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**ILO-UNECE Regional Forum “Social Aspects and
Financing of Industrial Restructuring**

Moscow, Russian Federation, 26-27 November 2003

REPORT ON THE REGIONAL FORUM

The following document represents the outcome of the Regional Forum on “Social Aspects and Financing of Industrial Restructuring” co-organized by the International Labour Organization and the United Nations Economic Commission for Europe at the invitation of, and in cooperation with, the Government of the Russian Federation. The Regional Forum was held at the Academy of National Economy, Moscow, Russian Federation, on 26 and 27 November 2003.

Introduction

1. The Regional Forum brought together 139 representatives of governments, private companies, labour unions and academia from 15 UNECE member countries. Representatives of the International Labour Organization and European Commission also attended.
2. Mr. Andrey Fursenko, Acting Minister of Industry, Science and Technologies of the Russian Federation, opened the Regional Forum. He emphasized the importance of industrial restructuring at the current stage of the transition process in the CIS countries. While the immediate short-term challenges of restructuring had already been addressed, the long-term or strategic restructuring in many countries of the region had not yet started. Governments in transition economies should play an active role in designing the plans for strategic restructuring of sectors and the economy as a whole. In doing so, they should also facilitate the collaboration of major actors involved in this process. This collaboration was a cornerstone of overcoming the difficulties which restructuring created for laid-off workers. Wishing the Regional Forum success in its deliberations, Mr. Fursenko expressed the

conviction that the exchange of information on best practices in socially responsible restructuring in different countries of the region would contribute to the efficiency of this process.

3. The Forum was also welcomed by the acting Deputy Executive Secretary of UNECE, Mr. Patrice Robineau, and Ms. Pauline Barette-Raid, Director of the ILO Team for Eastern Europe and Central Asia.

Summary of discussions

4. The Regional Forum discussed ways and means to resolve the social issues arising during the restructuring of uncompetitive industries. In particular it addressed the problem of lay-offs and the available modes of support for dismissed workers and their families. Retraining of workers was considered as a means of assuring the employment security or employability of employees. Several speakers shared their views on the role of new spin-off enterprises emerging as a result of restructuring and the resulting employment opportunities. Particular emphasis in the discussion was made on the problems encountered by single-industry towns and areas, as well as on advantages offered by industrial and territorial clustering. A special session of the Forum addressed the accumulated experience of foreign direct investment (FDI) and its role in industrial restructuring, as well as its potential for resolving the social problems emerging in that process.

5. Discussion at the Regional Forum confirmed that industrial restructuring in individual east European and CIS countries had progressed at varying speeds. While its short run objectives have been at least partially accomplished in the majority of the States which will accede to the European Union in the near future, the vamping of enterprises inherited from the time of central planning is currently underway in other countries of the region (for example, Romania, Bulgaria, Croatia, Russian Federation, Ukraine, Kazakhstan), and is largely a task for the future in several other transition economies.

6. Company surveys in the CIS countries confirm that there are a large number of companies which have accomplished, are in the process of, or are planning restructuring of their production in the near future. At the same time, related economic research has pointed to a number of unwanted and counterproductive results of the hasty downsizing of enterprises undertaken without due planning and consideration. In Russian light industry, for example, this type of restructuring, implemented in the mid-1990s, resulted in the massive shedding of qualified personnel and sectoral know-how, so that now growth in that sector faces supply-side restrictions including lack of adequately trained workers and technicians.

7. Negative evaluation of downsizing, which does not pay full attention to the aspirations of laid-off employees, was supported by the representatives of the ILO. They stressed that the restructuring strategy should be based on the agreement of all the stakeholders concerned, that is employers, employees and Governments, and its results should be jointly evaluated. At the same time, it was argued, supporting measures by Governments and employers should not “simply” guarantee employment and wages, they should also encourage the professional and territorial mobility of employees, and this element is of particular importance for the low-income transition economies.

8. Participants agreed that in order to provide an adequate supply response to changes in the market demand, restructuring should on the one hand be speedy, and on the other hand well integrated into the long-term strategy of the company, including its human resources development plans. Temporary halts on hiring new employees should not lead to the deterioration of the personnel age structure, while a special effort should be made to encourage training and retraining of younger workers. While the efficiency of the retraining of dismissed workers as a means of enhancing their employability varies in different industries and countries, the Forum's participants agreed that employees should continue developing their skills throughout their whole career, and lifelong learning should become a rule. They emphasized that only ongoing and consistent training and acquisition of new skills could form the basis of sustainable employment in the emerging knowledge-based economy.

9. Participants from developed market and transition economies presented the experience of their countries in coping with the loss of jobs and incomes related to restructuring. The case studies of restructuring presented at the Regional Forum (e.g. those of Luxembourg's steel industry, the Russian coal industry, the British Petroleum Grangemouth site in the United Kingdom, and the steel plants in the Ostrava region in the Czech Republic), confirmed the importance of adequate government support to enterprises in solving the social issues associated with restructuring. Of particular interest to the Governments of transition economies and local administrations could be the experience of the Luxembourg Government, which in the course of restructuring uncompetitive steel plants initiated sizeable public works to lower unemployment, introduced salary guarantees for temporarily displaced workers, and undertook to modify laws to enable public financing of early retirement, retraining and partial compensation of salary losses resulting from the job changes. The Forum's participants found the experience of Rosugol (coal industry State administration) instructive; it had financially contributed to the creation of new enterprises in a number of single-industry towns and areas, and financed the relocation of coal workers and their families from the regions of the far north of the Russian Federation. Assessing the role of Governments in alleviating the hardship of laid-off workers resulting from restructuring the participants emphasized that the results of Government intervention should be compared with its cost. Some negative effects of Government support were also mentioned, for example the loss to the enterprise of highly qualified personnel as a result of generous early retirement schemes.

