

Research

“The working conditions in the German transnational company Dräxlmaier in Kavadarci- Macedonia in view of the visit for mapping of possibilities of union organizing”

January 2016

Authors:

Sonja Stojadinovic and Aneta Smit Guleva

Contents

Political situation in the Republic of Macedonia and legal framework for FDI	3
General facts about the factory	6
Workers' rights and the working conditions within the factory	8
Union organizing	10
Political connections with the local authorities	13
Local context.....	13
Socio - economic consequences of capitalist restoration.....	13
Sources.....	14

Political situation in the Republic of Macedonia and legal framework for FDI

In 2006, the right wing political party VMRO-DPMNE won the parliamentary elections and created a government in coalition with an Albanian party DPA. But after two years in 2008 early parliamentary election were held on which again VMRO-DPMNE won and they went into coalition for government with another Albanian party BDP. The following elections were in 2009 and they were presidential elections and elections for local governments. In 2011 another early parliamentary elections were held on which again VMRO-DPMNE won in coalition with the Albanian BDP. The last early, third in line early parliamentary elections were held on 2014 and the results were the same in the previous parliamentary elections since 2006. The ongoing ruling government for 10 years have created a public debt of 46.6% of GDP, high level of corruption, mass migration because of the inability for people to find work. The ruling political parties VMRO-DPMNE and the Albanian BDI have created a system in which institutions are controlled by the party members, the only criteria for employment in public sectors isn't the quality of the candidate but if he/she is a member of DPMNE or BDI. This system is cause for high percentage of non-professionals on high manager positions and wide spread brain drain in all levels in the society. The last census on the citizens in Macedonia that the State Statistical Office have conducted was in 2002. Since then there are no official numbers how many people have left Macedonia, how many were born, deceased, how is economy position of the citizens, educational level, etc. The information that from 2004 to 2015 approximately 650.000 have left Macedonia is obtained from World Bank, not from our statistical office². The government in their campaigns is claiming that they succeeded with the FDI to decrease the unemployment rate to 27% but in fact the real rate is 32% because nobody is analyzing the labor market grey zone. A lot of micro and small companies which owners are members of DPMNE are employing workers on short period (three months), not paying taxes and pension insurance because they are "protected" from their political party in exchange for financial so called "donation" in the party budget.

In March 2015 the opposition party SDSM (Social Democratic Union of Macedonia) have started with publishing of wire taped conversations between politicians³. This mega scandal uncovered abuse of the political offices by politicians of the position. The public discovered that more than 20.000 citizens were wire taped by the Directorate for security and counter which director was first cousin of the ex-prime minister Gruevski, Sasho Mijalkov. The conversations uncovered how the politicians of DPMNE have forged the early

¹ <http://www.izbornaarhiva.mk/>

² <http://data.worldbank.org/country/macedonia-fyr>

³ <http://www.bilten.org/?p=7070>

parliamentary elections in 2014, other elections rigging, embezzlement of public money and property, to corruption and party capture of state institutions. As well the system of money laundering in creation of the construction project “Skopje 2014” in which every monument that have been erected Skopje have been overpriced. The minister of interior tried to cover a murder of a young boy by a police officer during celebration of the victory of the elections in 2011. This information have created an explosion of mass protest on 5th of May 2015. Protesters demanded resignation of the prime minister, whole government and taking responsibility for the crimes. These protests have ended with political negotiations between the ruling coalition DPMNE and BDI from one side and PDSH and SDSM from the other side as opposition and they were under surveillance of the European Union. The result was political agreement called Przino agreement by one Skopje suburb⁴. The key provisions of this agreement were media and election reform and the establishment of a Special Prosecution Office (SPO) tasked with probing high-level crimes as exposed in the wiretaps.

