveness and usefulness of flexicurity.

Although the Estonian Employment Contracts Act (hereinafter ECA2008)³ was adopted in order to apply flexicurity in Estonia, it could be described as a failure in applying the flexicurity. Although it is true that the regulation of employment relationship has become more flexible, many questions remain without any solutions in the ECA and it is difficult for employers and employees to understand how they should behave in labour relations and to apply flexible labour relations.

In this paper some problematical aspects of the ECA2008 in the framework of flexicurity principle application will be discussed.

1 Concept of flexicurity and its components

As it is well-known in the European labour law, the concept of flexicurity consists of four parts: flexibilisation of labour relations; intensive social security protection for those who have lost their job; lifelong learning and active labour market measures for unemployed. In order to guarantee the realisation of flexicurity idea, it is desirable that all the four components should co-exist. There has been extensive research devoted to the topic of flexicurity,⁴ but at same time it can be admitted that there is no concrete idea or action plan, how this system should function and be implemented in the Member States. It has been stated, that an exemplary state for flexicurity is Denmark. In Denmark the idea of flexicurity is one of the best developed.⁵ In case of any other states, the concept is unclear.⁶ It is also noted that in

order to follow the development of flexicurity six possible country clusters can be distinguished: the Nordic system, the Anglo-Saxon system, the continental system, the Mediterrian system and Eastern Europe (with an addition of Italy).⁷ It has also been stated that the Baltic States especially lack the labour market security. Particularly, the spheres of income, employment and representation security are low in the Baltic States.⁸

Although the principle of flexicurity has been clarified and described in many ways, uncertainty still exists. Nobody is able to provide a solution, how to introduce and to develop the concept of flexicurity. It could be prognosed that also in the future there will be a difficulty to understand, how to implement the principle of flexicurity in labour law.

According to the literature: "Core of the flexicurity idea is that security is a precondition for flexibility, and flexibility a precondition for security". It has also been stated that much depends on if and how the Member States take up the flexicurity ideas (if at all), the content of the policies and regulations they implement and the effects these measures have. 10

It has been stated that the concept of flexicurity consists of four main parts:

- 1) flexible and reliable contractual arrangements;
- 2) efficient, active labour market policies to strengthen transition security;
- 3) systematic and responsive lifelong learning;
- modern social security provisions that also contribute to good mobility in the labour market.

While these four components are the usual components of the flexicurity, sometimes the fifth component is also included – the development of supportive and productive social dialogue. ¹¹

As one can see, all these measures are mainly intended to promote flexibility in the labour market, if a person changes the place of work, he or she could find a new job as soon as possible. It could also be described that the "*free movement of persons inside of the state*" will be encouraged. ¹² The fifth component is not only a part of the flexicurity, but it is also a necessary part of employment relations as such. ¹³

Situation in Estonia

In Estonia the intention was to introduce the idea of flexicurity and flexible labour relations via a reform of the individual employment law. Already in 2007 the preparations started in order to reform the Estonian individual employment law. The idea was simple – to make the individual employment contract similar to other civil law contracts, to reduce the level of different formalities (e.g. employment contract in a written form or in a verbal form, to compose the internal working rules and to approve them by labour inspectorate, etc. 15) and to reduce the financial burden of employer in case of redundancy, to provide more possibilities for employer to amend the employment conditions (e.g., working time, overtime work) unilaterally. Although the preparations for drafting of the new Employment Contracts Act started in 2007, only in 2008 the reasoning behind the modification of the individual employment law included the idea of flexicurity based on the green paper of the European Commission on modernisation of European labour law.

The government of Estonia also tried to be one of the first Member States to introduce the concept of flexicurity in labour relations. With the new draft of the ECA 2008 some modification in system of protection of unemployed was also proposed, furthermore, the system of health insurance was reformed (sickness

insurance provided for the registered unemployed). In this situation it seemed that Estonia will seriously apply the methods and principles of flexicurity in order to fulfil the criteria set forth by the European Commission.

