

The Effect on International Competitiveness of Differing Labour Standards in the Steel Industries of the NIS and the EU

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Working paper series September 1998

Number **WP 014/98**

ISSN Number **ISSN 1363-6839**

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The working paper series is edited by Kate Gilbert.

Abstract

The project which generated this paper arose from continuing concern in the European Union about the persistence of high unemployment and the likely effects of economic reforms in the New Independent States. The study brought together researchers from four countries: Finland and the United Kingdom in the EU and Belarus and Russia in the NIS. The purpose was to examine the impact that differing labour standards in the two NIS countries and the two EU countries have and are likely to have on the ability of companies in each country to compete internationally. The core research activity comprised a small number of in-depth case studies of firms in the steel sector, enabling comparisons to be made between the industries in each of the four countries.

The lack of structure to labour markets in the NIS and their comparatively low labour costs posed a potential threat to the competitive position of the EU and this study set out to understand the relevant issues more fully from a number of different perspectives. These included comparing labour costs and productivity, social costs such as health and safety, pensions and other benefits and exploring the impact of investment on productivity. Ultimately the study focused on how a levelling up of labour standards in the NIS would impact on the EU Member States.

This paper sets out the findings of the case studies within the steel industries of the respective countries. These specific findings are presented within the context of a comparison of general labour market conditions.

The steel sector is an important job and wealth creator in all four countries, accounting for a substantial proportion of manufacturing employment. The contrast between the EU producers and their Belarusan and Russian counterparts is quite marked. In terms both of health and safety standards and environmental standards, the EU firms incurred costs significantly in excess of those incurred by their NIS counterparts, but this was counteracted by much higher productivity and concentration on quality products.

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This research project was undertaken in four countries, Belarus, Finland, Russia and the United Kingdom, during 1995-97.

This research was undertaken with support from the European Commission's Tacis-ACE Programme 1994.

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Introduction

Background

This paper presents partial findings of a study funded by the Tacis - ACE¹ programme on 'differing labour standards and their effects on international competitiveness'. The study arose from continuing concern in the European Union (EU) about the persistence of high unemployment and the likely effects of economic reforms in the former countries of the New Independent States (NIS). The basic premise was that in these transitional countries, the lack of structure in labour markets and the comparatively low costs of employment posed a threat to the competitive position of the EU. Concerns over product dumping and the diversion of investment from the EU to the NIS were at the forefront of the issues addressed by the research.

More specifically the research focused on the following key issues:

- comparisons of labour costs and productivity
- comparisons of social costs such as health and safety at work provisions, pensions, unemployment benefits, maternity/paternity rights, redundancy and dismissal provisions
- the impact of investment on productivity and the extent to which foreign investors are seeking to exploit the lower costs in the NIS
- an assessment of the quality control issues and the extent to which changes in quality in the NIS will impact upon industries in the EU
- a consideration of changes in, and the levelling up, of labour standards and the potential impact on international trade

The study brought together researchers from four countries: in the EU, Finland and the United Kingdom, and in the NIS, Belarus and the Russian Federation (hereafter simply referred to as Russia).

Objectives

The overall objective of the study was to understand more fully the issues surrounding the effects of differing labour standards on international competitiveness. However within this broader objective there were a number of specific goals, summarised as follows:

- to develop a set of appropriate policy recommendations to inform EU policy and decision-making in the sphere of economic reform and the integration of the transitional economies
- to develop and improve the understanding of the international trade implications of the transition process in the countries of the NIS
- to generate and improve understanding of international comparisons of labour standards and their implications
- to develop intra-industry comparisons of total labour costs (direct and indirect) between the partner countries
- to establish the extent to which the textile industries in the NIS countries will be able to compete directly with similar industries in the EU and to test their ability to attract inward investment away from the EU

In order to meet these objectives, the study gathered a mixture of quantitative and qualitative information, from the textile, steel and fertiliser industries. This paper focuses on the steel sector. The steel sector was chosen as representative of those industries likely to be significantly affected by more open international competition and because of its common interest to all four countries involved with the study.

