Facing depression?
Europe needs a strong plan for social and industrial recovery

Analysis of the European Metalworkers Federation

Manufacturing workers have found themselves victims of a crisis far from their making. Governments have handed hundreds of billions of euros to the bankers and have effectively told working people that they must pay the price for the crisis. Its seriousness is evident from the increasing numbers of redundancies, soaring unemployment rates and heightening social tension. The European Metalworkers Federation (EMF) wholeheartedly rejects the burden being placed on ordinary working people.

Throughout Europe, in workplaces and in the streets, working people have been expressing their anger at the prevailing settlement which prioritises the needs of business and capital over those of labour.

The political response for the real economy has in been poorly coordinated, often contradictory and inadequately resourced. With financial capitalism on its knees, it is time for political and economic leaders to promote a new model of economic development which promotes greater economic, social and environmental sustainability. A strong manufacturing base is fundamental to launching this model, and is dependent on the strong engagement of manufacturing workers in defining its future direction.

Manufacturing workers cannot afford to pay the price of the crisis and Europe cannot afford to lose them

Time, energy and resources must be dedicated to supporting the real economy and its billions of workers worldwide, not just used to support the banking system.

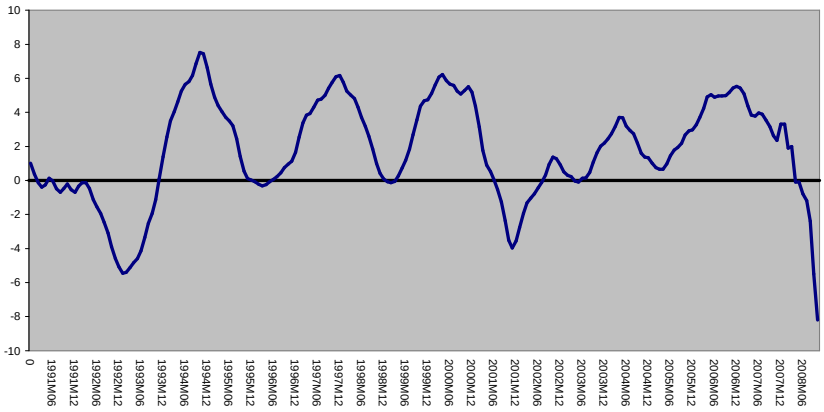
To this end, this paper presents the EMF's demands to promote a stronger and more sustainable industrial sector in Europe. We call on European leaders and EU institutions to focus on implementing the following measures:

1. **Regulating financial markets and making sure taxpayers' money reaches struggling citizens and companies promoting a balanced social market economy**
   - Calls for strong international financial market re-regulation and supervision, as well as public control over stimulus packages to ensure that financial support reaches workers, consumers and businesses.
   - Calls for a new social contract with the financial sector with direct participation of the public sector, in terms of capital and within the decision-making process.
2. **Creating the foundations today for research and development, investment and incentives in sustainable production and consumption in the longer term**
   - Calls for radical, strategic and coordinated policy measures needed to ensure that strong and sustainable manufacturing industries, providing quality jobs, emerge from the crisis.
3. **Avoiding a social recession and keeping a skilled workforce safe to be prepared for the recovery**
   - Calls for decent wages and working conditions, instead of increasing precariousness at work, immoral bonus schemes and maximum shareholder value, to avoid a prolonged social recession in Europe.
4. **Promoting a new model of corporate governance to pave the way for the sustainable development of companies and employment**
   - Calls for a complete renovation of our model of corporate governance to strengthen collective bargaining and give workers a stronger say in company strategy and prevent excesses which weaken companies' long-term development.

Real economy left to hold the can while the banks sit on taxpayers' money

The implosion of the financial markets, and the banks' collapsing houses of cards, produced a dramatic disintegration of confidence and consumption, which started directly threatening jobs in manufacturing in October/November 2008.

Graph 1: Manufacturing production growth rate 1991-2008



Source: European Commission, Eurostat February 2009

The transformation of the financial crisis into an economic crisis with a significant impact on manufacturing workers and production has been astoundingly rapid, but was forewarned by trade unions already in late 2007/early 2008. Moreover, unions have been warning for years about the danger of 'bubbles' and the impact of overly expansionary monetary policies (particularly by the Federal Reserve), which over-estimated the potential of the 'new economy' at the expense of manufacturing and neglected the need for industrial policy in all industrialised countries.

The lack of political preparation and response to this transformation has intensified its impact, and indicates the blind faith placed in the virtues of markets and self-regulation which has proved so disastrous.

