

Towards Sustainable Industrial Policy

Discussion paper



SUSTAINABLE
INDUSTRIAL
POLICY





Preface

IndustriALL Global Union represents 50 million workers worldwide in extractive, manufacturing and processing industries. The future sustainability of these industries, and of the planet we live on, depends on governments making strategic choices. Trade unions have a crucial role to play in working with governments and business to ensure that union goals of job creation, recognition of human rights and protection of the environment are respected in the process. This is why IndustriALL is embarking on an ambitious program of working with its affiliates to develop and implement sustainable industrial policy.

The aim of this paper is to stimulate discussion on sustainability by providing background on some of the key issues that need to be considered. IndustriALL meetings at global, regional, industry and company level will provide opportunities for affiliates to come together to build a common understanding on priorities for each sector or region and how to address them.

Together we can make a difference.

Jyrki Raina

General Secretary



What is Sustainable Industrial Policy?

Sustainability is defined as meeting the needs of the present, without compromising the ability of future generations to meet theirs. That implies a healthy environment, a healthy economy, and a healthy society, built on sound foundations and maintained through good global governance.

An industrial policy is a plan to encourage desired patterns of industrial development and growth. It should strategically target specific industries and sectors, as well as consider broader needs such as transportation and communications infrastructure, education and skills training, research, and energy. A sustainable industrial policy must create a healthy economy and quality employment (decent, secure work that pays a living wage) while minimizing negative environmental impact and advancing the interests of society as a whole.

Sustainable industrial policy is not about creating conditions for companies to thrive at the expense of workers, society and the environment. It's about creating conditions under which companies can operate in order to make a sustainable contribution to society.

Why do we need it?

The triple crisis

Our current path is unsustainable. We are facing crises on three fronts: environmental, economic and social.

Climate change is a real and serious threat. The Intergovernmental Panel on Climate Change (IPCC) estimates that to maintain global average warming below 2°C above pre-industrial levels (an amount of warming that will nevertheless have serious consequences) very significant actions need to be taken by 2015-2018. If the world delays to 2020, maintaining the 2° limit will require technologies that have not yet been developed, or are not yet proven.

The longer action is delayed, the more likely that social standards and human rights will be sacrificed in a last minute panic to save the planet.

The degradation of our planet's natural systems continues with reckless speed. Businesses have few solutions to offer. Too frequently, private interests actively try to prevent solutions from being found or implemented.

Global corporations act to maximize private control over resources, production, consumption and investment, while spreading the costs and risks of their activities over the rest of society. Their focus is on maximizing short-term profit, in full knowledge that this is unsustainable.

In the drive to generate ever-greater short-term profits, it has become more profitable to manipulate financial instruments than to actually make anything. Private equity buyouts promise phenomenal returns to investors by maximising the short-term extraction of cash from companies and loading them with debt at the expense of long-term productive investment, jobs and employment security.

The economic crisis resulted from policies that fuelled unbridled financial speculation and short-term profits at the expense of productive investment in the real economy. In countries most affected by the crisis, workers paid the price in massive job losses and rising unemployment. Citizens paid the price when taxpayers' money was used to bail out the banks whose activities precipitated the crisis, and continue to pay as governments use the deficits caused by the bailouts to justify austerity measures.

The twin crises of the environment and the economy have created a third: a social crisis. Increasing disparities in wealth and income, reduced access to education, degraded population health (including occupational health) and attacks on health care, an explosion in precarious work, and vanishing opportunities, particularly for young people and traditionally disadvantaged groups, are all consequences of the failure to build a sustainable society.

Race to the bottom

Capital is no longer restricted to operating within national boundaries. Companies of all sizes and industries are inter-connected through global networks known as global value chains (GVCs). Multinational corporations (MNCs) have driven the development of GVCs by outsourcing parts or all of the production process.

Countries compete to be part of GVCs, often through narrow specialisation in labour-intensive, low skilled stages of production. Far from developing sustainable industrial policies, many governments rely on Export Processing Zones to attract foreign investment. Tax breaks and other incentives allow the wealth generated by production and labour to go directly into the coffers of the MNCs at the top of the chains, rather than into the hands of workers, or to contribute to the development of local industry.

The result is a global competition to drive down wages. Suppliers further down the chain are dependent on the price buyers above them are prepared to pay, negatively impacting the capacity of the parties to negotiate on wages and working hours and creating health and safety risks. Governments are allowing MNCs to dictate the conditions under which workers labour in their countries by demanding prices which do not reflect the true cost of labour, but which they are able to impose because of their dominant position in the chain.



We are witnessing the breaking down of the historical link between wages and productivity through, among other factors, the decline of collective bargaining as a mechanism to fairly distribute profits and the gains from productivity improvements. In their drive to maximise short-term profits, corporations seek productivity improvements via the low road of intensification of work, rather than through innovation.