Before the date the new ECA 2008 would come into force, the social security protection was postponed. In the framework of the new ECA 2008, the unemployment insurance system was changed in the following aspects: 1) the coverage of insured persons was widened (e.g., when an employee will leave the job in his or her free will, the unemployment insurance benefit will be granted); 2) the amount of benefit would be increased. However, the system of unemployment insurance remained unchanged, and the necessary costs of the active labour market policy and lifelong learning were decreased. Although in 2008 it was clear that there would be a lack of resources for enabling an improved unemployment insurance protection, the Government was of an opinion that it was better to postpone the social security protection instead of stopping the flexibilisation of the employment relations. ¹⁷

2 Flexible employment conditions – do we understand what this should mean?

One of the most important aspects (which may even be considered as the key aspect) regarding the concept of the flexicurity is the part of flexible employment conditions. At the same time, its exact meaning is unclear – what does it mean that the employment conditions are flexible? A further question arises – flexible for whom? If the Member States are free to choose, how are they going to implement the concept of the flexicurity? Should it not be clear, what kind of flexibility in employment conditions is to be applied? To address the flexibilisation of employment conditions from the perspective of an employee, it should mean the flexibility of fulfilling the employment tasks e.g. homework, telework or part-time work in order to improve combining of the employment tasks and the family life. This is a very important aspect in order to guarantee the flexibility from the perspective of an employee.

However, addressing the topic of flexibility in labour relations – the flexicurity – from the perspective of the employee is not popular. The main considerations state that an employer should have better opportunities for flexible employment conditions in order to avoid dismissal of an employee and to guarantee the continuity of an employment or to make it easier to dismiss an employee without any compensation or without any specific formalities. As a consequence, the idea of flexicurity is intended to protect and to help an employer, to guarantee a better opportunity for an employer to change the employment conditions unilaterally and to dismiss an employee without any obstacles or, at worst, without a good reason. At the same time the (social) security is a tool intended for the employee in order to be protected against the flexibilisation of employment conditions. This tool is usually missing or underdeveloped.

Situation in Estonia

According to the research, it is for the Member States to decide, how they will develop the idea of flexible employment conditions. Estonia has developed probably the most radical approach to flexibilisation of employment conditions. In Estonia the previous Employment Contracts Act (hereinafter ECA 1992) intensively protected the employees' rights (employment contract had to be concluded in a written form, there was a set list of circumstances for conclusion of a fixed term contract, a

strictly regulated disciplinary procedure for disciplinary punishments, exact rules in case of redundancies, especially regarding dismissing of the employees, etc.). There were complaints that ECA 1992 does not correspond to the contemporary situation and does not take into account the needs of small and medium enterprises. The service branch was not covered by the ECA 1992 regulation.

ECA 2008 changed the situation. For the most part, the law contained no direct instructions how to construct an employment relation. Predominantly, it was left to the discretion of the employer to decide whether something was reasonable and whether any consideration would take into account the interests of both sides. One example to illustrate the situation: by ordering the additional work, an employer is mostly free to do this, if this is reasonable and takes into account interests of both sides. However, it remains unclear, exactly how the interests of both sides will be taken into account. In everyday practice, the employer will order completion of additional work and the employee has to follow the employer's order. It is difficult for an employee to prove, if the reasonable interest have been taken into account.²⁰

According to ECA 2008 § 47 Section 4, arranging of the working time is an obligation of an employer. An employer can change the system and rules regulating the working time unilaterally, if there is a need to do that. There is no obligation to inform an employee about the changes in working time before these changes will take effect. The mandatory information and consultation system will be applied only if the number of employees is more than 30. If the number of employees is under that threshold, no information and consultation has been foreseen.

One could argue that the working time is an obligatory part of employment contract and it should be agreed in an employment contract. In line with ECA 2008 it is not the case. According to §5 of ECA 2008, an employer can issue an unilateral written statement, where the employment conditions are laid down. Furthermore, if there is no written employment contract, an employer has to inform an employee about the employment conditions in a written form. It should be done before an employee starts to work. If it has not been done before the commencement of employment, it could also be done at a later stage, but only in case when an employee demands such documents. Consequently, there is a possibility, where the employee does not know what kind of system of working time will be applied (a part-time or a full time, whether there are any shifts and if there are the shifts, how many hours the shifts will last).