In summary, the scale and speed of this crisis is primarily due to a negative cycle generated by the initial sub-prime crisis in the financial/construction/property sectors. Inter-bank mistrust has lead to a lack of access to credit lines for businesses, especially SMEs, to cover their running costs and support necessary investment. The knock-on effects of economic instability on demand have further intensified the declining consumption of manufactured goods. This has rendered order-books empty, and has threatened more jobs, which in turn has generated more economic instability and restructuring.

This largely financial crisis encountered a cyclic overproduction crisis and each has intensified the other. However, not all countries have been affected by the crisis in the same way. While the US, the UK, Spain and Ireland have faced a crisis stemming from the property market, the Eurozone has been dragged into a full economic crisis. Big newly industrializing countries, such as China and India, still have positive growth rates, albeit with weaker dynamics, but these slower growth rates cannot stop or compensate for the worldwide economic decline. Therefore, no region of the world is able to play the role of the locomotive for economic growth currently. This is a fatal situation, especially for export-orientated countries.

The unemployment rate in the European Union is increasing rapidly and is set to reach a rate of 9.3% in 2009 and 10.2% in 2010, according to the Commission. At the same time, wages are increasing more slowly. This could produce a devastating pro-cyclic effect on the European internal market.

Ultimately, these downward cycles are raising the spectre and prospect of depression and deflation.

Credit-crunched and indebted

Despite the billions of euros pumped by national governments into supporting the financial markets and banking sector to ensure that credit does not dry up, little of this financial support is reaching those really in need of it to keep the real economy moving and halt the cycle described above.

Rather banks are using this capital to counter their own debt. Debt has grown through excessive borrowing on bad collateral in recent years, and has left the taxpayer the prime guarantor and forced the renationalisation of banks.

As a result many manufacturing companies, especially in supply chains, are struggling to bridge the collapse in consumption. However, it is not only the banks and other financial institutions which have amassed excessive debt in the recent years of growth.

Corporate debt in the euro area has reached the colossal level of 11 trillion dollars[1]. Much of this will be up for renewal relatively soon, just as banks are cutting credit in order to drive down their own debt. As a consequence, many companies may find themselves in an even tougher position. Either businesses will be unable to find the new finance to renew their loans, or if they are able to find them these loans will be subject to much higher interest rates[2]. As a result restructuring is likely to increase dramatically in a variety of sectors in the coming months unless access to credit is eased.

It is in this situation that the absence of coherent and coordinated European policy response and a comprehensive and vast stimulus package have been devastating for European industry. As a consequence, economic growth forecasts for Europe for this year are more negative than those for the US, where the Obama-administration has launched a large programme of public expenditure.

In the quasi-political vacuum at EU level, some member states have stepped in to protect their own national strategic interests and industries. Some have elaborated on national economic recovery packages which often focus on specific sector-related problems, in particular on the automotive sector. However, the lack of initiatives in other countries means that, some are attempting to free-ride on the proposals of their neighbours meaning that the effort committed thus far has been totally inadequate. Moreover, globally, since G-20 leaders signed a pledge in November 2008 to avoid protectionist measures, 17 of the G-20 have implemented 47 measures that restrict trade at the expense of other countries. The dumping of manufactured goods and basic metals into the EU market is fuelling the problem.

The prospect of a spiral of protectionism in this context is very real and dangerous.

The fact that employment is only protected in financially strong countries and that this then leads to job cuts in countries with fewer means available, runs fundamentally counter to the idea of European unity and undermines international solidarity in the crisis. "Distortion of competition" of this kind weighs heavily on workers. Given that the value chains of all manufacturers are intricately interwoven across borders, it is to be feared, then, that repercussions rippling throughout industry will become unavoidable. Political rhetoric against protectionism must be put into practice.

[1] Business Week, 5th February 2009
[2] Ronald Janssen, ETUC Collective Bargaining Information Bulletin 2009/2

Action from the EU is crucial. Social Europe must offer comparable prospects in all regions. A European summit on the social and employment impact of the crisis would have been a step forward, but even a basic agreement between member states on holding the debate was impossible. The proposed Jobs Summit has been downgraded, despite the fact that in 2009 4.5 million workers are set to face redundancy. Europe - social Europe - urgently needs strong leadership.

The human face of the crisis: the impact on metalworkers

In November 2008, the EMF's Executive Committee noted that the first signs of the crisis were starting to show in the metal sectors, with announcements of reduced production and consequent job losses, primarily in the automotive sector.

Three months later, corporate restructuring has increased dramatically, with many companies launching redundancy schemes, including forced redundancy announcements. Fixed-term and temporary agency workers have haemorrhaged from the manufacturing industries, pushing up unemployment and reducing consumption further.

