Europe must act now – Create the framework for European Industrial Solidarity to tackle the energy crisis

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IndustriAll Europe is calling for a European framework for industrial solidarity

- Only a coordinated European agenda can avoid deindustrialisation, and the risk of increased regional inequalities and competition within Europe.
- Current state aid rules are not fit for purpose and need to be addressed to create the basis for the far-reaching reforms needed.
- The lack of European solidarity threatens to increase fragmentation and push states towards nationalsolutions, this will not only undermine broader European cooperation but potentially further undermine European stability.
- No country is able to solve this situation alone, we are interdependent and therefore urgently need a common framework to ensure solidarity is hard-baked into a new far-reaching industrial policy – the recent actions of the US administration in implementing the Inflation Reduction Act should serve as an example of what could be achieved in Europe if the political will exists.

For more than a year, Europe has been exposed to an extremely serious energy price crisis, which has been intensified by the Russian invasion of Ukraine and its consequences. The energy crisis has dramatically reduced workers' purchasing power and is driving increased poverty, and is dramatically increasing regional and social inequalities within and between countries. Small and medium sized companies (SMEs) are being ravaged by this price surge. It represents an existential threat for the 8 million jobs dependent on the energy-intensive industries in Europe. These foundation industries provide the strategic autonomy and solid basis for Europe's entire industrial fabric. It is not exaggerated to state that we face a social and industrial emergency in Europe.

Gas and electricity prices have been soaring in Europe for more than one year now. The drivers behind this spectacular price increase have created a perfect storm for European societies and industries. The post-pandemic recovery has led to a mismatch between supply and demand on the global gas markets. The Russian invasion of Ukraine has exacerbated the situation by dramatically reducing gas supply from Russia. These developments have made it clear that Europe strategically relies on a commodity that needs to be massively imported and which is increasingly priced on global markets and exposed to financial speculation. Energy, raw materials and equipment import dependencies have exposed Europe to supply disruptions as well as price volatility. Policy responses which exchange one import dependency for another will be counterproductive. The design of the EU electricity market in which marginal price setting effectively ties electricity prices to gas prices has driven electricity prices through the roof, far detaching prices from real production costs and increasing extraordinary windfall profits. Furthermore, the crisis in Europe's energy system shows the weaknesses of a system too much based on market rules. The lack of an industrial and investment strategy to develop decarbonised electricity generation in Europe is also an important driver of the current energy crisis. **Lessons must be learnt from short-sighted political decisions around energy policy and the abject lack of industrial policy over recent years in Europe**. In response to this situation, many companies are responding with short-time working or outright closure. We are seeing increasing investment leakage from Europe, and relocations of production are happening to lower cost locations. Once industrial capacity is gone, there will be deindustrialisation, deep social and environmental damage and long-term costs for Europe.

We are not an island. Our main trade partners are not impacted by this energy crisis in the same way and a number are powering ahead in ramping up key clean tech sectors. Notably, the substantial investment in clean energy products and supply chains created by the new Inflation Reduction Act (IRA) in the US is a game-changer in terms of industrial investment and industrial policy. The IRA is an ambitious agenda for turbo-charging investment in climate action, which is welcome as the US is amongst the highest greenhouse gas emitting countries in the world. Furthermore, climate action has been tightly tied to a worker-oriented agenda with social conditionalities underpinning collectively negotiated wages and high-quality apprenticeships. In this way, **the IRA demonstrates how major economies can combine climate action, industrial transformation, fair taxation and a decent work agenda**. Obviously, the proof of the pudding is in the eating, however Europe must take inspiration from the US agenda now.

In the light of the crisis, **Europe requires urgent, short-term measures, but not short-term thinking**. The support measures needed must align with medium term measures, and the long-term objectives of the European Green Deal and gain more independence in future energy supply. This is impossible without an assertive European industrial strategy, based on solidarity.