Although one can see that there is a flexibility in organising the working time, this kind of flexibility introduces more uncertainty into the labour relations. If an employee does not know, how many hours he or she should work and for how many hours he or she will be paid, it is confusing for an employee in many aspects, for example, when he or she wants to combine working and private life.

Another problem concerns the conclusion of an employment contract. Regarding the question about the conclusion of an employment contract the ECA 2008 is somewhat confusing. In order to apply the principle of flexicurity, it is necessary to guarantee that the conclusion of an employment contract should be as simple as possible. According to § 4 of the ECA 2008, it has been foreseen, that an employment contract should be prepared and concluded in a written form. This means that both sides will sign a document in which both parties' rights and obligations will be stated. At the same time, § 4, Section 2 of ECA 2008 states that the written form of the employment contract is not mandatory, i.e. even if there is no written employment contract, the employment contract still does exist, if an employee has started

with his or her work. So far the rules on conclusion of employment contract are clear. The situation will be complicated by applying § 5 of the ECA 2008. The § 5 of the ECA 2008 contains a rule, according to which an employer might not conclude a written employment contract, but it is considered to be sufficient, if an employer gives an unilateral declaration about the applicable employment conditions. There are no time limits, within which an employer has to present this kind of declaration. Only one condition is clear – if an employee demands such a declaration, employer has to present it within 14 calendar days. Consequently, it is quite possible that an employee can be employed without knowing what the conditions of the employment contract are.

The ECA 2008 makes the situation even more complicated. According to § 5 of the ECA 2008, an employer can change the employment contract conditions unilaterally and according to the ECA, an employer has to inform an employee about the changes within one month starting from the day the changes have been made.

A question arises – what is the importance of the written employment contract (§ 4 of the ECA 2008), if it is possible to avoid a written contract and to work under the unilateral declaration of the employer? These two opportunities are confusing and do not contribute to the flexibilisation of employment relations. The legislative power has to take decision how the employment contract will be concluded. It would be desirable that Estonia retains a written employment contract and omits the opportunity for an unilateral declaration by an employer. Application of verbal employment contract will worsen the position of an employee in the employment relations.

Another example of applying the principle of flexicurity is the rules on conclusion of fixed term employment contracts. Fixed term employment contracts have been seen as a tool to create more flexible labour relations, to guarantee more jobs, to give people opportunity to return to work, if they have been unemployed for a long time. Usually, in order to conclude a fixed term employment contracts, there should be a good reason to do that.²³

According to the ECA 2008, § 9 an employer has a right to conclude a fixed term contract, if it is justified by good reasons arising from the temporary fixed-term nature of the work. In such regulation, there is nothing strange and it is up to the employer to decide, if there are possibilities to conclude the fixed term employment contracts. Still, the fixed term employment contracts are not very common in Estonia. The ECA 2008 makes the fixed term employment contracts unattractive for employers due to the extraordinary termination of a fixed term contract. In order to terminate this type of the employment contract, an employer has to have a good reason for that. If there is a need to dismiss a fixed-term employee due to the lack of work, an employer has to pay an employee a compensation to an extent that corresponds to the wages that the employee would have been entitled to until the expiry of the contract term. Additionally, an employer has to pay one month's salary as a further compensation in case of redundancy. Obviously, the ECA 2008 makes the fixed term contract unexpectedly expensive for an employer and understandably, as a result, the employers in Estonia do not want to conclude the fixed term employment contracts. Again, it is clear that in this respect the idea of flexicurity in ECA 2008 has failed. Although a fixed-term contract could be a tool for shortening the unemployment, in Estonia this is not the case - on the contrary, it is advisable for employers in Estonia to avoid concluding fixed term employment contract.