The company-level impact of the crisis can be largely divided into 3 groups:

1) 'healthy' companies directly or indirectly hit by the lack of credit and/or orders as a result of the collapse in consumer consumption;
2) companies which were already undertaking economic restructuring or facing problems before the crisis, where endemic problems have been intensified; and,
3) there remain a number companies and sectors which are currently weathering the storm around them, although if the crisis persists this distance will evaporate.

Despite these distinctions, there are companies using the opportunity provided by the crisis to implement overly-dramatic production cuts and restructuring, which would otherwise have been considered socially and politically unacceptable. In a period of high uncertainty for European manufacturing workers, the EMF wholly rejects the use of the current economic crisis to put in place far-reaching restructuring plans without justification and considers it essential to maintain employment and industrial know-how.

Increasing pressure on wages and calls for greater flexibility

The first victims in this crisis in manufacturing have been those least able to cope with it, the thousands of precarious workers in Europe. Thousands of temporary agency and fixed-term workers have found themselves unemployed, sometimes at a moment's notice. For those, still in work acquired rights are increasingly being called into question with demands for more flexibility and precarious work arrangements. The EMF is deeply concerned about the prospects of a prolonged social recession in Europe.

Evidence from the EMF's European Collective Bargaining Network (Eucoban) reports show that massive downwards pressures are being placed on wages and working conditions. Discussions on nominal wage freezes and wage cuts are already taking place in several countries and companies. However, wage cuts at this time will undermine demand, repeating the mistakes at root of the crisis, bringing the prospect of deflation closer.

Tens of thousands of manufacturing workers have been subject to labour market mechanisms such as economic unemployment, short-time work or *chômage partiel*. These terms are increasingly used to describe a wide-range of national measures, which differ greatly in terms of the level of remuneration guaranteed, provision of training in down-days, and length of time that measures can apply.

What emerges from analysis of the national mechanisms is the observation that these are not new mechanisms to a large extent but part of existing well-regulated labour markets. Providing a good level of job security and negotiated solutions is indispensable

in responding rapidly to the sudden production developments which we have witnessed. The impact of the crisis on workforces in countries with under-regulated labour markets, poor collective bargaining rates and few labour market mechanisms, has been far more serious.

Despite this, the OECD and Commission's labour market response to the crisis has been to press forward with imbalanced flexicurity policies pushing the further deregulation of labour markets.

Demands for more labour market flexibility, by increasing the number of precarious workers, in this context can only be seen as further fuelling insecurity and promoting lower purchasing power in the context of falling consumer confidence. For the EMF this is a counter-productive policy decision and emphasis should be placed on strengthening the 'security' dimensions of labour market policies.

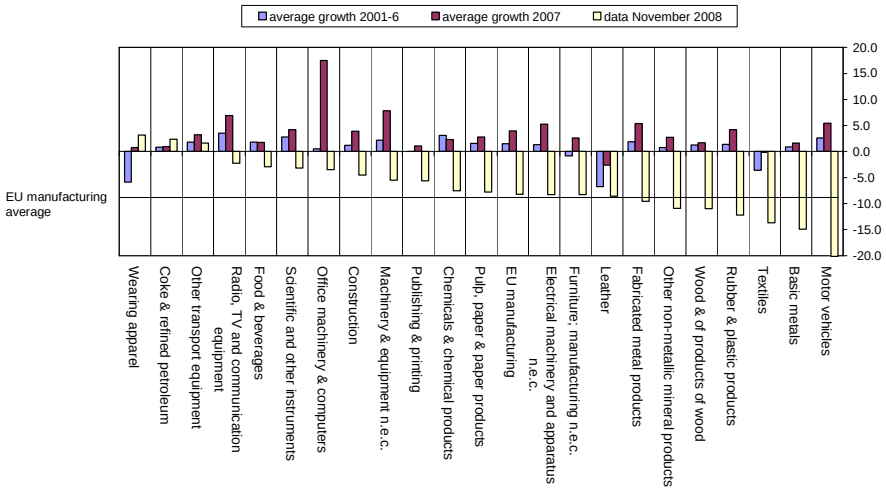
Moreover, as noted by the Trade Union Advisory Committee to the OECD (TUAC), the fall-out of the financial crash is far from over. A fall in world equity indices will inevitably put pressure on the funding of pension funds, notably in the UK, the Netherlands and the Nordic countries, as will the expected implosion of the alternative industry in 2009 – hedge funds and private equity – in which pension funds have been investing heavily over the past five years. Thus, the EMF fears the increasing threat of a longer term social time bomb and poverty in old age for many working people already hit by the crisis from every side in the short term.

The costs of this crisis are falling disproportionately on workers and taxpayers: companies that consistently privatised their profits, in the boom years, through substantial dividends are now trying to socialise the costs of the crisis through job cuts and the deterioration of terms and conditions.

