Yasmin Fahimi and Susanne Wixforth (Eds.)

A New Industrial and Competition Policy for the European Union

The Role of Trade Unions

EUROPA

DGB

FRIEDRICH EBERT STIFTUNG

EUROPA

Europe needs social democracy!

Why do we really want Europe? Can we demonstrate to European citizens the opportunities offered by social politics and a strong social democracy in Europe? This is the aim of the new Friedrich-Ebert-Stiftung project »Politics for Europe«. It shows that European integration can be done in a democratic, economic and socially balanced way and with a reliable foreign policy.

The following issues will be particularly important:

– Democratic Europe – Social and ecological transformation
– Economic and social policy in Europe
– Foreign and security policy in Europe

We focus on these issues in our events and publications. We provide impetus and offer advice to decision-makers from politics and trade unions. Our aim is to drive the debate on the future of Europe forward and to develop specific proposals to shape central policy areas. With this publication series we want to engage you in the debate on the »Politics for Europe«!

Further information on the project can be found here:
https://www.fes.de/politik-fuer-europa/

Friedrich-Ebert-Stiftung

The Friedrich-Ebert-Stiftung (FES) is the oldest political foundation in Germany with a rich tradition dating back to its foundation in 1925. Today, it remains loyal to the legacy of its namesake and campaigns for the core ideas and values of social democracy: freedom, justice and solidarity. It has a close connection to social democracy and free trade unions.

FES promotes the advancement of social democracy, in particular by:

– Political educational work to strengthen civil society
– Think Tanks
– International cooperation with our international network of offices in more than 100 countries
– Support for talented young people
– Maintaining the collective memory of social democracy with archives, libraries and more.

About the Editors

Yasmin Fahimi is President of the German Trade Union Confederation (DGB) since May 2022.

Susanne Wixforth was Head of the Department for European and International Trade Union Policy at the DGB and member of the Executive Board of ETUC until 2022.

The editors would like to thank Beate Schusta for her support.

Yasmin Fahimi and Susanne Wixforth (Eds.)

A New Industrial and Competition Policy for the European Union

The Role of Trade Unions

FOREWORD *by Yasmin Fahimi* **2**

1 INTRODUCTION: EUROPEAN INDUSTRIAL POLICY — A PARADIGM SHIFT *by Susanne Wixforth* **3**

2 STRATEGIC AUTONOMY AND DE-GLOBALISATION — EUROPE'S NEW PATH? *by Björn Hacker* **4**

2.1 The Risks of a Globalised World 4
2.2 The EU's Homemade Problems 5
2.3 The EU's Potential for Managing the Turning Point 5
2.4 A New Industrial and Competition Policy 6

3 TRADE UNIONS ARE DRIVERS OF CHANGE *by Yasmin Fahimi* **7**

4 A ROBUST BACKBONE FOR THE ECONOMY: A NEWLY DESIGNED ENERGY MARKET *by Josef Thoman* **9**

5 STRATEGIC AUTONOMY AND THE GREEN DEAL — A NEW TRADE POLICY *by Susanne Wixforth* **11**

6 MEMBER STATE PERSPECTIVES **12**

Italy 12
Netherlands 12
Czechia 13

References 14

FOREWORD

Europe needs a new industrial and competition policy. The aftermath of the COVID-19 pandemic, the war in Ukraine, and inflation rates not seen since the 1970s have made this need abundantly clear. Income and wealth inequality have been exacerbated and the cost of living for workers has risen to an unbearable level, all while companies have reaped enormous windfall profits.

A fossil fuel-dependent energy policy will continue to hinder the EU's decision-making capacity at the geopolitical level and put a strain on the European economic situation overall. In view of these developments, trade unions are calling for a European industrial policy as a counter to the US Inflation Reduction Act and the Chinese Silk Road Initiative. This policy would encompass a number of targets, such as the shortening and reshoring of supply chains and production sites, raw material self-sufficiency, digitalisation, and, last but not least, decarbonisation. Initial steps in this direction can be found in the European Commission's Green Deal Industrial Plan.

In this context, we are confronted with the task of incorporating the social sphere into this industrial strategy. The demand for participation in all transformation processes is thus at the centre of trade union activity. We will not promote any discussions about saving the environment first and then worrying about social equality later.

Trade unions have a wealth of experience in developing economic strategies for a socially sustainable economy. For this socio-ecological transformation to be a success, everyone must be involved. This is an absolute must and is why we demand joint decision-making power when it comes to the final choice of strategy. We accept this responsibility for crisis management because we stand for a just society and social peace. Our economic competence, which is grounded in workers' detailed knowledge of workplace processes, must be recognised as valuable and be put to use.

Kurzarbeitergeld (Germany's Short-Time Work Benefit or shortened hours compensation) is a convincing example of our expertise put into economic strategy successfully. It contributes enormously to securing stable levels of employment in Europe and should be made permanent. As a next step, we want to provide an impetus for the reorganisation of the energy market. This is a crucial sphere for action, as it is linked to existential questions of location policy for European industry generally.

The pandemic and the war of aggression on Ukraine have the war of aggression on Ukraine have made the so-called "watering can principle" (*Gießkannenprinzip*) palatable to the public. But how foolish must one be to not tie state subsidies to reinvestment, co-determination, and location? Trade unions have long been calling for economic management instruments such as subsidies and public procurement to be given these conditions, as they are a prerequisite for good work.