3 Limitations to flexibility in labour relations?

The Estonian situation described above raises the question, whether there are some limits for flexibilisation? There is no concrete answer to that question. It is argued that labour law is a field of law that should protect an employee against the mistreatment by the employer. After analysing the concept of flexicurity, it becomes obvious that the limits of flexibility will be established by the Member States. This means that throughout the EU Member States the level of flexibility will be different and the employment conditions will still vary. At the same time, it is clear that the required protection in employment relationship is decreased to give room for flexibility. The consequences are quite dramatic – the labour law does not offer any protection to the employees. Employment relationship is like any other relationship of private law, based on the mutual consent without any additional special protection rules. One may ask, whether there is still a need for specific regulations of labour relations or in the time of flexicutity the labour law is something useless?

Of course, amendment must be made here – according to the understanding of the European Union, the concept of flexible employment conditions should denote the flexibility in a broader sense. This involves different innovative forms of employment like tele-work, part-time work, etc. It is the responsibility of the Member States to introduce the concept of flexicurity and to choose the methods, how the flexibility of labour relations will be introduced and to what extent it will be applied.

According to OECD index, the protective measures in Estonian labour law were quite high. ²⁴ The research that was implemented by the Estonian Employers Association has shown that the flexibility of labour relations is not very high. It is not common to use part-time work; tele-work is not very widespread. It was also indicated that the administrative obligations of the employers are too high (e.g., it was necessary to approve the internal rules of work with labour inspectorate, to get a consent before dismissing the employees' representative or a pregnant worker, to formulate the termination of employment contract in a written form). All those aspects were viewed as obstacles in a way of guaranteeing normal, flexible employment relations. Since 2008 Estonia has the new Employment Contracts Act whereby all these aspects are not any longer applied. One can say – at least on level of law there is the flexibilisation of employment relations, but in practice both employers and employees are careful and they do not rapidly adapt the new ways and methods that the new ECA 2008 could guarantee.

ECA 2008 also has changed the situation of termination of an employment contract to a certain extent. Although the dismissal of an employee due to the redundancy has been made easier for employer, there is an opportunity for wrong dismissal. While there are priority rules for dismissal and rules stipulating the period of notice, it is still possible for an employer to dismiss an employee wrongfully. According to ECA 2008 § 107, Section 2, in case of a dispute about wrongful termination of an employment contract, it is possible to terminate the employment contract by decision of court, if at least one of the parties intends to do so. This means that even in case of a wrongful dismissal an employee will lose his or her job in any case. Although there is an opportunity to obtain a compensation form employer, the amount of the compensation will be determined by the court. In order to avoid a dismissal due to the redundancy, employees often use an opportunity to be dismissed due to the cause that the employer has violated employment conditions or has discriminated an employee. When resigning on this basis, an employee has to give a notice five days in advance and the employer has to pay a compensation

equalling three months' average salary. It means that the idea of flexicurity has brought about a situation, when the employees are giving up their job easier in order to receive a higher compensation from employer and to avoid "useless" dismissals due to the redundancy.

There could be a view that the employees have obtained new rights (too extensive flexibility), however, it could be questionable. The § 38 of the ECA 2008 could be provided as an example. According to this rule, an employee can leave his or her place of work temporarily due to personal reasons, and the employer has an obligation to pay the average wage for a reasonable period of time. In this case a particular emphasis should be placed on the fact that an employer is not allowed to inquire into the nature of the personal reasons, however, an employer has a right to decide, if he or she will pay the average salary and for what period of time.

Flexibility of employment conditions in ECA 2008 has a further negative side. It can be admitted that the level of pregnant workers' protection has decreased. According to the ECA 1992, an employer had to respect the prohibition to dismiss a pregnant employee. Even if the employer did not know about the pregnancy, still the termination of an employment contract was null and void. ECA 2008 does not forbid the redundancy of a pregnant worker. It is the task of a pregnant employee herself to take care of the protection against the dismissal. According to the § 93 of the ECA 2008, a pregnant employee is protected only if she presents a doctoral certification within 14 calendar days from the date when she has received the dismissal notification. If this is not the case, the redundancy is legal. There are some doubts, if such regulation is in conformity with European and international standards on protection of maternity, but so far the Estonian government is not in hurry to change the relevant legislation.