Are workers in all sectors and countries equally affected?

The impact of the crisis has not been uniform across countries or sectors. Only on the 6 February 2009, did the European Commission produce its first limited evaluation of the crisis in the manufacturing industries. As a result of the time-lag in the Commission's data collection, the overview presented by the Commission only just touches the start of the crisis in the real economy. Despite this, the overall picture is striking with production collapsing in a significant number of sectors.

Graph 2: Growth of EU Manufacturing Production Sectors and Construction



Source: European Commission, Eurostat February 2009

In March 2009, the EMF undertook its own analysis of restructuring announced since November 2008-March 2009, the summarised results are:

- **Automotive industry**

Since the direct and indirect impacts of the credit crunch hit on companies and their customers in 2008, the automotive sector has witnessed dramatic cuts in production. With more than 12 million workers dependent on the automotive industry (2.3 million in direct jobs and another 10 million in related sectors), the dramatic fall in consumption has had a devastating impact in the supply chain.

The current employment situation is extremely concerning for the EMF. According to current drops in production, at least 20% of the European workforce is at direct risk. Almost all fixed-term and agency workers lost their jobs or have already been fired, and terms and conditions for workers remaining in the supply chain have become increasingly precarious. The number of workers concerned ranges – depending on the country – from an average 10% to 30% of the global workforce. Therefore, we are already talking about a million lost jobs in the sector as a result of the crisis. The outlook for the coming months is completely unclear. Temporary employment measures might not be enough. The employment level at the end of the crisis is not likely to reach the heights of July 2008 again. Therefore, provisions are necessary for those workers who will not be able to find work again in the sector.

The industry will have to manage the technological turn towards the "green car" – and that has a number of implications. Required skill-sets for the workers will change. To prepare for this change, first of all, the training/education systems have to be adapted: training the teachers, creating the teaching infrastructures, and develop the training schedules and contents. The infrastructure must be ready prior to the arrival of new technology cars. This implies that energy-distribution networks, the repair and maintenance sector, and possibly the fleet-testing facilities (for pilot-series models) must be prepared rapidly. The experience with battery technology has shown that an early start with relatively simple models, but in mass-production, will provide efficient inputs for perfecting the technology. This must happen with the new car technologies in Europe and not elsewhere if the industry is to remain strong, and a motor of innovation.

- **Steel**

Steel production has been hard hit by the global economic recession. From autumn 2008 onwards, the steel industry was hit by reduced demand from its main consumers in the construction and automotive industries. European steel production has fallen by 30-50%. However, dramatic cuts in production have also been the result of company decisions to maintain falling prices for steel products in the context of reduced demand.

The consequent impact on steelworkers has been stark. Most steel producers have attempted to ride out the collapse of demand and maintain their skilled workforces, through short-time arrangements, economic unemployment/*chômage partiel*, and obligatory use of holidays. Thousands of temporary agency workers and subcontractors were the first to fall victim to the crisis.

A number of companies have launched wide-reaching cost-cutting exercises. In November 2008, the world's leading steel producer ArcelorMittal announced 9000 global job cuts, of which 6000 are foreseen in Europe. These job cuts were allegedly intended to cover white-collar, support staff. However, as the number of production workers involved at plant level has grown, so have EMF concerns that the company is taking advantage of the crisis to make structural changes to its global operations. In January 2009, Corus also announced 3500 job cuts in Europe, promoting similar concerns of its parent company, Tata. Attempts by ThyssenKrupp Steel management to rewrite their

industrial relations practices in February, by unilaterally abandoning collective agreements, were rebuffed. Job losses have also been announced in a number of other companies: Duferco, Severstal, SSAB, Sidenor, Celsa, Acerinox, etc.

Making structural changes, through the mothballing of blast furnaces and industrial sites, and losing skilled workers is totally unacceptable to the EMF. Innovation in the steel sector has a crucial role to play in the creation of a low-carbon economy. It is, therefore, particularly concerning that investment in R&D facilities has been hit so hard.

- **Non-Ferrous Metals**

Non-ferrous metal companies have found themselves in the maelstrom of the crisis, but have also been hit by the collapse in the prices for raw materials, which saw unprecedented highs in 2007-08. The recent concentration in the sector has intensified the situation with high levels of debt incurred. However, certain sub-sectors in Europe (e.g. aluminium) were already in question as result of high energy costs and this should be acknowledged.

As a key supplier of processed metals to other sectors, especially in the automotive industry (aluminium), production of white goods (aluminium) and ICT sector (precious metals), the non-ferrous sector is dependent on the performance of the sectors that are the main users of its products. At the moment the reduced consumer demand for the so called 'big ticket' items, such as automobiles and white goods is lowering the demand for non-ferrous metals, especially aluminium.