These examples show that workers know how to make manufacturing stable and sustainable. Moreover, they demonstrate trade unions' unique characteristics that set them apart from other institutions. The demand for more co-determination is derived from this. For sustainable management to exist, co-determination is not just a contributing factor; it is an essential component. Consequently, it is also a prerequisite for the success of the transformation overall and thus must be strengthened via European regulations.

We need Europe, but Europe also needs us. We need to talk more about Europe's constitution and constitutionality while also discussing Europe's advantages. A modern European constitution must absolutely ensure cooperation and end deadlocks. This is important when it comes to the economy, not least to show that our society is more desirable and just than the vision of the future presented to us by populists and autocrats.

Yasmin Fahimi
President of the DGB

1

INTRODUCTION: EUROPEAN INDUSTRIAL POLICY — A PARADIGM SHIFT

Susanne Wixforth

Major powers — above all, China and the USA — are increasingly pursuing the goal of strategic autonomy combined with forms of protectionism and location policy. While the hot-button topic in European discourse is currently independence from Russia in the energy sector due to the rising prices, China's endeavours have revolved around independence from the West in the technology sector, including in microchips (Kynge / Yu / Lewis 2022). What these powers all have in common is an increasingly critical view of globalisation and the resulting interdependencies between countries; this is even the case in countries that have distinguished themselves in the past through their commitment to open markets and free trade. Self-sufficiency and resiliency have become the latest buzzwords for the current geo-economic transformation.

Globalisation, "change through trade", and the rules-based international order are increasingly on the way out. The US Inflation Reduction Act makes a clear breach of World Trade Organisation (WTO) rules in its domestic content eligibility requirements for government support programs.

From the trade union's point of view, how should the European Union reposition itself so it can survive as a prime location for industry, research, and technology development and not become the "extended workbench" of other economic powers? Can subsidy competition between member states be prevented through cross-border ecosystems and common interest projects? Would these enable the creation of a European industrial space? And would they result in an approach to realising a climate-neutral production model specific to Europe? What role do trade unions play in this, what can they contribute, and is there motivation to do so?

2

STRATEGIC AUTONOMY AND DE-GLOBALISATION — EUROPE'S NEW PATH?

Björn Hacker [1]

2.1 THE RISKS OF A GLOBALISED WORLD

Nobel laureate in economics Joseph Stiglitz warned of the risks of globalisation as early as 2002 (Stiglitz 2002), but it wasn't until the financial crisis of 2008–2009 that doubt was cast on the euphoria of the age of "hyperglobalisation" (Rodrik 2011). Before the crisis, markets were governed by the "faster, further, higher" principle of deregulation and international interdependence. In the years since, the risks have become much more obvious. External factors now include climate change, pandemics, migration movements, global trade conflicts, and energy supply. In addition, economic structural change is getting underway in the form of decarbonisation and digitalisation.

Terms like "strategic autonomy", "strategic sovereignty", "geopolitical power", "de-globalisation", and even "turning point" are now being discussed in Europe when just three years ago, these were oft laughed at as marginal foreign and security policy topics. Ursula von der Leyen took people by surprise when she spoke of the need for a geopolitical European Commission (EC) after taking the post of EC president in 2019. This is no longer astonishing.

In retrospect, the past 15 years feel like they've been one economic crisis after the next. The classic dichotomy between the interests of the social partners and their allied party-political actors can be found at the centre of most of these crises. That is to say that at the heart of these issues lies the juxtaposition between those who demand more exposure to the market and competition and those who want to see the very same market and competition better regulated. The discourse of the financial and economic crisis and the eurozone crisis very rarely strayed from its traditional field and thus rarely reflected on whether the overall path of the integration policy framework is adequate or sustainable in the long run.

Recently, however, other challenges have emerged, including the migration crisis, the COVID-19 pandemic, and the war in Ukraine. In this new and still unclear reality, we need to discuss how we can help shape the future evolution of Europe's economic status, roles for cooperation, and power positions as well as, importantly, what role the EU will be in this phase of post-globalisation.

New factors for Europe include the war taking place on its own continent and migration trends bringing people into Europe rather than elsewhere. Moreover, a massive energy crisis has taken the EU, which had put its trust in the self-regulatory power of the market, by surprise. For the first time since the oil crisis of the 1970s, gas storage facilities were empty and energy regulations had to be re-implemented. The tangible impacts of climate change heighten the sense of crisis: Energy supplies from both nuclear and hydropower are limited by drought and heat waves. The impacts of drought also extend to supply chain disruptions through unprecedented low water levels in waterways.

In this context, global trade flows do not offer a solution. On the contrary, they challenge the political and economic spheres to put raw materials and goods procurement and production on a new footing. The primary problem with globalisation is the dependency that arises from it; the economy may be globalised, but regulation is not. The European Union can thus plan for a climate-neutral economy by 2050 and possibly regulate it in parallel. However, the prerequisite would be agreement among member states on how to get to climate-neutral. The divergence in perspectives on nuclear power as a clean energy raises doubts about the feasibility of this endeavour. An agreement about how to reach the target, if passed, would still leave the development and implementation of solutions to the climate crisis vulnerable to another challenge: The EU is not a closed economic area. If the requirements for climate-neutral economic activity are too high and energy in the EU becomes too expensive, industries will simply migrate to regions where energy policies are less strict.

