

## Box VI-1

## Wage settlements 2008

On February 17, 2008, new wage settlements were signed by the national member associations and the largest unions within the Icelandic Federation of Labour (ASÍ) and the Confederation of Icelandic Employers (SA). The wage settlements expire on November 30, 2010 and are identical in their fundamentals, and while they apply to roughly one-third of the labour force as measured in man-years, their impact on the cost of labour will probably apply to the private sector as a whole. The parties have estimated that total costs incurred by employers will rise by about 10½% during the term of the settlement, or by an average of 3½% annually.

There are three main pillars in the settlements: a “safety net” for wage developments, an increase in the lowest wage rates, and a review clause in 2009. A general wage rise is only included in the final year, but workers are guaranteed specified wage developments, the so-called safety net, during the first two years of the contract.

**Table 1 Negotiating parties' estimate of contractual wage cost increases 2008-2010**

%	2008	2009	2010	Total
Wage development guarantee	1.4	1.3	0	2.7
Wage rate increase	1.9	1.9	3.1	7.0
Other wage-related expense	0.7	0.1	0	0.8
Including				
Worker Rehabilitation Fund	0.13			0.13
Job training	0.05			0.05
Insurance	0.20			0.20
Children's illness	0.01			0.01
Paid seminar attendance	0.06			0.06
Increase in vacation days	0.25	0.10		0.35
Total per year	4.0	3.3	3.1	10.5

#### **An initial 5.5% wage guarantee ...**

The new contract provides for a wage development guarantee to be implemented in two phases: upon signing in February 2008, and in March 2009. A wage increase of at least 5.5% is guaranteed for the period from January 2, 2007 until the effective date of the agreement in February 2008. Wage-earners whose wages have risen by less than 5.5% shall be awarded a rise equivalent to the shortfall from that figure.<sup>1</sup>

Basing the safety net provision on January 2, 2007 means that the 2.9% wage rise from the previous contract, which took effect on January 1, 2007, will not be deducted; instead, only wage drift during the reference period will be deducted. However, the increase that an employee receives as a result of basic wage rate hikes (see the discussion below) will be deducted in both years.

#### **... plus 3.5% in 2009 ...**

On March 1, 2009, a similar safety net provision will take effect, guaranteeing employees a 3.5% rise.<sup>2</sup> The reference period for wage developments is from the effective date of the agreement until the end of February 2009. The cost increase due to the safety net provisions is estimated at just below 1½% for both years.

1. Only those who have been employed since January 1, 2007 are entitled to the entire 5.5% pay rise according to this provision. Employees who commenced work during the period from January 2, 2007 to September 30, 2007 are entitled to an increase of 4.5%. Those who began work for their current employers after the end of September 2007 receive no wage increase in accordance with the safety net provision.
2. Only those workers who were employed prior to February 1, 2008, the effective date of the agreement, are entitled to a wage increase in accordance with the safety net provision for 2009. A worker who commences employment after the effective date of the agreement must negotiate specially with his employer if he wishes to receive a safety net increase in 2009.

### ... and a general wage increase in 2010

In the last year of the current agreement, all wages will increase by 2.5%; this is a larger increase than the final increment provided for in the 2004 agreements.

### Wage rates to approach actual paid wages

Another pillar of the agreement is an increase in basic wage rates. Wage rates for unskilled workers will rise by 18,000 kr. with immediate effect, by 13,500 kr. in 2009, and by 6,500 kr. in 2010. Wage rates for craftsmen and office workers increase by slightly more, or by 21,000 kr. at the signing of the agreement, by 17,500 kr. in 2009, and by 10,000 kr. in 2010. The lowest wage rates in use for unskilled workers will thus increase by nearly 15% in 2008 and by approximately 31% over the term of the agreement.<sup>3</sup> Office workers receiving, for example, overpay of 10,000 kr. on their wage rate will receive an immediate increase of 7% and a total rise of 25% over the term of the agreement, but a craftsman receiving the same overpay will receive 20% over the term of the agreement.

The negotiating parties estimate that wage costs will rise by 1.9% in 2008 and 2009, and by 0.6% in 2010, as a result of the increase in basic wage rates, and they expect overpay to be reduced somewhat in order to meet pay scale increases.

### Other increases in wage costs

Wage-related costs other than actual wages paid will increase by 0.8% over the term of the agreement. The largest cost is due to an increase in vacation days from 28 to 30 for employees who have worked 10 years or more for the same employer. It was also decided to take the first step in developing support measures for employees who are injured or contract long-term illnesses. A new fund, the Worker Rehabilitation Fund, will be established to administer these services, and employers will contribute 0.13% of wages to the Fund as of June 1, 2008. The Government has pledged to contribute a matching amount to the Fund beginning in 2009, and the negotiating parties plan to request that pension funds do the same. The number of annual days of leave due to children's illnesses will be increased from seven to twelve; employer contributions to job training funds will increase, as will paid leave of absence for job training; accident insurance will become more extensive; and disability and death benefits will be increased.

### Assumptions concerning inflation and real wages

At the beginning of February 2009, a review committee will meet in order to discuss an extension of the agreement based on the assumptions underlying the wage settlements. If the assumptions have held, the agreement will be extended until November 30, 2010; if not, the parties will attempt to reach a consensus concerning their response to the changes. If this proves impossible, the agreement will expire at the end of February 2009.

The underlying assumptions are two. Real wages in the private sector, according to the Statistics Iceland wage index, must not fall between January and December 2008. The other assumption concerns inflation: inflation must be on the wane when the wage agreement is reviewed in February 2009, twelve-month inflation in December 2008 must be below 5.5%, and annualised inflation during the period from August 2008 to January 2009 must be less than 3.8%.

3. Fixed differential payments (bonuses in fish processing) do not increase during the first two years. The average wages in the fish processing industry will therefore increase by 17.5% during the first two years of the contract instead of 22%.