Attempts by a number of major companies to sell assets and mines to tackle current problems with liquidity have demonstrated publicly the seriousness of the crisis for these industries (e.g. Rio Tinto's recent attempts to sell mines in Australia). With sovereign wealth funds the only real source of investment (particularly China), strategic questions must be raised about industrial property rights and the maintenance of European innovations; for instance, Chinese interest in Rio Tinto's aluminium technology (originally from Pechiney in France).

In terms of social measures, several non-ferrous metal companies have announced mass layoffs. Alcoa is reducing its worldwide workforce by approximately 15.000 persons and intends to sell of a number of European business units currently employing approximately 10.000 persons. Rio Tinto plans to reduce its worldwide work force by 14.000 persons. Several other companies, e.g. Umicore, Luvata, have announced the use of working time reductions and temporary layoffs. The direct and indirect European employment in the non-ferrous metals sector is approximately 450.000 persons, making these early indications a worrying sign for the whole industry.

- **Shipbuilding**

After a veritable shipbuilding boom in recent years with strong demand growth for new ships globally and the building up of substantial new shipbuilding capacities particularly in Asia, freight rates have sharply and abruptly declined as a result of the crisis.

The demand for ships in the so called mass market (tanker, container, dry bulk etc.) has dried up and is expected to remain very weak. European shipbuilders are mainly active in niche markets (e.g. high value-added passenger vessels) and have only a small share in the mass market. Some yards, in Germany (Mecklenburg-Vorpommern), Poland, Croatia and Romania, are nevertheless active in these segments. *Daewoo-Mangalia Heavy Industries*, a shipbuilding, ship repair and conversion company located in *Mangalia*, Romania is reportedly discussing redundancies.

Concerns have been raised that the collapsing mass market will cause Asian shipyards to move into all niche markets. The result could be a price war and a subsidy race as experienced in the end of the 1990s – a race that Europe would be unable to sustain.

This spectre is creating a new interest in reviving the suspended OECD negotiations for a global shipbuilding agreement on pricing and subsidies.

Due to the large capital requirements and the need to provide pre-delivery financing for ships the European shipbuilding industry is also suffering severely from the credit crunch. Banks are reluctant to provide or extend financing for orders. This is leading to renewed calls for a European guarantee fund for ship financing that had already been demanded in the LeaderSHIP 2015 report of 2005.

Whilst most European yards are completing existing contracts, the outlook for new orders is bleak with a substantial number of new building orders cancelled (30 cancellations in Germany, cancellation of cruise ship at STX Europe). Bankruptcies have occurred in Germany (SMG, Cassens, Lindenau, SSW) – partly as a result of the crisis. . Bankruptcies have also recently occurred in Norway where the Karmsund Shipyard went into insolvency on 10th March 2009 following financing problems. The yard employs 130 people. So far, we have not received reports of major redundancies as a result of the crisis, with the exception of Turkey's shipyards. However, STX Europe has laid off temporary workers, introduced short-time work (France) and is temporarily laying off workers. The situation in Turkey is particularly harsh with 140 cancellations due to the crisis and about 50% of the total 35.000 employees laid off.

- **ICT**

Even before the crisis, the ICT industry was undergoing a transformation from manufacturing towards services, and towards new generation production methods. Product convergence is revolutionising the role of the ICT industry and the impact of *embeddedness* is influencing ICT related innovation in basically all metalworking sectors.

A consequence of the financial crisis is an increased difficulty in finding funding and credit, leading to a potential decrease in innovation and R&D related business development. The funding issue is not likely to be resolved until the banking sector is recapitalised.

The economic turmoil poses challenges to the industry, but it may also stimulate the emergence of new technologies. This was the experience from earlier economic crises. Following the crisis in Asia in the late 1990s and the bursting of dot.com bubble, the groundwork for early broadband development was developed along with the growth of the internet. However, a steady cash flow is key to long-term success in the industry.

Companies that are cash rich at the start of the economic crisis are able to take the opportunity to acquire competitors and purchase assets at depressed prices.

Small start ups may also exploit new opportunities. Google and Skype are both examples of small companies started in the middle of a recession. Both introduced so-called disruptive technologies (a technological innovation that improves a product or service in ways that the market does not expect, typically by being lower priced or designed for a different set of consumers), which have proven highly successful and influential on the development of other innovations.

The current crisis is likely to follow the same pattern, and if and when that happens European innovation must be at the forefront. Instead of cutting innovation expenditure, it is important to realise that innovation is the key to recovery and that ICTs can power economic recovery across all sectors.