In the world economic order determined by global competition, the EU will be exposed to cross-border risks. The world market opened up the floodgates for wealth generation. However, we do not yet have the transnational political actors, institutions, or processes needed to mitigate the risks

---

1 Dr. Björn Hacker is Professor of General Economics, specialising in Economic Policy at the University of Applied Sciences in Berlin (HTW Berlin).

and resolve acute crises or problems. In the past, the focus settled on adapting national economic and welfare structures to free markets and liberalisation rather than on actively shaping these systems. Legitimate needs of EU citizens, such as higher wages, better working conditions, clear pathways for education and career planning, affordable housing, and comprehensive social protection in the event of a crisis, are incompatible with competitiveness in globalised markets.

All EU member states have one thing in common: People are experiencing rising fears about job loss and professional and social decline accompanied by a feeling of powerlessness in the face of a "failed globalisation", in which the adage "there is no alternative" is used to dismiss citizens' concerns.

2.2 THE EU'S HOMEMADE PROBLEMS

The EU has failed to adapt its economic integration model to the present geopolitical context. As its first answer to the emergence of the new order of international economic interdependence that emerged in the wake of the Cold War, the EU strengthened itself to become a world-class economic power. In so doing, however, insufficient consideration was given to the development and protection of Europe's original unique characteristics. Instead, the growth and competition paradigm of corporate competition in cross-border markets was adopted, with very little criticism, for the European welfare states and their regional authorities. However, internal competition between institutions, systems, and policies does not automatically lead to a spillover of best practices for the integration area, nor does it result in a stronger position vis-à-vis competition in the international sphere.

Even former EC President Jacques Delors understood: "Nobody falls in love with a single market". Delors was concerned with the increasingly inflammatory political framing of competition in the 1990s. Alas, with the new Economic and Monetary Union (EMU), integration took precedence over market design. When the New Economy bubble burst in the early 2000s, it led to a doubling down rather than a reflection of the approach. The globalisation euphoria and focus on economic growth and "jobs, jobs, jobs" (José Manuel Barroso, former EC President) also explain why nearly no one saw or wanted to see a re-emergence of the serious macroeconomic imbalances of the 2000s. The architecture of the EMU, which is designed to provide stability without fiscal instruments, has the concept of intensified competition between member states baked into its structure. The EMU's systemic shortcomings culminated in the eurozone crisis, but the paradigm of competition was already so deeply entrenched that crisis management misguidedly sought to combat the economic downtown with austerity policies. The resulting prolonged crisis thus led to a "lost decade" in the EU, economically speaking, and a deepening of social inequalities; the lack of willingness has entrenched social and spatial polarisation in the EU. This is reflected in both the diversity of resiliency and socio-economic status of the various member states themselves and major differences within member states between economic centres and metropolises that are equipped for global competition and the periphery, spanning from the countryside to smaller towns and cities, and includes industrial areas that have been severely impacted by sectoral change (Hacker 2021).

Even those countries that have benefited economically from globalisation fear the consequences: Worry about job loss and professional and social decline are not limited to the relative 'loser countries' in the EU. Strategic autonomy as a concept has come increasingly to the fore at the European Trade Union Confederation (ETUC), too (ETUC 2022): Strategic autonomy should fuel a fair, green, and digital transformation while simultaneously reducing Europe's external dependencies. However, the social dimension of this shift must not be left behind. Sustainable jobs, education, the role of the social partners, supply chains, protections against social dumping, public infrastructure, and investments must all be included in the new conceptual design of strategic autonomy.

2.3 THE EU'S POTENTIAL FOR MANAGING THE TURNING POINT

EU market integration is the product of the EMU and the internal market. The institutional design of this integrated market, complete with a mix of supranational, shared, and coordinated competencies, distinguishes the EU from other integrated economic spheres. The last 30 years have brought about the inclusion of a number of additional policy areas — in particular, areas that will aid in the improvement of major integration projects, including social and employment policy, energy and climate policy, judicial policy, domestic policy, and asylum policy. These areas have not been perfectly integrated, and wavering between supranational requirements and claims to national sovereignty can be observed.

Given this context, what should the response be to the numerous global risks and challenges we face? Sociologist Ulrich Beck sees global crises as opportunities: "World problems create transnational commonalities. Whoever plays the national card loses. […] Interdependence is not a scourge on humanity; quite the opposite, it is a prerequisite for our survival. Cooperation is no longer the means, but the end in of itself" (Beck 2007: 368, translated). In other words, stepping backwards from hyperglobalisation must not lead to "playing the national card", though certain political groups certainly have it in their hand. Instead, the challenges the world faces today call for a big step forward toward EU integration. Strategic autonomy does not mean that the EU would drop out of the global economy altogether. The term itself is, in this sense, somewhat misleading: There are many areas in which Europe will never be able to be completely autonomous, and to attempt to achieve this would be both economically and politically inadvisable. On the contrary, strategic autonomy is not about following a global imperative. It is about retaining the ability to make decisions for oneself independently and having the capacity to follow through on them. The EU must be able to speak with one voice and be able to choose its (trade) partnerships autonomously.

There are two central categories of issues that come to the fore. First, taking precautions against protectionism, trade restrictions, patent and intellectual property espionage, and data theft, along with securing the supply of electricity, (critical) infrastructure, and public services. Second, addressing challenges such as decarbonisation and its associated structural changes to the economy and social and employment policy positioning through the union of sovereign states, the joint association of states.

2.4 A NEW INDUSTRIAL AND COMPETITION POLICY

Strategic autonomy in industrial and competition policy would mean to reduce dependency by maintaining key technologies and to create the capacity for new production in specific industries so that key products can be produced fully locally. To make this feasible, an associated infrastructure needs to be developed, and the unique characteristics of the European economic and social model must be both integrated and promoted.

