

Leaving no region and no worker behind: addressing the challenges of decarbonisation and modernisation in Central and Eastern Europe's heavy industries

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Trade unions from Central and Eastern Europe call for a socially just Green Deal, delivering the technological and digital modernisation of the industrial base in their region. Social dialogue and workers' participation are the main ingredients to deliver a Just Transition, ensuring that no region and no worker is left behind as we embark on the European Green Deal and rapid decarbonisation towards a climate-neutral economy by 2050.

Over the next decade, half of Europe's blast furnaces and chemical crackers, and a third of cement kilns, will need to be replaced or renovated. There is no time to lose. It is now that the transition needs to be prepared, to avoid any ruptures in which the workers and their communities will be the first victims. In Central and Eastern Europe, industrial transition cannot be disconnected from the twin energy and digital transition. The industry in Eastern European countries is currently based on fossil fuel, the share of employment in energy-intensive sectors is particularly high, and GDP per capita comparatively lower than in other European countries.

Moreover, the region is lagging behind in the digital transformation of the industry, with very low levels of robot density in manufacturing, reduced innovation performance, and limited technological possibilities for remote work. These have negative effects, not only on the resilience of companies in situations like the pandemic crisis, but also when it comes to productivity gains and risks of relocation. It is therefore worrying that some of the countries in the region are lagging behind in the assignment of 5G frequency bands, which will only deteriorate the situation.

The regional dimension deserves much more attention in the design of industrial policy. Indeed, industrial and technological progress has strong agglomeration effects, and industry (especially the new emerging value chains) tends to be concentrated in the more innovative, leading regions. Economic disparities across regions are persistent and even deepening, leading to virtuous circles in the core regions, and vicious circles in the periphery. Moreover, the transition has an important impact on the carbon-dependent and less developed regions. All this is leading to a growing number of 'left-behind' and 'de-industrialised' regions in the EU (these are not only regions formerly dependent on coal).

In the past, the comparative advantage attracting investments in Central and Eastern Europe has greatly depended on low labour costs. This model has, however, catapulted the countries into a low-wage trap, which prevents them from transferring technologies and modernising their industrial base. Companies have no incentives to invest in expensive low-carbon, automated and robotised technologies, as long as their returns on investments will be slow and limited, due in part to cheap labour costs.

Looking at the opportunities of low-carbon technologies, these are evident in large industrial hubs with access to low-carbon infrastructure (such as CCS, H2, renewable energies and infrastructure) and often located close to seashores and harbours, where different industries minimise costs and risks by investing jointly in costly projects. Given the enormous amounts of clean energy and hydrogen and respective investments that will be needed to modernise the existing industry also in Central and Eastern Europe, the region faces high risks of losing out in the transition due to more attractive locations. What is more, greenfield investments are, in general, financially more attractive than brownfield investments and the refurbishment of existing

plants. The low-wage trap is also a major reason why the region is lagging behind in the digital transformation of the industry.

Traditional carbon-intensive industries have a history of providing well-paid, secure and stable jobs based on workers' participation and strong collective agreements and not just in Central and Eastern Europe. While workers do not cling to carbon-intensive jobs, they are concerned about some of the new industries and companies' practices of undermining workers' rights and employment conditions. They are also concerned that, in the absence of anticipation of change and comprehensive planning, the new jobs being created in compensation for job losses are not at an equivalent level.

We strongly believe in the employment potential of new decarbonised technologies and industries in Europe's regions, but we urgently call for Just Transition and Recovery Plans to be linked to the condition of strong social dialogue with trade unions and the objective to create equivalent high-quality employment in transitioning regions.

The EU's policies, including the recovery package and Just Transition Mechanism, will need to ensure the creation of high-quality industrial jobs in the CEE, before the full phase-out of coal mining and coal-fired power. The EU recovery package must also prevent the widening of the already existing big gap in the digitalisation of Europe's industry.

We welcome the Commission's earmarking of funding resources of 20% for digitalisation and 37% for climate-related expenditure, but these guidelines for investments do not guarantee that the funds are going to the urgently needed modernisation of the industry. So far, no Member State is planning to invest it in the digital transformation of the industry (other areas are foreseen, such as public services or infrastructure). This is particularly worrying for Central and Eastern Europe, where the decisions to digitalise are mostly taken by companies due to the lack of national digitalisation plans and funds. The EU recovery package must correct this situation and contribute to the development of a carbon-neutral and digital industry across Europe if we want the EU industry to be a competitive leader globally.