Summary

As the situation in Estonia demonstrates, the idea of flexicurity is misunderstood and it could also be the case that the flexicurity could be misused in order to introduce flexible employment conditions. Although Estonia attempted to be one of the first Member States to apply the principle of flexicurity, the principle of flexicurity has never been implemented in Estonia. Today it could be stated that Estonia is most probably the first Member State of the European Union that has abandoned the principle of flexicurity for ever. Estonia has applied only one component of flexicurity – flexible labour relations. It is obvious that the concept of flexicurity could be used for any reform of labour relations. At the same time, nobody uses the notion of flexicurity for amendments in social security law. According to the case of Estonia, it can be concluded that even the application of flexible labour relations could be confusing, because both parties to the employment contracts could lose the faith in legislation and in judicial procedure.

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- According to the Unemployment Insurance Act it was foreseen, the unemployed will get 50% from his or her previous income during 1-100 days of unemployment and 40% since 101 day till 360 days. It was agreed to raise the level of benefits 75% form the previous earnings during the first 100 days of unemployment and 50 % since 101 day.
- At the same time, trade unions had an opinion according to which it is not possible to implement ECA2008 without any changes in unemployment insurance. In April 2012 Parliament *Riigikogu* adopted a law which abolished all the planned amendments in unemployment insurance scheme. This means, that the idea of flexicurity has been forgotten in Estonia forever. It was only used in order to find a justification for intensive flexiblisation of labour relations in Estonia. See also Declaration of Estonian Confederation of Trade Unions, 17.05.2012 Available in Estonian: http://www.eakl.ee/?pid=75&nid=476&lang=5 [last viewed, 29.06.2014].

- ¹⁸ See e.g. for Germany: *Preis, U.* Innovative Arbeitsformen: Flexibilisierung von Arbeitszeit, Arbeitsentgelt, Arbeitsorganisation. Dr. Otto Schmidt, Köln, 2005, ISBN 3-504-42041-3.
- ¹⁹ About the dismissal protection, see *Rebhahn*, *R*. Future Perspectives on Dismissal Protection in the European Union. Presentation on Labour Law Research Network Conference 2013. Available: http://www.upf.edu/gredtiss/en/LLRN/conference.html [last viewed 30.06.2013].
- On 01.04.2013 the new Public Service Act in Estonia came into force. With this act Estonia tried to apply the principle of flexicurity also in public service. The idea was to regulate public service closer to the regulation of employment contract. This means that the reasonable interests should also be taken into account by officials if there is need to order the overtime work.
- If one looks into everyday praxis of applying the ECA 2008, the one of the major problem is the non-written employment contracts. Neli aastat tööleppest: suurimaid probleeme tekitab suuline tööleping (Four Years of Employment Contract: Main Problems Connected with Verbal Agreement). Available in Estonian: http://www.eakl.ee/?pid=75&nid=472&lang=5 [last viewed 29.06.2014].
- ²² See also *Muda*, *M*. Turvaline paindlikkus uues töölepingu seaduses (Flexicurity in the New Contract of Employment Act). Juridica 2012, IV pp. 295-304, ISSN 1406-1074 (in Estonian).
- ²³ See eg.: Dütz, W., Thüsing, G. Arbeitsrecht. 16. Auflage, Beck, 2011, pp. 165-170, ISBN 978-3-406-62495-7
- ²⁴ Employment Protection in 2008 in OECD and selected non-OECD countries. Available: http://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm [last viewed 29.06.2014].
- ²⁵ Töövaidluste analüüs (Analysis of labor disputes, in Estonian), 2013. Available: http://www.sm.ee/fileadmin/meedia/Dokumendid/Toovaldkond/uuringud/T%C3%B6%C3%B6vaidluste_anal%C3%BC%C3%BCs_l%C3%B5ppraport.pdf [last viewed 28.06.2014].