The beginning of September 2015 the Special Prosecution Office (SPO) start its operation and their investigations have resulted with several resignations from government officials which criminals were exposed from the wire taped conversations including then prime-minister Nikola Gruevski. On 12 of April 2016 the president Gorgji Ivanov have pardoned 56 people who were under investigation of SPO and among them were high officials and politicians from the government⁵. This decision was a trigger for eruption of protests first in Skopje and after in the whole country. After two months of constant protests, the president withdraw the pardon but the protesters have retained their demanding: clean electoral roll (there are thousands of so called ghost voters), representatives of the civil society to be included in the negotiations, creation of a special department in the Criminal court with jurisdiction on cases of SPO, resignation of the president Ivanov, establishing a transitional government for implementation of the recommendations from the report of Reinhard Pribe⁶.

The system for attracting FDI in Macedonia have been based on two commercial principles. Paying expensive commercials to be broadcasted on CNN and BBC and sending so called “investment promoters” in states who are seen as potential investors. If you are a businessman and you are attracted from the commercials that Republic of Macedonia is heaven for foreign direct investments, the first web site you are going to visit is one of the

⁴ http://europa.eu/rapid/press-release_STATEMENT-15-5372_en.htm

⁵ <http://www.balkaninsight.com/en/article/thirteenth-night-of-protests-ends-in-macedonia-04-26-2016>

⁶ http://ec.europa.eu/enlargement/news_corner/news/news-files/20150619_recommendations_of_the_senior_experts_group.pdf

Agency for foreign investments and export promotion. The creator of that Agency, the Government of the Republic of Macedonia is deeply convinced that the first picture you, as a successful businessmen who wants to develop your business have to see are the investment deductions they are offering. Lowest flat tax on profit 10%, fast company registration (4 hours), excellent infrastructure, EU and NATO candidate, macroeconomic stability with low inflation, 0% tax on reinvested profit. These deductions look perfect for foreign investors, but everything is different in practice, especially for the workers.

The legal framework on which FDI are based upon contains three major laws: Law on control of state aid⁷, Law on protection of competition⁸ and Law on technological-industrial-development zones⁹. First two laws are implemented by the State Commission for protection on competition. The second institution that a foreign investor has to visit is the Directorate for technological-industrial-development zones. This Directorate is formed in 2002, but the real functioning have started in 2007 when the first version of the Law on technological-industrial-development zones have been adopted by the government. This Law regulates the scheme and the system of support given by the state to the foreign investors. On the territory of Republic of Macedonia 14 technological-industrial zones have been formed. Three of them are functional, while the rest are on different levels of development. The first company which have opened a factory was Johnson Controls (spare car parts) in 2007 in the technological-industrial zone Skopje 1. The Article no. 2 states that the purpose of this Law is to accelerate economic growth by attracting foreign and home capital for development of new technologies and their application in the economy. Basic strategy and system for attracting investments in Macedonia are deductions in the taxes on several levels. In the following Article 5 the basic deductions are listed starting from: tax payer/user of the zone shall be subject to exemptions from payment of income tax for a period of ten years from the commencement of the performance of activity in the zone but not more than two years after the year of preparation of the solution for commencement of operations under the conditions stipulated in this Law and income tax for a period of ten years from the date of receipt of decision for commencement of operations.

Another deductions that is very much important for the investors is deduction personal income tax receipts in respect of salaries of employees, for a period of ten years from the beginning of the activity in the zone, or in the first month in which the user will make payment of salary, regardless of the number of employees with the users, under conditions determined by this Law. Beside the fact that this Law is in line with EU directives on foreign

⁷ Official Gazette of the Republic of Macedonia 145/2010);

⁸ Official Gazette of the Republic of Macedonia 04/05

⁹ Official Gazette of the Republic of Macedonia 14/07, 103/08, 130/08, 139/09, 155/10, 127/12, 41/14, 160/14, 72/15, 129/15, 173/15 и 192/15

investments, the transparency on state financial support for these investments does not exist at all. The institutions responsible for all FDI such Directorate for technological-industrial-development zones and the Commission for protection of competition (which is competent for control of state aid) are not publishing any information about the amount of the state aid. The Law regulates the state aid for training of new employees. The Article 6 states: The user of the zone that provides new jobs may be granted assistance for eligible investment cost of education in the form of special or general training of workers. (2) Help of this Article may be granted up to 50% of the eligible investment costs in the case of general improvement and up to 25% eligible investment costs in the case of special improvement. Since there is no time limit, it is assumed that each year the investors is using an unknown amount for training new employees.