This would require people to think about competition policy in a totally new way. In certain areas, competition should no longer be the primary objective within the internal market. Instead, competition should be understood vis-à-vis third parties. Termed the "Brussels Effect" by legal scholar Anu Bradford, the EU has the market power to drive change worldwide by setting standards; thus, the EU can help shape globalisation (Bradford 2020). Examples of this can be found in climate protection, data protection, and the European free trade agreements. However, the unique contours of the European economic and social model — such as those that would limit internal dumping processes (tax, wage, and social dumping), function to reduce socio-economic disparities both between and within states and regions, facilitate tackling of new challenges with shared expertise, and foster stronger resilience and crisis response to external attacks — are all underdeveloped.

EU strategic autonomy can only be successful if it dares to actively pursue industrial policy while simultaneously tempering the mantra of internal competition. The EC is therefore proposing the *Green Deal Industrial Plan for the Net-Zero Age* (GDIP) (European Commission 2023) in order to avoid offshoring to the US. The plan aims to incite an industrial policy shift towards CO2 sustainability and consists of four pillars:

– A favourable regulatory environment for CO_2-neutral industry,
– Faster access to financing,
– The right skills for the workforce, and
– Open trade for resilient supply chains.

To develop the net-zero industry, it's crucial that approval processes are accelerated to support the production of key technologies within the EU. Moreover, manufacturing capacity for products that are key to achieving climate neutrality and European competitiveness, including batteries, wind turbines, heat pumps, solar panels, electrolysis, and carbon capture and storage technologies, will all be strengthened. If European and national subsidy programmes are designed properly, the structural policy and social components can be strengthened as well. This design would therefore include location and employment requirements along with requirements for training for the younger generation and for co-determination in the overall transformation process. Companies with unfair practices, including tax-related schemes such as tax avoidance, evasion, and aggressive tax planning schemes, or whose practices violate labour and social law, should be excluded from subsidies.

Europe's industrial strategy must be complemented by regulatory measures. States and states alone can guarantee infrastructure, public services, education and training, research and development, sustainability, and worker protection — the market will not regulate itself in these spheres. Here, following a shared or, at least, coordinated path could make this turning point an opportunity for a consolidation of not just the European economic model but European identity as well.

3

TRADE UNIONS ARE DRIVERS OF CHANGE

IN HER KEYNOTE SPEECH, DGB CHAIRPERSON YASMIN FAHIMI MAKES CLEAR THAT TRADE UNIONS AND WORKS COUNCILS MUST BE AT THE CENTRE OF THE TRANSFORMATION PROCESS. THEIR KNOWLEDGE OF WORKPLACE PROCESSES MEANS THEY ARE UNIQUELY POSITIONED TO CONTRIBUTE IN A WAY NO ONE ELSE CAN. STRENGTHENING WORKPLACE CO-DETERMINATION IS, THEREFORE, AN ESSENTIAL PREREQUISITE FOR SUCCESSFUL, SOCIALLY ACCEPTABLE STRUCTURAL CHANGE.

Yasmin Fahimi

The key task for trade unions is not to call for improvements but to actively formulate strategies in the relevant policy areas. This is particularly true in view of the current crises; trade unions must push even harder for a transformation toward a climate-neutral economy and society. This goal is clear. Any insinuation that trade unions are an impediment to the transformation process is categorically false. It is rather the opposite. Trade unions are asking the important and appropriate questions: How can this goal be achieved in practice? What do socially just, socially sustainable, and socially responsible solutions that would make the EU more resilient and more competitive as a location look like?

The EU is in a competition with autocratic societal systems and models such as China. The task at hand is, therefore, to make the transformation in Europe more efficient from its outset so as to strengthen Europe's geostrategic sovereignty and build responsible supply chains. Supply chains themselves are multifaceted and are comprised of all of the important issues, including, but not limited to, climate, human rights, and development cooperation. Trade unions are representative of all people and strive to be inclusive of all perspectives. The expression, "there are always losers", is cynical. Technically and socially ambitious strategies for the service sector and infrastructure must be developed.

Workers must be involved in the entire process. Trade unions have centuries of experience in shaping trade and the economy. They are not just a "wage machine"; they are the voice of economic reason. They have economic competence because the employees know "every screw in the factory" and how technical processes work. They are the experts at the workplace who can provide information to help formulate economic strategies. Companies need to be competitive to sustainably retain or create jobs. Trade unions' capacity to bring all this knowledge together is one of their unique selling points.

Trade unions are not "NGOs". They are the chain link connecting business and politics. It is simply unacceptable that trade unions are called upon to solve problems peacefully when a crisis erupts, but when it comes to the future economic direction, they should quietly take a back seat. Trade unions categorically reject this typical employer perspective. For unions, more co-determination is not only something to which people are entitled, it is an undeniable prerequisite for the success of a sustainable transformation. This is why the DGB is calling for, among other demands, the European Works Council Directive to be revised. The practice of German companies using European laws to undermine the strong German co-determination law and other national regulations to evade co-determination must be put to an end.

The Short-Time Work Benefit is a powerful example of a creative idea that came from German trade unions — many mothers and fathers now claim it as a model of success. In Germany, it helped cushion the 2008 financial crisis' impact on workers. With the SURE Programme, the reduced hours compensation model was elevated to the European level for the first time; this must be made permanent. In this new context, trade unions must come up with creative ideas and concepts for the future design of the energy market, which is currently dysfunctional. The question is: How can a new energy market be designed differently so as to put market logic into perspective?