It will be important to streamline the different budgets within the current Multiannual Financial Framework dedicated to digitalisation and to ensure that investments are targeted. Programmes dedicated directly to digitalisation, digital infrastructure and modernisation should take the regional and industrial scope into account as well. The 2030 digital targets should include a strong industrial dimension and set out ambitious milestones for how to best use the synergies between the green and the digital transition, with a focus on employment, qualification and resource-efficiency.

It is critical that the EU uses this opportunity to modernise and transform its industrial sectors and their supply chains, so that they remain competitive in a world of lower emissions. The European Commission needs to demonstrate that the future energy needs of industry and society can be met through the Green Deal, at affordable prices. This demands a strong European industrial policy strategy – the ETS is not an industrial policy alone and is not sufficient to reach climate neutrality. The carbon border adjustment mechanism has a role to play, but it is not a silver bullet, and must not be seen as a revenue source for repaying recovery funds. We are concerned about the danger of intra-EU fragmentation and rising regional inequalities within and between countries.

It is equally critical that the recovery package supports workers, creates decent and low-carbon jobs, and maintains existing industrial jobs, while helping sectors to transform. Trade unions will play a central role in getting this result, from political intervention to collective bargaining and organising.

To make the transition future-proof, sustainable and just for workers, the EU recovery package and Just Transition Mechanism will need to build on and support initiatives that ensure the creation of good jobs in Central and Eastern Europe before the phase out of coal-mining and coal-fired power in particular.

To achieve this aim, national and regional Just Transition plans are urgently needed. To ensure their social acceptance and significance at local level, it is crucial that workers and their representatives in trade unions are fully engaged in the elaboration and implementation of these plans. With the devastation of the COVID-19 crisis, recovery packages and climate action must address the core concerns of working people. They must prioritise social protection and good jobs. Workers and their unions need to be at the table to make sure this happens and to feel confident that there will be good jobs and thriving communities on the other side. Ambitious skills strategies and quality jobs are needed. Governments, industry, Social Partners and the education sector should work together to make sure that both the existing and future workforces are well prepared for the challenges of the twin transition.

To ensure the just transformation of regions currently dependent on heavy industries across Central and Eastern Europe, national recovery plans, Just Transition plans and modernisation funding must address the following:

- **Reinforce social dialogue-** Workers and their unions need to be at the table to feel confident that there will be good jobs and thriving communities on the other side. There are substantial problems in many countries, with an erosion of social dialogue and government attacks on trade unions (in Slovakia, Hungary, etc.). To achieve the Green Deal, national and regional Just Transition plans are urgently needed. To reach a competitive digital economy and industry, national digitalisation plans are a must. To ensure their social acceptance and significance at local level, it is crucial that workers and their representatives in trade unions are fully engaged in the elaboration and implementation of these plans. Trade union involvement should be a mandatory condition for European funding. A strong legal reinforcement of social dialogue structures and trade union rights will be crucial for trade unions to play their real role in the transition of the world of work.
- **A sustainable industrial strategy** at EU, national and sectoral level that is able to deliver on the twin green and digital transition and attract sustainable investments in best available technologies, infrastructure, renovation and technology transfer to Central and Eastern Europe. These strategies must be mutually reinforcing and in line with EU targets and support programmes. It is vital to actively involve the social partners in the development of the strategies that will shape their future.
- **Ensure a level playing field in global markets:** the EU must focus on safeguards - introduce a Carbon Border Adjustment Mechanism, extend steel sector safeguards - beyond June 2021 - to keep EU companies competitive in the world.
- **Ensure regional and sectoral circumstances are reflected in the ETS revision and 'Fit to 55' package** - regional flexibilities, etc. Adopt fairer rules for the allocation of emission allowances, taking into account the specific role and importance of the steel industry for European countries. With long investment cycles of typically 20 to 40 years, heavy industries require predictability. While the 2050 climate neutrality objective provides clarity for the next investment cycle and intermediate targets are necessary to ensure its achievement, the unexpected tightening of intermediate targets might create stranded assets and will threaten their global competitiveness.
- **Develop comprehensive job creation and transformation plans** to deliver a Just Transition and underpin a **future-proof sustainable industrial policy** – through investment in best available technologies in the region, renovation and technology transfer and use of public procurement criteria. In responding to the EU's Green Deal, raw materials and industrial policy strategies call for strategic open autonomy. There are potential, specific job opportunities for industries in Central and Eastern Europe to be grasped. The lack of legacy technologies in the region can be also an advantage, because it enables digital transformation without the inertia of outdated systems. In other words, in many cases it can be easier to build a factory with the latest available technology from scratch, than to change the outdated technology in one where it has already been in use. However, clear national transformation plans are needed to ensure that companies indeed invest and create these green and

digital jobs and workplaces. It is vital that these transformation plans are tied to strong social dialogue and the creation of high-quality employment.