The investors are receiving a grant building: the amount of aid for construction of facility in (Technological-industrial-development zones) TIDZ is limited to 0.5 million, and the companies that are users of the zones are using this aid in the form of a grant. They as well receive exemption of the fee for building land (communal fees) and exemption from compensation which is local and establishes the municipality in whose territory TIDZ. Higher salaries are not the motivation for the Government, because it generate higher costs for their coverage from the state budget through higher absolute value for income tax to pay, and where this is the case and contribution to all salaried employees. Sectors that generate new knowledge, as well as transmission and spillover of knowledge such as research and development, marketing, sales, are in the reserved maternal companies or in regional centers in order to limit the factor of spillover of knowledge¹⁰. The absence of transparency for deductions and subventions in FDI given by the government is creating a situation in which local companies are reacting that there is a discrimination towards them. In the Skopje suburb called Vizbegovo are located approximately 250 companies. After 10 years of struggle of the businessmen for investments in infrastructure, in 2015 the municipality of Skopje have built a bust station in this area for facilitated transport of their employees. This is one of many examples of governments' uneven treatment towards local investors.

General facts about the factory

The investment of "Dräxlmaier" in Kavadarci was officially announced in July 2012. The first production was expected in the second half of 2013. According to the data from the Central Register of Republic of Macedonia by the end of 2014, 4811 persons were employed with a ratio of employment, 70% women 30% men. The average net salary in 2014 was 237 EUR.

¹⁰ http://epi.org.mk/docs/D4V_Socio-economic%20development_mk.compressed.pdf

In 2014, from the overall income (43 444 578 EUR), 23 938 600 EUR were spent as expenses for the workers.

Main products produced in the factory are wiring systems for the automotive industry intended to supply the automakers such Audi, BMW, Cadillac, Jaguar, Land Rover, Maserati, Mercedes-Benz, Porsche and Volkswagen.

The factory is not located in a Technological – Industrial Production Zone, at the start it was functioning on the principle of hired premises while the new building was built. With the current non transparency over the amounts disbursed as State subsidies to foreign investors it is not possible to obtain concrete data of any agreement signed between “Dräxlmaier” and the State.



Picture 1.



Picture 2. “Dräxlmaier Factory”, Kavadarci 2016

Companies that set up factory in and out of the Technological – Industrial Production Zone are receiving following benefits from the government (*Article 8 from The Law on technological and industrial development zones*): tax, customs and communal exemptions, exemption of VAT, exemption of tax income, exemption from payment of personal income tax for up to a maximum of 10 years, long-term lease of land to 99 years and further - state aid of 100 000 500 000 for the construction of factories. In addition, the companies receive financial support in cash money for creation of working places, money for payment of corporation tax, money

for personal tax of employees and state financial support for expenses during training of employees. On local level, they are exempted from paying compensation to municipalities for construction land, obtaining building permits and have access to free plug pipeline, water supply and sewerage network as well. These benefits are divided on the basis of two laws: the technological-industrial zones and state aid. Through these laws, except tax and customs exemptions, implemented and direct funding in the form of cash payments from the budget at the expense of foreign companies.

According to the Report of the State Commission for Competition from 2012, Dräxlmaier has been attributed unstated amount of support with a Decision of the Government for financial help for regional development according to the Law for Control of the State Aid from 05 of November 2010. The amounts are unknown as stated in the Annual Reports in line with the Law for protection of the completion and the Law for control of Stated Aid.

The existing legislation gives right for the construction costs of the overall infrastructure to be covered by the state budget, besides the foreign investors are using the benefit of deviation of the construction land for a price that is far lower than the market price.

Example: Decision on determining the period and the cost of lease of construction land in TIDZ (Technological and Industrial Development Zones) of the company TRIVIEU HIT CO LTD.