Other important issues for the future of work, and the transformation to get there, are related to platform work and new forms of employment. In the promotion of renewable energies, for example, the awarding of public contracts and other funding needs to come with conditions, such as the upholding of collective wage agreements, obligations to reinvest profits locally, and location commitments so that work is kept in Europe in the long term. Companies that have benefited from subsidies for years should not close their wind power plants and invest the profits in China, as just happened in Rostock.

Trade unions must make their areas of competence abundantly clear to the public. There are plenty of areas in which trade unions have expertise, starting but certainly not ending with minimum wage and collective bargaining. This applies not only to the DGB and its members but also to the European trade unions; because Europe needs trade unions. Trade unions need to make Europe more appealing; they have to talk about the European constitution and about how a constitution must be negotiated in a way that involves its citizens. It would be absolutely wrong to finalise EU constitutional reform through a treaty between heads of government. Europe needs a modern constitution!

4

A ROBUST BACKBONE FOR THE ECONOMY: A NEWLY DESIGNED ENERGY MARKET

A SUSTAINABLE, SECURE, AND AFFORDABLE SUPPLY OF ELECTRICITY IS ESSENTIAL FOR PARTICIPATION IN SOCIETY AND IS THE FOUNDATION OF OUR ECONOMIC SYSTEM. THE EU ENERGY MARKET MUST REFLECT THIS. A FAR-REACHING OVERHAUL THAT DEFINES ENERGY AS A PUBLIC SERVICE IS NEECESSARY. SUPPLY SECURITY, AFFORDABILITY, AND DECARBONISATION AND CLIMATE SUSTAINABILITY MUST BE IDENTIFIED AS OVERARCHING GOALS. LOOKING FORWARD, THE PRICING MECHANISM MUST BE DESIGNED SO THAT MARKET PRICES REFLECT ACTUAL PRODUCTION COSTS.

Josef Thoman [2]

EU member states are still fighting to contain the impacts of the extremely high energy prices through government aid, spending a total of 646 billion euros on this in the period between September 2021 to mid-March 2023. Even more money has been invested in additional measures to protect people from increased energy prices (Sgaravatti / Tagliapietra Trasi / Zachmann 2023; at the federal level only), while only a tiny portion of the massive excess profits in the energy sector was captured through taxes or levies. This has put a heavy burden on national budgets. Meanwhile, the design of this government funding plan has meant the inflation-dampening effects have been quite small.[2]

Current data show that renewable energy comprises an ever-larger share of the European energy mix (Jones 2023). Yet, the fact that renewable energy is much cheaper to produce than energy from fossil fuels has not had a strong impact on the price of electricity. For example, the price rose sharply in 2021 and again, even more steeply, in 2022 alongside the price of gas despite the fact that more than half (according to Eurostat, it was 58 per cent in 2021) of EU power generation comes from nuclear power and renewables, not fossil fuels (gas and goal). This stems from the design of the EU energy market, which sets the price for all supply technologies based on the most expensive power plant still needed for the grid. The most expensive plant is very often a gas-fired power plant. In this so-called “merit order system”, the sharp increase in gas prices led to a corresponding spike in electricity prices. Even though the production costs for renewable and nuclear energy, which comprise 58 per cent of electricity production have not changed, the price of electricity has risen almost one-to-one with the price of gas. Thereby the distortions of the oligopolistic gas market are transferred to the energy market. This price-driving effect is reinforced by speculative transactions in both markets. It is often non-market players, such as banks and high-frequency traders, that take advantage of the lack of liquidity for spot and futures trading to make speculative transactions in energy exchanges for short-term arbitrage deals. This intensifies uncertainty, heightens volatility, and thus also drives up prices.

Even though the cost of generating electricity from water, wind, and solar sources did not change from 2020 to 2022, plant operators were suddenly able to sell their electricity at a price that was over +670 per cent higher (EEX spot exchange prices for Germany, 2020–2022). What follows is a dramatic and sustained rise in inflation.

All this goes to show that the present-day European energy market apparatus is incredibly vulnerable. Not only does it not support Europe’s overarching energy policy goals, it actively thwarts them. Moreover, the energy market lacks protection against speculation and market manipulation: Russia’s Gazprom, which is the most powerful player in the oligopolistic gas market, is responsible for the skyrocketing prices by deliberately limiting supply (Milov 2022).

The pegging of the price to the most-expensive plant has also meant that now, particularly because energy comes increasingly from non-fossil fuel sources, operators of renewable energy and nuclear power plants are able to generate enormous windfall profits, as their revenues exceed costs many times over.

---

2 Josef Thoman is a policy advisor for the Economic Policy Department of the Vienna Chamber of Labour (AK Wien) with a focus on energy policy.

Many EU member states and the EU itself have introduced measures to tax these windfall profits (Reuters 2022c). In most cases, however, this has only been partially effective, with corresponding tax revenue being extremely low in comparison to the profits themselves due to the specific design of the taxes.

Measures to capture the excess profits have not been successful at either significantly reducing or preventing the massive and observable redistribution of money from energy consumers to producers. Accordingly, the tax revenue has not been sufficient to finance the subsidies for private households and companies that were issued to contain the negative impacts of the high prices on both society and the economy.