Along with stimulus packages put together by governments, the ICT industry itself must continue to invest in infrastructure and cost-effective services, such as next-generation networks (NGNs). The EU has included ICT innovations, such as broadband networks in its common economic stimulus proposals.

Innovation must go hand in hand with retaining a competent workforce and continuous investment in training to ensure that Europe maintains the edge in innovation.

- **Mechanical Engineering**

The situation is very different depending on the sub-sector considered. The general context is that employment reached an all-time high in mid-2008. All sub-sectors are experiencing lower incoming orders, compared to the extraordinarily good situation in 2008.

Agricultural Machinery: Although, the impact of the crisis is not as deep as in other sub-sectors, the situation largely depends on the company and the location of the markets.

Construction Machinery: Fully hit by the crisis, especially the housing crash in UK and Spain. The situation is very difficult, and major forced redundancy plans, for every type of work contract, are under way, or even already finished.

Tool machinery: the sector is hard hit by the crisis. Investment in tools is considerably lower than the years before (-60% order intake, compared Jan-2009/Nov-2008).

Tools for the steel industry: Hard hit

Industrial valves (energy production plants): Reduction in order intake limited.

Printing machines and textile machines sub-sectors are in rather bad shape.

Generally, the situation of the sector is dominated by small and medium-sized companies, and therefore directly impacted by the credit-crunch and difficulties in accessing loans.

Business cycles in the Mechanical Engineering sectors have always been very cyclical, and therefore, tools to manage the volatility in a flexible manner are well in established.

With the exception of the construction machinery sub-sector, the impact of the crisis is currently in the range of what can be handled.

In parallel, new, emerging and innovative sectors will need a growing number of workers in the medium term: renewable energy is a strategic sub-sector.

- **Aerospace**

The impact of the crisis is beginning to be felt by the European aeronautics sector. Prime contractor companies are still executing backlogs of orders (e.g. Airbus and Dassault), and production levels are still high, even though production rates are slowing. Given the long production cycles in the sector it is typical that the effects of a downturn are lagging behind other sectors. Indicators of what could be more difficult times ahead are the decreasing figures for passenger and cargo traffic. Passenger traffic is forecasted to decrease by 3% in 2009 and cargo traffic by 5%. In previous years there had been strong growth in passenger traffic (on average 5% a year from 2003-2007).

The financial situation of customers is giving cause for concern. Airlines were already adversely affected by increasing petrol prices in 2008 but are now further weakened by the effects of the credit crunch. Decreasing air traffic and financial difficulties could lead to cancellations or delayed orders. Orders at Airbus and Boeing are expected to decrease by 50-60%. Countries such as France and Germany have decided to provide financial aid for customers.

So far, there have been no major redundancies at the prime contractors but Airbus continues to implement its Power8 restructuring programme. Our survey shows however, that the contracts for temporary workers are often not extended (e.g. Airbus, Bombardier).

It is expected that the impact of the crisis will be felt hardest by the subcontractors. Their financial situation is fragile because of the substantial investments they had to undertake in the context of risk-sharing partnerships in new programmes (A380, A350,

B787 etc). Deferred orders and lower production rates could put these companies at risk. Working time reduction has been introduced at SNECMA in France and Rolls Royce has announced 1500 – 2000 job losses in their civil engine business globally (majority in the UK) due to expected cancellations of orders.

The military and space sectors have so far stayed immune from the crisis in Europe as government expenditure has not yet been affected. It can be expected however, that the crisis will impact on the level of future defence budgets. The significant delays in the production of the A400M cannot be attributed to the economic and financial crisis. Doubts over the reliability of contracts are however adding major concerns in a generally difficult climate.

- **White Goods**

The manufacture of white goods has been hit hard by the collapse in consumer demand due to the financial and economic crisis. Already before the crisis, the manufacture of smaller household appliances was being increasingly relocated eastwards and outside the EU.

In 2008, nearly all producers of household appliances were hit by severe cutbacks in production, and the subsequent closing of production capacity in Europe. Major restructuring and job losses have been announced in a number of companies. In December 2008, Electrolux announced plans to lay off 3,000 staff worldwide, while jobs and plants are threatened at Merloni, Bosch-Siemens, Candy, Indesit, Teka, Whirlpool, amongst others.

In 2009, little has changed and the situation has further intensified. Innovation to develop more energy efficient products is essential to the sector in order to maintain production and jobs. The development of EU rules on the extension of energy efficiency standards to more white goods, through the revision of the Eco-Design directive provide an opportunity to support this innovation in the sector.

- **Lifts**

The crisis is not yet completely felt in the lift sector, except in the production area. Workers in production plants, e.g. ThyssenKrupp Elevators and OTIS, have been subject to obligatory use of holidays and short-time arrangements to cope with reduced production. The installation areas – closely linked to the construction sector - are expecting to feel the effects of the crisis. The maintenance and servicing areas – compulsory in light of safety requirements - are expecting to only start feeling the effects more directly at the end of 2009 and in 2010.