10. The Forum also discussed the measures that the European Commission requires from related enterprises, aimed at mitigating the adverse consequences of restructuring on employment and workers' incomes. Participants agreed that the directives stipulating the consultation of social partners on questions affecting workers' interests, as well as recommendations to companies aimed at avoiding redundancies, were of particular relevance to countries in transition facing massive restructuring. Accumulated experience in the European Union and accession countries shows that in quite a number of instances consultations and dialogue between company management and employee representatives have facilitated mutually acceptable restructuring plans and in some cases (e.g. the Danone factory in Hungary) have reversed the planned factory closure.

11. The use of adequate support for dismissed workers and their families by the Government and local authorities significantly facilitates the objectives of companies under restructuring. At the same time, a number of speakers emphasized the role of skilful management at the enterprise level (e.g. at the Arbed steel works in Luxembourg, or Ford and British Petroleum in the United Kingdom) as a precondition for successful restructuring. For example, due to well-managed

assistance offered to redundant workers by British Petroleum, around 80 per cent of these workers found alternative employment one year after the downsizing had taken place at one of the company's sites in the United Kingdom in 2001.

12. In the longer run, restructuring should be coupled with an integrated policy anticipating the economic, social and environmental impact of adjustments in production required by the market. Such a policy should reconcile the flexibility essential to entrepreneurs with the stability required by employees. It should also combine a detailed analysis of prospective comparative advantages of enterprises under restructuring with an accurate assessment of the economic potential of their geographic location. As a result, a long-term strategy for enterprise sustainable development might be elaborated. With assistance from TACIS, and with the participation of all the major stakeholders, including the local population, such strategies have been developed for a number of single-industry (coal mining) areas in the Russian Federation. They have proved to be effective in facilitating the long term planning and elaboration of local development programmes and, participants agreed, this experience should be emulated in the other countries of the region.

13. The Forum examined the accumulated experience of support to start-up companies and industries aimed at modernizing the regional business and social infrastructure, as well as creating new employment opportunities. Several speakers emphasized the enterprise development potential of the European Commission special funds as well as the importance of Government policies conducive to enterprise creation and the substitution of uncompetitive industries by their modern counterparts. As an example, the case of the transformation and substitution of the United Kingdom steel industry by the chemical and petroleum industries was quoted.

14. In countries in which the financial services sector is relatively developed, especially when assistance from the State or from international organizations is not available, the financing of restructuring can be facilitated by commercial banks. The Forum discussed the types of financing available for restructuring of enterprises in transition economies and regulatory hindrances to the continuous flow of private funds (e.g. the lack of or inadequate collateral and leasing regulations). It was agreed that speedy restructuring of the financial sector and the development of modern financial services would facilitate the restructuring of uncompetitive industries and could lower the burden of financial support borne by Governments.

15. The case studies presented at the Forum showed that foreign direct investment could be instrumental in industrial restructuring. It was mentioned that even without significant additional investment, the introduction of modern cost and labour management by foreign partners, as well as of financial discipline in purchases and sales, could result in considerable productivity and profit growth. In Belarus, for example, the foreign strategic investor from Austria (ATEC Handels GmbH) during a relatively short time period of one and a half years has managed to almost double sales and profitability, as well as to increase the share of exports of the Elizovo glass factory from 50 to 70 per cent. It was emphasized that to be successful in restructuring, the foreign investor must have a clear understanding of the potential of the target enterprise and its place in its international production and sales network. The recent experience in transition economies, it was argued, showed that the overall productivity and competitiveness of enterprises with foreign participation is generally higher than at purely "national" enterprises (for example in Kazakhstan). At the same time, delegates agreed that the role of foreign direct investment in enterprise restructuring should be

further examined and information on best practice in this area should be accessible to Governments of transition economies.

16. The Regional Forum discussed the scope of industrial and territorial clustering as a means of economic revitalization of underdeveloped and depressed regions. Several presentations on this issue showed that the systemic approach to clustering in several regions of Ukraine (e.g. in the Khmel'nitski region) or the Czech Republic (Ostrava region) had permitted the development locally of new technologies, substituted locally-produced goods and raw materials for a number of imported counterparts, and had enabled important spill-over effects in the local economy. It was agreed that in combination with other methods of enterprise development, clustering might be instrumental in resolving problems of single-industry towns and areas.

17. Participants recommended that the UNECE secretariat make the materials of the Regional Forum available to UNECE Governments and the public at large.

18. The outcome of the Regional Forum will be reported to the UNECE Working Party on Industry and Enterprise Development at its fifth session in February 2004.