The enormous and unnecessarily complicated value chains of today's MNCs have eroded respect for human rights. The UN Guiding Principles on Business and Human Rights make it clear that corporations have responsibility for what happens in their value chains, but the size and complexity of the chains make it impossible for MNCs to know what is really going on within them.

What does it look like?

Promoting equity

Social sustainability begins with respect for fairness, equity, justice, human rights, and human cultures and communities. The United Nations Universal Declaration of Human Rights, and the labour standards of the International Labour Organization articulate many of these values.

Sustainability must address inequality, not by competing on the lowest wages, but by promoting collective bargaining to ensure that productivity improvements benefit those that contribute to them, thus raising wages and in turn contributing to industrial and social stability, reducing inequality and driving demand for the products of industrial production.

Crucially, sustainable industrial policy involves the development of effective industrial relations to mediate between the competing interests of workers and capital.

Harnessing technology

Sustainable industrial policy involves developing strategies to encourage greener technologies that address problems like climate change, while creating large numbers of decent jobs. Technological development should benefit workers and make their jobs easier, leading to increased productivity. It should not be used to reduce work to limited, repetitive tasks which make work unfulfilling, de-skill workers and cause illnesses and injuries, nor to cut jobs.

Advancing labour standards

A sustainable industrial policy includes the effective implementation of labour standards. This includes promotion of collective bargaining, resources for labour inspection, promotion of dialogue between industry and trade unions and labour laws which restrict precarious work. All international bodies concerned with development need to promote freedom of association and collective bargaining as enabling rights, to make sure that the gains are passed onto workers.

Moreover, a sustainable industrial policy must be underpinned by social protection policies addressing unemployment, retirement and health care, to which industry must be required to contribute.

Building sustainable industry in a globalised world

Participation in global value chains must be about employment and quality of employment, not just driving increased profits for MNCs. Governments need to create industrial policies which lead to a more equitable distribution of the benefits of participation in GVCs towards workers and society and reinvestment in research and development and skills. We need integrated industrial development strategies, linked to the sustainable development of local industries as opposed to the enclave approach of EPZs.

Government policies should aim at encouraging higher level participation in value chains to capture more of the value added, thus strengthening the position of local companies and leading to increased wages, better working conditions and higher skill levels. But these benefits do not flow automatically. Collective bargaining must be promoted as the means to ensuring that workers also benefit from a higher level of participation in GVCs.

Just Transition

Knowing that our present-day systems are failing, the labour movement seeks to create a better, fairer society. There will necessarily be a transition period in getting to where we want to be, from where we are now. It is not sufficient that many new, greener, jobs will be created during that transition. The transition must consider the needs of present-day workers in present-day industries, as well as the potential to create newer, greener jobs in our journey to a sustainable future. This is a "Just Transition": a complete package of sustainable industrial policies and social programs that will allow workers to benefit from change, rather than bear its costs.



How can it be implemented? Who is going to pay for it?

Strengthening the role of government

The free market cannot create sustainable development. There is no automatic link between economic growth and improved living standards. Per capita GDP can increase, while inequality worsens, and the environment is degraded. Government intervention is needed to rebalance the distribution of the benefits of economic activity.

As the only institutions that can stand against corporate greed, governments must create public policy that is genuinely in the public interest; backed by a strong and enforceable legislative and regulatory framework.

But the rise of free-market ideology has seen the decline of industrial policy-making by governments. State intervention to shape the direction of industrial development is challenged as protectionism and an illegitimate constraint on capital. Trade rules and agreements restrict government capacity to legislate environmental and social protections in the interests of their own citizens. Investor-state dispute settlement provisions in international trade agreements allow corporations to sue governments when legislation conflicts with their investment goals.

There needs to be a rebalancing of the power to dictate the terms of industrial development, away from MNCs and back to democratically-elected governments. Industrial policy needs to be revived, in order to correct for market failures through state intervention.

Inclusive policies

Sustainable industrial policy development requires an integrated approach which ensures policy coherence between the different arms of government, including departments of labour, the environment, industry, trade, research and energy. Similarly there must be policy coherence between and within the global institutions - the WTO, IMF, World Bank, ILO, UN, OECD - so that governments do not receive conflicting messages, particularly on labour market deregulation.

Unions must be part of industrial policy formulation and have an equal seat at the table with industry. The transformation of industry cannot happen without the active participation of workers.

Establish targets

Sustainable industrial policy needs targets in areas such as employment, R&D, energy efficiency, carbon emissions, reducing inequality, observance of labour standards, active labour market policies focussed on employment creation, retraining and re-employment of redundant workers, youth skills development. It should be guided by the development of both qualitative and quantitative indicators which are measured and analysed with the involvement of the social partners: business and trade unions.