Far-reaching reform of the entire energy market structure is necessary for there to be sustainably competitive prices for electricity. This new design for the energy market must decouple the energy price from the gas price so that distributions can be slowed down and prices stabilised. The latter is also necessary to create investment security for renewable energies.

A working example of this approach can be found in the Iberian model. In Portugal and Spain, gas prices for gas-fired power plants are capped; both the input prices (gas) and the output prices (electricity) are regulated. This has been successful in stabilising electricity prices at a lower level across all energy generation technologies while also reducing excess profits for renewable energy producers and nuclear power plant operators. The price stabilisation settles at a level that still ensures there are sufficient incentives for the renewable energy sector to expand.

Affordable power is a deciding factor in the energy transition: The installation and use of heat pumps, the switch to e-mobility, retrofitting with electric blast furnaces in the steel industry, the production of green hydrogen, and the affordability of rail transport all depend on sufficient availability of affordable power. The Iberian model demonstrates that if there is the political will for it, energy market reform is possible in the short term. Studies also show that an EU-wide implementation of the Iberian model would be significantly more efficient than a purely regional system and would not, as is often argued, lead to more gas consumption (Austrian Energy Agency 2022).

For the medium and long-term, however, the Iberian model is only the second-best solution. The price mechanism embedded in the energy market design needs to be fundamentally revised. There are several options on the table, including, for instance, decoupling the price of electricity from gas by dividing the market into two categories, one for power plants dependent on raw materials and another for those that are not. This would mean that there would be different prices for power from these two categories. The market price for consumers is the result of the weighted average. Another conceivable alternative would be to reform the Euphemia market algorithm, the mechanism by which pricing is implemented in this sector. In the future, it could be possible that the price would no longer be set by the most expensive power plant but by a less-expensive technology or by the weighted average price. The most expensive power plants could be renumerated ex-post via reallocations of excess revenue from less costly power plants.

The somewhat lower gas prices observed now should not distract from the fact that we will certainly be confronted with higher gas prices in the future, prices many times higher than what we have seen in recent years. In the distant future, fossil fuel natural gas power plants will be replaced by non-fossil fuel power plants powered by hydrogen and/or biomethane. This, however, would not solve the price problem at hand since hydrogen and biomethane are both more expensive than natural gas. So long as the most expensive technology continues to set the price, electricity will (continue to) be a luxury good.

There are myriad ways to improve the pricing mechanism for electricity. However, it is clear that in the long term, wildly fluctuating or persistently high energy prices lead to regional handicaps and social problems, both for individual member states and for the EU as a whole. Therefore, electricity supply must be understood and categorised as a public service, and supply security, sustainability (in the sense of decarbonisation), and affordability must be anchored as paramount goals. A functioning future energy market must ensure that electricity prices reflect actual production costs and are not based on the most expensive electricity generation technologies.

5

STRATEGIC AUTONOMY AND THE GREEN DEAL — A NEW TRADE POLICY

A GREEN DEAL WITHOUT A SOCIAL DEAL — WITHOUT SOCIAL PROGRESS — WILL NOT SUCCEED. THIS IS TRUE FOR BOTH INDUSTRIAL POLICY AND EUROPE'S STRATEGIC AUTONOMY.

Susanne Wixforth

People must be placed at the centre of economic policy; training, job design, and the role of trade unions are all important. European trade unions, therefore, also engage with competition policy and have had some small successes of late. After many years of effort, the European authority on competition has shown itself open to allowing access to collective bargaining for independent self-employed workers, as well as to allowing social policy regulations to be included in the shaping of competition policy. This is incremental progress towards the overall goal of designing working conditions.

Strategic autonomy, i.e., self-determined political action, also includes the sphere of work. The COVID-19 pandemic made the importance of security in health care and reliable supply chains abundantly clear as a critical component of strategic autonomy. The same is true for food and agricultural security. Trade unions are therefore calling for a broad, holistic understanding of strategic autonomy to be developed. This understanding should then be incorporated into the European Supply Chain Act and directives for public procurement. Energy and public services cannot be treated like just another commodity; public interest takes precedence. Strategic autonomy is much more than just economic, competition, energy, and trade policy — it is a keystone in the democratic pillar of the EU.

From a global perspective, this means that the era of leaving trade to the market is over. The recent crises have made it clear that this approach was naïve. From a trade union perspective, the goal is for binding social clauses to be incorporated into trade agreements. Europe must use its global influence to establish a worker-centred trade policy. At the end of the day, what is the point of trade if it harms workers? In order for a worker-centred trade policy to be established, there needs to be a change in perspective: Trade unions are not "trade barriers" to the internal market but an important compass for the fairness of international trade. In Latin America, for example, trade unions are asked to participate in decisions about mergers. This is not the case in Europe. Other starting points for a shift in perspective include the procurement rule, which has to follow the principle of reciprocity in market deregulation. In addition, there need to be clear rules for standardisation: If European principles and values are not incorporated into international standarisation, then import control instruments must be used, for example, for products made with forced labour. This is where supply chains come into play: If we can structure supply chains in a way that is fair and establish clear rules for co-determination, then that will be a good foundation for sustainable competition.

Trade unions must also ensure fair footing for competition and trade so that unfair competition between EU countries is avoided. History teaches us that unfair competition can lead to war. This is not only about competition but also about investment in technology and in people with technology skills. A fair footing would require reasonable working conditions and wages. Applying a "silo approach" would therefore be totally misguided. Rather, the EU's competition policy must identify common interest projects so forward-looking EU technologies can be developed collaboratively. If this does not succeed, the EU will no longer be competitive.