Using the crisis as an opportunity: a framework for sustainable European manufacturing

Sustainable growth is dependent on strong manufacturing industries. Today's crisis demands urgent action from national and European decision-makers.

Recession in Europe demands immediate strategies to maintain production facilities and the workforce. At the same time, the crisis offers an unprecedented opportunity to promote a new social and green deal in Europe.

1. Regulating financial markets and making sure taxpayers' money reaches struggling companies

Re-regulation and proper supervision of the financial markets are urgently needed to ensure that they promote rather than further endanger the growth of the real economy.

The EMF demands:

- Better regulation and monitoring of financial markets through the creation of a European supervisory body, the creation of a European ratings agency, regulation of hedge funds/private equity/non-regulated markets, and a prohibition of short selling;
- Bringing the shadow banking sector under the Basel-regulatory framework;
- Creation of a European recapitalisation fund;
- Creating bonus-systems that reward long-term and sustainable management decision-making;
- Transparency of offshore activities and the abolition of tax havens;
- Setting up a Financial Products Safety Committee;
- Measures to counter tax dumping, and the promotion of progressive tax systems supporting the promotion of research and development, innovation, job creation and training;
- Introduction of a Tobin tax; and,
- A ban on foreclosures for people failing to pay their mortgages (e.g. by organising an insurance system for drops in income).

Public control must be applied to ensure that banks pass on taxpayers' money in credit lines to struggling companies, especially small and medium sized companies and those in supply chains.

2. Creating the foundations today for research and development, investment and incentives in sustainable production and consumption in the longer term

Recognising that efforts have been made in a number of countries, the EMF fears that these have been too little and too late and calls for a much larger, stronger and more strategically coordinated European stimulus package to support consumption and employment.

A comparison of national stimulus packages in the industrialised economies demonstrates the need for more vision from European governments, especially as far as stimulus related to sustainable development is concerned. EU member states must start implementing their plans concretely, as the crisis envelopes businesses and workers much time has been wasted.

European member states and global trading partners must coordinate their industrial recovery plans far more carefully to counter the threat of protectionist 'beggar-my-neighbour' policies. There is an urgent need for greater European co-ordination and transparency of national and regional support for companies.

State aid (directly or through loan guarantees) to support employment in companies hit by the credit crunch must be based on conditions that guarantee that:

- those companies receiving funds do not make forced redundancies
- there are no wage cuts and that collective agreements are respected
- during periods of reduced production, workers should be provided with training for qualifications which improve their employment prospects
- public support should not line the pockets of shareholders through dividends or other forms of share buy-back
- As far as possible, support should promote the development of new products (according to environmental criteria)

The specific situation of small- and medium-sized companies has to be better addressed by public policymakers, especially the lack of access to credit and loans. Currently, funds earmarked for SMEs are not reaching their targets. As the motors for job creation in Europe, SMEs are fundamental to ensuring that European industry emerges stronger from the crisis.

Improving sales of new, lower-emissions vehicles in some countries demonstrate the importance of the immediate introduction of demand-side policies, such as green scrapping premiums for cars and white goods, to stimulate demand for new energy efficient models to replace older cars and consumer appliances. Goods with poorer standard-levels of energy efficiency should be gradually prohibited from the EU market.

For the longer-term, the EMF advocates the immediate creation of Euro-bonds for the euro-zone to provide greater stability for weaker, more-exposed economies that have seen their credit-ratings collapse in recent weeks. Profits on these bonds should be channelled through the European Investment Bank (EIB) to provide a pool of finance for investment in strategic projects to *green* European industry and promote new technologies.

A 'smart growth' initiative should include major investment in both new build and retrofitted sustainable buildings, especially in housing public infrastructure and industrial buildings, major investment to support energy efficiency, increasing capacity for generating power from renewable energies and developing carbon capture technologies. Investing in low impact transport plans, more localised production and better waste management. Manufacturing should be given access to government backed investment funds to assist innovation and design of green technologies and processes in the automotive, engineering, science and process industries.

European funding must be made available to implement the action plans drafted by the European technology platforms (ETPs), with conditions to ensure that research and development undertaken in and financed by Europe results in production in Europe. The EMF demands that trade unions have a statutory role in all the technology platforms, as is the case for the European Steel Technology Platform.

Also to support the market introduction of new innovations, the EMF supports the further development of newly created tools for industrial policy as Joint Technology Initiatives, the creation of Lead Markets, innovative public procurement, and the action plan for sustainable production and consumption.