"The period for which land is leased for a specified period of time is 99 years. The amount of rent is 0.1 euros per square meter in the first five years, or 2,216 euros annually. After the first five years, the rent of land will be determined for each year with the possibility to increase, but not more than 15% annually."

Workers' rights and the working conditions within the factory

The process of production is established in several production halls, starting from selecting of raw materials, through factory strips where workers compile the parts in one component to the end of the strips where other workers are packing the products. Halls are separated depending on the production process, in one the workers are compiling contacts and switchers in the cars, while in other halls they assemble the cables for contacts and spare parts for the cars.

In Dräxlmaier there are no contracts for an undefined period. Every worker gets a first contract from one to three months. After that period the employees do not get official communication for extension of the contract, they simply continue going to work since nobody has quitted their contract. Working hours are differently paid depending on the shifts. Working hour in first shift is approximately 6 EUR, in second shift is 6,8 EUR, in third shift 7,8 EUR. Workers have equipment for protection such as special boots in the parts of the halls where electricity is on high level, working coveralls, and helmets. Unfortunately, not every worker is using the equipment beside the fact that it is obligatory and the controllers are not using penalties against that behaviour.

From the opening of this factory, the employing process went through two ways. One was formal applying on add for a working place in the factory and the second way was "lobbying" in the ruling party, precisely in the local office of VMRO-DPMNE. Because of the location of the factory, approximately 60% of the workers are from Kavadarci, the rest are from Veles are 35%, and smaller number from Negotino, Prilep and surrounding villages. The existence of mobbing is very present and comes from the top to bottom. Managers are putting pressure on controllers to increase the production, which pressure goes down to workers. Increasing the work quota of the workers leads to cutting down the time frame for creating one product and increasing the pressure on workers.

Example: The folding of one switch takes 70 to 120 seconds, but the controllers and jokers (jokers are workers who are trained to work on every production line and they are used to fulfil the place of a worker who is currently on vacation or on medical leave) are decreasing the time frame for folding and increasing mobbing and pressure on workers.

That kind of behaviour leads to mistakes and job loss. Additionally mobbing from controllers is used to replace one worker with another who is more eligible than the previous one. Under eligible it is meant the one who is more personally close to managers and controllers. In the last year (2015) the process of employing didn't depend so much on party membership because the job loss and people who were leaving the factory have been increased. The net salary goes from 150 EUR to 190 EUR. With bonuses and hours worked on holidays and weekends the maximum salary that a worker can achieve is 300 EUR.

Medical protection exists 24 hours but the main problem for getting it during working hours is permission from the controllers. In many cases the controllers do not believe workers claim that they need medical help and they force them to continue to work beside the fact that they need break and medical help. The main reason for this behaviour is the financial

interest of managers and controllers for increased production and increased bonuses for them. Same situation is for using vacation. Beside the fact that vacation days are guaranteed, the permission depends on the mood and interest of managers and controllers. The production quotas are different when the delegation from Germany is coming in control.

Example: the production quotas for cables are 250-350 per shift, while in the days when control from Germany is present, the quotas are 150 cables per shift. The behaviour of controllers and jokers is different as well. There is no mobbing; communication and treatment are normal and human, while in other periods they are rude and forcing workers to work above the established quotas.

Under all these circumstances a strike was organised on 13 of May 2014 when workers from third shift refused to enter into production halls claiming that working hours for Easter holidays and overtime hours have not been paid. The management have promised that workers will receive vouchers in amount of 25 EUR which can be used for shopping in certain stores and 35 EUR for work on Easter. They have received only vouchers, but the money from holidays were not included in the salary. After continuing of the strike from workers of first and second shift, the managers threatens to workers that they will lose their jobs if they do not start the production process. Under pressure of losing the job, workers stop the strike and continue with production.

The previous month (April) the workers from Veles started a strike because the management sent only one bus instead of two buses for workers from Veles and the area. Only from two leftist movements, "Lenka" and "Solidarnost" there were no other signs of solidarity during the workers strikes. Community does not have interest about showing support because of the fact that there is high pressure in media controlled by government to celebrate foreign investments instead of protecting workers rights.