6

MEMBER STATE PERSPECTIVES

NATIONAL-LEVEL DISCOURSES ARE CONFRONTED WITH A COMMON PROBLEM: UNCOOPERATIVE GOVERNMENTS. THIS ALSO ILLUSTRATES THE IMPORTANCE OF REDESIGNING THE EUROPEAN ENERGY MARKET AND THE INDUSTRIAL POLICY CHALLENGES THAT ARISE THEREFROM.[3]

ITALY

After the electoral victory of the post-fascist party *Fratelli d'Italia* (FdI) and the formation of the government under Prime Minister Giorgia Meloni, the situation for Italian unions was unclear, as they are fundamentally pro-Europe. The fears that FdI's nationalism would endanger social cohesion in Europe have not fully materialised; the Italian government has been surprisingly cooperative at the European level despite its nationalist rhetoric (The Economist 2023). However, the government in power can be characterised by its anti-worker attitude: Recent government initiatives in the field of labour law have come under sharp criticism from the union for increasing precarity instead of fighting it (Cinelli / Consiglio 2023).

In Italy, too, industrial policy and European energy policy are inextricably tied together: Italy's energy mix is still heavily dependent on gas (IEA 2021). However, one unique feature is that Italy is less dependent on Russian gas, importing much of its gas instead from countries in North Africa (IEA 2022). Nevertheless, the recent energy crisis strained Italy's energy-intensive industry, especially in sectors such as chemicals, steel, glass, concrete, paper, and wood, where companies determined that production was no longer profitable and consequently cut back (Reuters 2022d). The Italian trade union is therefore calling for joint gas purchases to be made at the EU level, along with a price cap, a decoupling of electricity and gas, and the protection of the gas market from speculation to guarantee the supply of electricity to the population at reasonable prices.

The Italian automotive sector is also undergoing a fundamental transformation as it tries to switch from producing engines, valves, cylinders, and so on to producing components for electromobility. Tens of thousands of jobs are at risk if this transition is not accompanied by government intervention (Reuters 2022b). These transformation processes, which are necessary to usher in the energy transition, must be included on the agenda during trade union negotiations with the government and at the European level, not only in the crisis but also in the proactive creation of a new policy to achieve a CO_2-neutral economy.

NETHERLANDS

From the point of view of the Federation of Dutch Trade Unions (FNV), it is very dangerous to portray the EU as a failed experiment. This is simply fodder for autocratic government leaders and populist parties. Trade unions especially must make it abundantly clear that without a European Union that is a strong, value-based economic bloc of member states, Europe will not be able to rise to meet its challenges. There is great potential in the EU, but competition between member states is counterproductive. It is, therefore, a central task of European trade unions to make this known to their members and to act as a strong voice, helping to shape the transformation of the economy.

The Netherlands is facing some challenges when it comes to industrial policy. On the one hand, the country is home to ASML, the world's largest supplier of lithography machines for the semiconductor industry. These complex machines play a vital role in the production of integrated circuits and microchips. From the perspective of Europe's strategic autonomy in the semiconductor sector, the Netherlands plays a central role in industrial policy. With a market cap of around 260 billion euros, ASML is Europe's most valuable tech company. On the other hand, the US government has asked the Netherlands to impose export restrictions on the company for security reasons (Reuters 2023). Meanwhile, Dutch industry is also struggling with high energy prices. Another increase in demand for electricity is forecasted for 2023. Dutch energy providers are already appealing to large companies and the state to become more flexible in their energy use so as to avoid infrastructure collapse (Latief 2023).

As long as we are dependent on Russian gas, Europe cannot talk about energy autonomy with any degree of seriousness. Energy has become a weapon. But what can be done about it? Cap energy prices? Should each country go at it alone at their own discretion? In these scenarios, taxpayers and workers end up footing the bill while, all too often, state subsidies end up in the pockets of company owners. European solutions in the form of joint gas price setting and purchasing are needed. Last but not least, the EU itself is the product of an energy crisis; the European Coal and Steel Community was established in 1951 in response to a crisis in the industry at that time. All said and done, subsidies without conditions for social and human rights are a misguided economic policy. We need to move away from profit maximisation and toward a sustainable economy based on renewable energies. The focus cannot be on outsourcing but on reinvestment. One positive example of this can be found in the trade union's approach to the closure of two out of five coal-fired power plants in the Netherlands, decommissioned to reduce CO_2 emissions. In the past, unions might have simply drawn up a social plan. Now, they have invested financial resources into advising workers on how to transition to new employment. The motto is: "Nothing about us, without us!"

CZECHIA

The inflation rate in Czechia, as in other European countries, remains quite high. As of January 2023, it was 17.5 per cent. This is up from 2.2 per cent only two years earlier (Czech Statistical Office 2023). Since December 2021, the government under Petr Fiala has had a very neoliberal orientation and has not been open to social dialogue. Trade union efforts to put forward productive proposals to curb inflation, such as special tariffs for energy or an energy price cap, have long fallen on deaf ears. Initially, only a solution for small and medium-sized enterprises and private households were implemented, but nothing for larger companies. At the end of 2021, an energy price cap was also passed for large companies. From the trade unions' point of view, this is an important measure: High energy prices threaten jobs. There is a danger that large companies will relocate to countries where energy prices are cheaper. The hope is that the price cap will prevent companies from moving their production to other countries and to Germany, in particular, where subsidies are higher. The measure is financed in part by an excess profits tax (Reuters 2022a).