- **Investment** – there are substantial needs in terms of infrastructure in the region. And more broadly, the decarbonisation of energy-intensive industries demands a rethinking about resources – e.g. the first call for the ETS’ Innovation Fund showed massive deficit – according to DG GROW, €20bn worth of projects bidding for nearly €2bn of available funds. How can these investment gaps be filled? Will priority be given to ‘periphery industrial regions’? The newly created Just Transition Fund is a milestone, but to our regret, the amounts available do not match the challenge of decarbonising industry and preventing decarbonisation translating as deindustrialisation. Huge investment gaps are also present in the digital transformation of the industry in the region, because for the moment it is only up to companies to decide whether to invest or not, without any national plans or national funds to support them. Specific guidelines, as well as monitoring and enforcement structures, to ensure that the EU recovery funds will boost the twin digital and green transition of industry are urgently needed. Eventually, investments in the twin digital and green transition have to be considered not as costs, but as opportunities, whose benefits – sustainability, long-term competitiveness and employment - will be recovered in the long-term.
- **Address the distributional effects of decarbonisation** – Energy poverty is a daunting reality in many Central and Eastern European Countries already today. In 2019, 30% of households in Bulgaria could not afford to keep their house warm, closely followed by Lithuania, where the percentage of households was 26.7% (Eurostat, 2019). Affordability of energy and low-carbon products to low and medium-income households are prerequisites for the Just Transition, while access to abundant and reliable clean energy sources at low prices is vital for the competitiveness of large industrial energy users. Carbon contracts for difference could play a major role to cushion the impact of increasing production costs.
- **Well-funded active labour market policies** - there is no ‘one size fits all’ model for workers affected by decarbonisation. A toolbox is needed, as in any form of economic restructuring. Individual plans and strong skills and education policies are vital. Implement proper social and economic impact assessment of the consequences of the industrial transformation on employment, sectors and regions. Use information and consultation rights in due time to prepare the workforce for the upcoming challenges. Avoid mass redundancies by timely anticipating change (early retirement, internal mobility inside the company). For employees that have to leave the company, organise a smooth transition from one job to another, using an individualised approach.
- **Skills and training plans are vital** – to address existing skills gaps and to better relate labour market needs and the provision of skills. In the context of the twin green and digital transition, upskilling and reskilling (particularly digital skills) will be vital. **Making re-training and re-employment a shared responsibility of all: companies, social partners, regional development agencies, public employment services, authorities.** In Central and Eastern Europe, the lack of a skilled workforce must be understood in the context of the low-wage trap. The percentage of STEM graduates in the region is around the European average of 25%, and in some cases, like Romania, Slovenia, Lithuania or Estonia, it is even higher. However, the region is facing a huge brain drain, because many graduates decide to leave their native countries for better paid jobs in Western Europe.
- **Social protection** - Establish safety nets of social protection for workers whose jobs will be at risk (e.g. with stronger national social security systems and reinforced labour laws). The EU should extend temporary measures financing unemployment, such as SURE, as long as necessary.
- Real wages must increase, ensuring a fair share of productivity gains and supporting a wage-led recovery. Economic convergence must also be underpinned by strategies promoting wage convergence between Eastern and Western Europe and by preventing the use of wage levels as internal

adjustment mechanisms. This must be combined with strategies aiming at increasing collective bargaining coverage, in particular through the promotion of trade union organising.

The EU needs to use the opportunity to modernise and transform its industrial sectors and their supply chains so that they remain competitive in a world of lower emissions, while leading the way on a global level. We need credible pathways that translate the EU targets to the realities on the ground. A Just Transition will be vital to win the confidence of the millions of people working in Europe's industry. This is even more important in countries in Central and Eastern Europe that have been witnessing massive political and economic transformations over the past decades, while still finding themselves in the low-wage trap and highly dependent on large foreign companies. It is time to build an optimistic future for the regions' current and future workforce. European territorial cohesion will facilitate social cohesion in Europe. Without workers' support, decarbonisation in Central and Eastern Europe's heavy industries will fail! The EU needs just transition to a low-carbon economy that will lead to sustainable prosperity, shared by all.