Union organizing

Unionizing at company level

According the Law for labour relations the workers have a guaranteed right to become members of a trade union. In the reality although this initiative may come from the workers, in general it is encouraged by a branch trade union. In the case of Dräxlmaier the branch

trade union is the Union of the workers in the industry, energy and the mining SIER¹¹. The unionizing at company level has to gather minimum 20% of all the employees in the company in order to get representativeness and the possibility to start negotiation process for a Collective Agreement on employers' level. It is an extremely difficult process bearing in mind the discouragement of the workers, difficult access to the workers, difficulty to obtain good conditions for communication of trade union policies and outcomes and most of all the unwillingness for cooperation coming from the employers.

Unionizing at branch level

The unionizing at branch level gives access to claim representativeness and make branch collective agreements. SIER is not claiming representativeness on branch level but is rather concluding collective agreements at employers' level. In Macedonia there are not many trade unions in the private sector that have representativeness and are concluding Branch Collective Agreements.

Example: Agro trade union has representativeness of 20% of all workers in some of the 4 branches it covers. The branch trade agreements this union signs with an employers' associations, according to the Labour Law, are binding only for the unioinsed workers and the branch employers associations signing such an agreement.

The branch employers' associations are organised under the Organisation of Employers of Macedonia¹² where Dräxlmaier and many other foreign investors' employers are not members. By becoming member in the Organisation of Employers of Macedonia it basically means that employers are committed to some collective bargaining process, either in their company, either at branch level and/or at national level and this membership for the employers is voluntary.

At national level the outcome of this process is the General Collective Agreement for the Private Sector – OKD, concluded between the representative Federation of Trade Unions – SSM, SIER being part of it, and the Organisation of Employers – ORM. The General Collective Agreement for the Private sector is binding for all the employers regardless of their membership status in ORM, thus the agreement has the same qualification as the Law for labour relations and regulates issues such the overtime working hours, transport health and safety standards etc.

¹¹ <http://sier.org.mk/>

¹² www.orm.org.mk

Presently ORM doesn't have representativeness for the sector where presuming Dräxlmaier would fit and as consequence there are no conditions to have a branch collective agreement.

In these circumstances the only option for SIER is to help the employees to unionise and empower them to start a bargaining process to conclude a collective agreement on the company level. SIER has been active on this issue since the establishment of Dräxlmaier. Following points are critical obstacles that discourage the unionizing among the workers:

- The insecurity related to the type of the working contracts
- The vagueness of the working contract after the first three months, the period for which the employee was hired officially.
- The majority of the employees are not directly hired by Dräxlmaier, but Dräxlmaier hires them through Temporary work Agencies leaving the continuation of employment up to the sole will of the employer
- The examples how the company dealt with disobedient workers that had courage to ask for respect on their rights

In addition to this the public image of the Federation of Trade Union is seen as very bad due to the obedient attitude of its President towards the government eager to meet investors requirements especially on the level of expenses related to workers.

SIER is dedicated to the mission to help the unionising in Dräxlmaier and in the other foreign companies in the same sector as Dräxlmaier.

With the other Branch Unions they have joint efforts to change the legislation and limit the employment through the temporary work agencies, to set minimum number of employees with contracts of undefined period after the company has reached certain number of employed workers but the success of these efforts is vague and is purely dependent of the political will and positioning according to other interests.

Workers representatives

Since any efforts of the workers to create union that would be connected and empowered by the branch trade union (SIER) has been annihilated the management has found a way to still fulfil minimum requirement for workers information and consultation by creating workers council that basically are managed by the Management. Representatives from different production sections have been identified by the managers and were chosen for workers representatives. These workers were close to the managers and are members of VMRO-DPMNE. The workers who first initiated creations of union were not on the list of candidates

for representatives in the union and they have been treated with job loss of their reaction against this decision. So this council that act as union was created but nobody knows its purpose because nobody from workers ever saw what they were doing or even fulfil there promises for improving workers rights and working conditions.