3. Avoiding a social recession and keeping a skilled workforce safe to be prepared for the recovery

In the context of today's economic restructuring, the role of social dialogue and collective bargaining on local, national and European level is of crucial importance. Stronger co-operation between social partners at all levels is needed to overcome the current crisis.

In the short-term, full use should be made of the cushioning labour market measures available in the different countries to maintain and support the workforce, whether directly employed or agency and sub-contracted. A level playing field for temporary labour market measures is necessary to ensure that short-time work is combined with appropriate training and guarantees for wage levels. The EMF calls for common EU minimum standards on these labour market instruments and their availability in all European countries.

Wage moderation will intensify the crisis further. Maintaining purchasing power is of central importance. Therefore, workers should be compensated fairly for productivity gains achieved. Workers should be compensated for any loss of salary, in case of short-time arrangements or temporary lay-offs, through social security systems.

The fact that whole sectors are affected by the crisis means that fired workers, are finding it increasingly difficult to find employment in their field of activity and they may find that other sectors require different skills, making it difficult for them to enter a new sector. This reinforces the importance of education and training in transition phases. As part of an anticipation agenda, periods of lower production should be used to invest in workers' education and training to ensure long-term employment security.

Employment pathways towards similar sectors and growing sectors, such as in renewable energies, should be rapidly made available. In the past *Beschäftigungsgesellschaften* or *cellules de reclassement*, and other systems for helping unemployed workers find new jobs, have proven their worth if sufficiently funded. Such a model is necessary on a larger scale, for the many workers affected especially in the automotive sector and its supply chain. Therefore, the EMF calls for a coherent and sufficiently funded system in all European countries based on a European framework.

While the EMF welcomes the extension in the scope of the European Globalisation Fund, it believes that its resources are too limited for the scale of the current crisis. Therefore, the EMF calls for the reorientation of the European social fund to allow companies and unions to access these resources to manage the retraining and support of workers who fall victim to the crisis.

The overall maintenance of employment should be ensured, therefore, companies should ensure that retiring workers continue to be replaced with new staff and apprenticeship programmes should be maintained.

These strategies rely on timely and adequate worker information and consultation. European restructuring must be the subject of proper information and consultation at European level. Negotiated solutions to restructuring must be prioritised in all operations and all countries.

For the EMF, solidarity in collective bargaining is an essential instrument to defend workers' interests in the crisis, alongside the above-mentioned political instruments[3]. Collective bargaining must defend an active wage policy with the objective of a strong increase in real wages and income support, negotiated working time solutions, no wage cuts, and the strengthening of minimum pay rates.

[3] On the 24-25 March 2009, the EMF's collective bargaining committee adopted a common line of solidarity in collective bargaining through the crisis: See the resolution

Wealth and income redistribution are the best means of promoting economic revival in the current situation.

4. Promoting a new model of corporate governance to pave the way for the sustainable development of companies and employment

The current crisis demonstrates the need for a profound renovation of the current model of corporate governance which has proved its limitations. We need a new model which gives workers a stronger say in corporate strategy and prevents the excesses of financial capitalism which have weakened long-term corporate development. The EMF demands that:

- Workers' involvement in companies become more effective through the strengthening of information/consultation and participation rights both at national and European levels. Workers are concerned about the sustainable development of their companies and want to be better involved in shaping the future of their companies via participation in the development of company policies. In order to achieve this they have to be informed and consulted in due time about the company planned decisions. They have to have the possibility to express an opinion which will be taken on board by management.
- Participation in decision-making bodies (such as supervisory boards or executive boards) should be strengthened.
- Excessive inequity in pay structures between senior management and their workforces has to be rebalanced (i.e. maximum bonuses awarded to top management must be regulated). Workers should be compensated fairly for productivity gains achieved by their company. The share between profit and wages should be more fairly balanced in order to support the development of workers' purchasing power.
- The use of job losses and cost cutting programmes by many companies as the only means to maintain company profit margins have to be addressed by public policy makers.
- The distribution of shareholder dividends must not be done to the detriment of employment and investment which are a pre-condition for guaranteeing the future.
- Companies must develop pro-active training policies with a view to develop workers' employability and guarantee employment opportunities.

Effective and strengthened involvement of workers is a pre-condition to ensure sustainable futures for companies and to ensuring a socially responsible transition to the post crisis economy.

Manifesto for more and better industrial jobs

In November 2008, the EMF's Executive Committee adopted its *Manifesto on more and better industrial jobs*, which sets out the EMF's key industrial policy demands in more depth.

http://www.emf-fem.org/Areas-of-work/Industrial-Policy/EMF-Manifesto-for-more-and-better-industrial-jobs

Brussels, 30 March 2009