Financing for sustainable industrial policy

Global corporate profits have reached unprecedented levels. Shareholder dividends have increased at the expense of investment, jobs and social protection. Instead of profits being reinvested in R&D and innovation, they are directed towards speculation and rent-seeking. Shareholders are privileged through financialisation of corporate investment to deliver maximum short term financial returns.

Government action is needed to drive companies towards re-investing in development. Equally, companies need to be protected from destructive private equity buyouts. Governments must (re-) establish a regulatory environment which promotes productive investment. Legislative changes that have opened the doors to private equity buy-outs must be reversed. Preference should be given to investment in venture capital funds which focus on longer-term development and can thus contribute to job creation.

External costs should be internalised so that companies are liable for the true costs of their business, not society. Governments should steer behaviour towards sustainable practices, for example through the creation of incentives and public procurement.

Thanks to corporate exploitation of tax loopholes and tax havens, governments are missing out on enormous amounts of tax revenue which could otherwise be used to support local industrial development and the public infrastructure that it needs. Regulation is needed to close the loopholes as well as action by global institutions to chase down missing tax revenue.

The financial sector must be put to the service of the real economy. Sustainable industrial policy needs to improve access to private sector financing for the transition to sustainable production as part of the re-regulation of the financial sector.

The introduction of a Financial Transactions Tax would have the benefits of restraining the excesses of the financial sector, helping to stabilize currencies and raising a great deal of money that could be used to address climate change and other global issues.



What can IndustriALL do?

IndustriALL, representing 50 million workers in both energy producing and energy consuming industries, has a critical role to play in calling for sustainable industrial policy. The industries where IndustriALL's members work create value through the transformation of extracted natural resources into products, through manufacturing and processing. How this is done can have significant positive or negative impacts on sustainability.

Every industrial sector and every region has its own particular challenges and concerns, with considerable variation between and within them. Sustainability can only be achieved when each of those challenges and concerns is dealt with in a consensus-seeking, integrative fashion that attempts to balance the environmental, economic and social imperatives of sustainability.

The IndustriALL Action Plan calls for strong industrial policies that recognise manufacturing as a key engine of growth for national economies. Yet well-paid, secure industrial jobs, which have traditionally been drivers of social progress, are in decline, thanks in part to global competition to drive down wages and the spread of precarious forms of employment. Many countries still have no industrial policy to speak of, let alone one that incorporates sustainability.

IndustriALL has a responsibility, reflected in its Action Plan, to:

- Promote strong industrial policies that recognize manufacturing as a key engine of growth for national economies
- Encourage investment in research and development, and training and skills to assure sustainable industrial production and long-term employment prospects
- Support transfers of skills and technologies to developing countries to accelerate industrialization and the creation of good quality jobs while safeguarding the environment
- Develop a proactive energy policy which establishes security and sustainability as the foundations of industrial production world-wide
- Support a fair, ambitious and binding global treaty on climate change that takes into account social implications, promotes the creation of green jobs and encompasses the principles of Just Transition, thus ensuring that the transition to low-carbon societies is fair
- Pursue union participation in all aspects of industrial policy development and implementation
- Fight for a new global economic and social model that will confront disparities of opportunity and wealth within and between countries
- Make the voice of industrial workers heard in the global institutions, including the ILO, OECD, WTO, IFIs and G20, to promote sustainable development, social and economic justice and democratic global governance
- Work with other Global Unions to get governments and IFIs to take concrete measures to combat poverty, unemployment, inequality and social injustice
- Insist on trade to be based on the principles of fairness and equity in order to lift living standards by supporting employment growth, improving social protections and providing for fundamental workers' rights, environmental standards, human rights and democracy
- Take action to ensure that ILO Core Labour Standards are included in all trade agreements and IFI mechanisms
- Build solidarity among affiliates against the negative effects of market opening on employment and workers' rights in trade deals
- Push for regulation of global financial markets that will prevent financial speculation from precipitating another disaster to the real economy and fight against tax havens
- Call for the introduction of an international Financial Transaction Tax system.



The way forward

Significant work has already been done by IndustriALL's founding organizations, which each have a long tradition of work on sustainable development. This earlier work created the space for IndustriALL's affiliated trade unions to speak up for a fair, ambitious and legally-binding global agreement on greenhouse gases.

Now there is a real - and urgent - need for IndustriALL to look at resource extraction, processing, manufacturing and energy through the lens of sustainability to develop a coherent and sustainable industrial policy at the international level, and to assist its affiliates in their work at the national and regional levels.

To this end, IndustriALL is developing a framework for sustainable industrial policy to be endorsed by affiliates and widely promoted as a basis for influencing governments, the global institutions and MNCs. This will involve building on our alliances with other labour organizations and with broader social movements.

All affiliates are encouraged to get involved in shaping IndustriALL's approach to sustainable industrial policy, to maximise the impact we can make towards re-orientating the global economy towards a sustainable future.

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