Political connections with the local authorities

Media coverage depends on the ownership of the media itself. In Macedonia media are separated on opposition and position media. Media from position like Sitel, Kanal 5, Alfa TV and local TV and radio stations are writing positive comments about the role of Dräxlmaier and how much this investment decreased the percentage of unemployment on the region. From the other side, the opposition media are covering negative moments of mobbing, death of workers in the factory, strikes, blackmailing of workers with job loss, low salaries. The nepotism is represented in the process of promotion from the last in the production lines, workers, to jokers, from jokers to controllers, after that into higher levels managers. The promotion depends on personal connections with controllers and managers, friendships and membership in the ruling party.

Local context

Dräxlmaier is the most important employer for the city of Kavadarci and the surrounding municipalities (Veles, Gradsko, Negotino). Kavadarci with unemployment bellow 15% is the city with the lowest unemployment comparing to the national level ranging at 28%. Kavadarci and surrounding cities has been traditionally agricultural region famous for the grapes and peaches and the wine production. During the socialism in Yougoslavia it was much known for the quality wine production. The majority of the population used to work in the factories and combine also the work on their own grape and peach growing land properties. The factories that existed and persisted through the transition are: FENI Industry, a factory for production of ferrum nickel employing today approximately 850 workers and TIKVES main wine producer in Macedonia.

Socio - economic consequences of capitalist restoration

FENI Industry was privatised and the foreign owners have changed several times, its impact on the local economy is big considering that their work has initiated subcontracting business that work for FENI so the number of 850 persons directly employed is higher and reaches over 1000 though the smaller subcontractors. Recently certain media that are not so

influential through a letter¹³ of the workers have revealed apparent criminal with the resources of the factory related to suspicion transactions and financial corruptive practices in order to depreciate the value of the company and create conditions for bankruptcy. The letter

TIKVES also was privatised; the owner is a Macedonian group of investors. Besides the workers directly employed in the company for growing of grapes on the lands owned by the company and production of wines, TIKVES also is buying the grapes of the individual farmers that are selling their grape to TIKVES. The wine producers in general have powerful position and influence the economy and the social conditions as buyers and they usually don't make previous agreements setting, quantity, quality, price for farmers but rather postpone any contact or negotiation and decide discretely on the buying conditions. The Ministry of Agriculture is providing subventions for grape growers and subventions for the price however those subventions are subject to political games and pressure for votes therefore every year the farmers end up with delivering their grapes and waiting for months the payment from the buyers. TIKVES being the biggest buyer but many other also exist in the region and their approach is more or less similar.

In this region there is also a Trade Company for tobacco industry "Alliance One" owned by Greek owners that is trading/buying tobacco. This industry is rather consolidated in terms of subventions and it seems that there is higher satisfaction of the price subventions in this industry that is still important in the structure of the national economy.

Sources

Media:

- <http://inbox7.mk/archives/4086>
- <http://www.akademik.mk/shtrajk-vo-fabrikata-drekslmaer-vo-kavadartsi-4/>
- http://www.fakulteti.mk/news/12-08-02/kavadarci_-_makedonski_industriski_centar.aspx
- <http://vecer.mk/makedonija/so-feni-i-stranskite-fabriki-kavadarechkata-industrija-vleche-na-site-chetiri-trkala>
- <http://www.dokaz.mk/kriminaliite-vo-feni-industri-kavadartsi/>

Other sources:

- Interviews with several current and former employees in the factory

¹³ <http://www.dokaz.mk/kriminaliite-vo-feni-industri-kavadartsi/>

- Interview with the professional staff in the Trade Union of the workers in the industry, energy and mining SIER
- Review of the yearly data (2014) for the final company accounts submitted by Dräxlmaier to the Central Register of Republic of Macedonia
- Annual report of the State Commission for Completion from 2012
- Law for Control of State Aid

Contacts:

Sonja Stojadinovic, sonja.stojadinovic@gmail.com

Aneta Smit Guleva, smitguleva@gmail.com