It is clear that Czechia will not be able to finance the European Green Deal on its own. This will require European programmes and joint interest projects.

REFERENCES

Beck, Ulrich (2017): *Weltrisikogesellschaft*, Frankfurt am Main: Suhrkamp.

Bradford, Anu (2020): *The Brussels Effect. How the European Union Rules the World*, Oxford: Oxford University Press.

Cinelli, A. / Consiglio, V. (2023): "Analysis: Italy promotes short-term job market, shunning Spain's example", in: *Reuters*, 31 January 2023, https://www.reuters.com/markets/europe/italy-promotes-short-term-job-market-shunning-spains-example-2023-01-31/.

Czech Statistical Office (2023): *Inflation, Consumer Prices*, Public database CZSO, https://www.czso.cz/csu/czso/inflation_consumer_prices_ekon/.

ETUC European Trade Union Confederation (2022): *Positioning the ETUC for an EU open strategic autonomy with a strong social agenda*, Executive Committee, European Trade Union Confederation, 29.6.2022, https://www.etuc.org/en/document/positioning-etuc-eu-open-strategic-autonomy-strong-social-agenda/.

European Commission (2023): *A Green Deal Industrial Plan for the Net-Zero Age*, COM(2023) 62 final, 1.2.2023, Brussels, https://commission.europa.eu/document/41514677-9598-4d89-a572-abe21cb037f4_en/.

Hacker, Björn (2021): *Unequal Europe. Tackling regional disparites in the EU*, Stockholm: Friedrich-Ebert-Stiftung, https://library.fes.de/pdf-files/bueros/stockholm/18349.pdf.

IEA (2021): *Natural gas net imports in Italy, 2020–2022,* Italy Natural Gas Security Policy, International Energy Agency, https://www.iea.org/data-and-statistics/charts/natural-gas-net-imports-in-italy-2000-2020/.

IEA (2022): *Natural Gas Security Policy*, Paris: IEA, https://www.iea.org/reports/natural-gas-security-policy/.

Jones, D. (2023): *European Electricity Review 2023*, Ember, 31.1.2023, https://ember-climate.org/insights/research/european-electricity-review-2023/.

Kynge, J. / Yu, S. / Lewis, L. (2022): "Fortress China: Xi Jinping's plan for economic independence", in: *Financial Times*, 15.9.2022.

Latief, Y. (2023): "2022 tripled Dutch electricity demand: Stedin calls for flexibility", in: *Smart Energy International*, 22.2.2023, https://www.smart-energy.com/industry-sectors/energy-efficiency/2022-tripled-dutch-electricity-demand-stedin-calls-for-large-scale-flexibility/.

Milov, V. (2022): "European gas price crisis: Is Gazprom responsible?", in: *European View* 21(1), pp. 66–73, https://doi.org/10.1177/17816858221084761.

news.ORF.at (2023): "Sinkende Gaspreise: Kunden sollten sich noch in Geduld üben", in: *news.ORF.at*, 20.2.2023, https://orf.at/stories/3305854/.

Reuters (2022a): "Czech government approves energy price cap for large firms", in: *Reuters*, 14.12.2022, https://www.reuters.com/business/energy/czech-government-proposes-energy-caps-large-firms-2022-12-14/.

Reuters (2022b): "Electric car transition puts over 70,000 jobs at risk in Italy, unions and lobby say", in: *Reuters*, 3.2.2023, https://www.reuters.com/business/autos-transportation/electric-car-transition-puts-over-70000-jobs-risk-italy-unions-lobby-say-2022-02-03/.

Reuters (2022c): "Factbox: Windfall tax mechanisms on energy companies across Europe", in: *Reuters*, 8.12.2022, https://www.reuters.com/business/energy/windfall-tax-mechanisms-energy-companies-across-europe-2022-12-08/.

Reuters (2022d): »Italian manufacturers cut output to save energy, government official says«, in: *Reuters*, 21.8.2022, https://www.reuters.com/business/energy/italian-manufacturers-cut-output-save-energy-govt-official-says-2022-08-21/.

Reuters (2023): "Dutch tech industry urges EU to take a stand on China chip exports", in: *Reuters*, 17 January 2023, https://www.reuters.com/technology/dutch-tech-industry-urges-eu-take-stand-china-chip-exports-2023-01-17/.

Rodrik, D. (2011): *The Globalization Paradox. Democracy and the future of the world economy*, New York: W.W. Norton.

Stiglitz, J. E. (2002): *Globalization and its discontents*. New York: W.W. Norton.

Sgaravatti, G. et al. (2023): *National fiscal policy responses to the energy crisis*, https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices/.

The Economist (2023): „After a steady first 100 days, choppier waters await Giorgia Meloni", 26.1.2023, https://www.economist.com/europe/2023/01/26/after-a-steady-first-100-days-choppier-waters-await-giorgia-meloni/.

IMPRINT

Friedrich-Ebert-Stiftung
Publisher: Department Global and European Policy
Hiroshimastraße 28, 10785 Berlin, Germany
www.fes.de/referat-globale-und-europaeische-politik

Responsibility for content and editing:
Dr Marc Meinardus, Trade Union Programmes Europe and North America
Marc.Meinardus@fes.de

Orders / Contact: Raya.Maana@fes.de

ISBN 978-3-98628-316-2

Translation: pertext, Berlin
Design / Typesetting: pertext, Berlin

FRIEDRICH
EBERT
STIFTUNG