IndustriAll Europe has already adopted a series of policy documents dealing with various aspects of the energy crisis, notably on economic governance and in May at our Executive Committee. In the same way, industriAll Europe's recent campaigns on Just Transition and 'Together In Action for higher wages' are key parts of our political answer to the crisis. However, the urgency of the situation demands coordinated political action now.

Therefore, **industriAll Europe is calling for a European framework for industrial solidarity**. Only a coordinated European agenda can avoid the risk of increased regional inequalities and competition within Europe. Current state aid rules are not fit for purpose. The lack of European solidarity threatens to increase fragmentation and nationalistic solutions which potentially threaten European cooperation more broadly. No country is able to solve this situation alone. We are interdependent. Therefore, we need a common framework to ensure solidarity is hard-baked into industrial policy.

In the short-term, we urgently need:

a) **A joint European industrial jobs support mechanism**: In the short term, we need measures to protect jobs and to prevent company closures. SURE, the €100 billion fund that supported the national short-term work support schemes with cheap loans to EU countries, must be temporarily extended. It has proved its worth during the pandemic, helping 2.5 million businesses retain 31 million workers in 2020, according to a report issued last year. That period of reduced activity or production should be used for retraining and upskilling the workforce (especially in the context of a tight labour market in Europe). **In cases where companies must be bailed out, strong social conditionality and employment guarantees must be applied and controlled to avoid abuses.** This implies that companies receiving public aid must avoid redundancies and deterioration of working conditions. It is also morally indefensible that public support is channelled to dividend payments!

b) **A European REPower Industry Plan:** in light of the IRA, European politicians and policymakers have changed their rhetoric around the role of industrial policy and investment. However, we see the old tools remaining on the table. The current situation is critical and therefore, Europe should recognise that there is no Business As Usual scenario. We need an investment plan to underpin and revitalise our industrial fabric in Europe (taking into account the needs of SMEs), with a focus on energy savings, energy efficiency, clean energy value chains and the development of the circular economy. Learning from the IRA, **this plan should have strong social conditionality mainstreamed throughout** – commitment to effective social dialogue and collective bargaining with trade unions, guarantees on job maintenance and creation, reskilling and upskilling, and the creation of high-quality apprenticeships and graduate roles. This plan will require substantial investment. The recent provisional agreement on REPowerEU allows member states to better mobilise EU's recovery funds and Emissions Trading System (ETS) revenues to tackle the energy crisis. This will increase investment to tackle the roots of the energy crisis but it is not enough. The scale of the EU Innovation Fund must be increased, through increased earmarking of ETS revenues, with social conditionality attached. Crucially, no company should be allowed to profit from the crisis! Windfall profits must be clawed back and invested in transforming our industries providing a Just Transition.

c) **Getting the balance between energy supply and price right**: Capping the price of imported gas is the most frequently proposed solution to fix the energy price crisis. Setting a price on an imported commodity which is to a large extent priced on global markets, might lead to possible supply issues if producers decide to supply the buyers offering a better price. However, a price cap has a key role to play in the ongoing debate on quick solutions, and the EU must quickly deliver: alternative options based on supply diversification, long-term partnerships with producers and stronger demand reduction measures. In anticipation of reduced gas stocks next year, joint purchasing should be pursued urgently to avoid inflated prices through European countries out-bidding each other in the coming months.

d) **Ensure public control of energy as a common good with an effective right to energy**: The current energy price crisis requires a critical assessment of the liberalisation policies implemented by the EU in the field of energy. Securing access to affordable decarbonised energy is a basic prerequisite to keep foundation industries in Europe and a key condition for social cohesion in Europe. Leaving energy in the hands of the market alone exposes Europe's industries and workers to supply uncertainty and price volatility, whereas we need anticipation, long-term planning, enhanced coordination and reformed price-setting mechanisms decoupling gas and electricity prices.

Europe's industrial workers are mobilising across the continent to demand more solidarity and Just Transition – these demands are not rhetorical for us – they are existential demands!