Methodology

The method of approach involved a number of distinct, though inter-related activities, the key ones of which are described below:

- inaugural workshop bringing all partners together to exchange basic information and agree the study parameters, basic approach and timetable (this was held in Moscow in December 1995);
- preparation of contextual information on the national labour markets, including basic indicators of economy and employment and basic legislative provisions in the area of labour standards;
- case studies of firms in the steel sector.

The employer case studies represent the core research activity. The approach was to isolate those sub-sectors (ISIC Classes) of most relevance to the study and its objectives and to each partner country (ISIC classes 1711, 1712). A schedule of target case studies, stratified by sub-sector and size, was agreed between the partners, and this formed the basis of the case study selection.

Each partner country began the case study work by selecting and completing a study of one pilot firm. For the pilots a draft *information request* and *discussion guide* were developed to ensure a consistency of approach in the interviews. However, it was necessary to modify the structure of the questions to fit with national conventions and this adaptation process was the responsibility of the researchers in each partner country. Firms in each country displayed varying levels of familiarity with responding to such enquiries and these characteristics have been taken into account. In the UK, for example, there is a tradition of qualitative interviews with employers, where discussions tend to be semi-structured and can range across a number of issues. By contrast, in Belarus there is a preference for inquiries that ask for precise information and so with less room in interviews for exploring the topics in a more qualitative way.

The UK research team drew up a common sampling frame for the case studies to be used by each research team, and a common discussion guide for the case study interviews. Each research team then identified and contacted appropriate companies in their country in conformity with the agreed sampling frame.

Although the sampling frame used was common in terms of ISIC codes, numbers of companies in each industry and in each employment size category, some variation was allowed to ensure that case studies conducted in each country were fully reflective of the industry in that particular country. For example, firms in the NIS countries are on the whole very large, whereas companies in Finland tend to be relatively small. It was deemed preferable to conduct a small number of in-depth case studies, rather than a large number of less detailed studies, as this would enable more meaningful conclusions to be drawn. Case studies were completed in all four countries by the end of 1996, and exchanged between the participating research teams. Subsequently a workshop involving all participating researchers was held in Minsk in May 1997, with the final report being written by the UK research team.

This project has involved researchers from four countries, with differing backgrounds, cultures and methodological traditions. For example, whereas in the UK and Finland, the practice of semi-structured qualitative interviewing is well established, in the NIS countries this is not the tradition. Hence, although each research team used a common format, there were initially some difficulties in ensuring a comparable product. There have also been communications difficulties, in particular with Belarus, due to a shortage of telephone lines, uncertain postal communications, and a lack of email facilities.

It proved difficult to obtain quantitative data which is fully comparable across all four countries. In part this is due to the vagaries of national systems, but also due to factors such as the fixed exchange rate of Belarus. For example, figures on

productivity and wages in Belarus, which while available, are highly misleading due to the official exchange rate in which they are quoted. Such problems render meaningful comparisons extremely difficult and so quantitative comparisons across all four countries have not been attempted, but instead the analysis has concentrated on qualitative comparisons with country specific figures quoted where appropriate and meaningful.

Even within the EU, comparisons between the UK and Finland are not as straightforward as may appear, and the added dimension of Belarus and Russia makes for a difficult situation. The use of labour market statistics in this context is problematic, especially given the acknowledged unreliability of information from the transitional states. Nevertheless, the available statistics have been used where possible alongside more qualitative information.

Labour Market Context

Key Issues

This section sets out the broad labour market contexts within which the four study countries operate, drawing comparisons as appropriate, with the primary aim of aiding understanding of the subsequent steel industry section. In doing so the discussion focuses on the following key areas:

- demographic indicators
- employment
- unemployment
- social partners
- wage determination
- labour legislation
- economic performance

Demographic Trends

Basic demographic indicators are presented in Figure 3.1. They show the relative size of the four countries in term of population, with Russia and to a lesser extent the UK contrasting sharply with the much smaller populations of Belarus and Finland. The size of the working population will be influenced by the age structure of the overall population and here all four countries are facing ageing populations which will impact both on the available population for the labour market and the number of dependants outside the labour market.

Activity rates for both men and women have traditionally been higher in the transitional states than in the EU countries, and this is still the case, despite the disproportionate job losses among women, (which in Russia are expected to worsen as labour market legislation protecting female employment is removed or breached). In 1995 the activity rate for women in Russia fell to 56.3% from a figure of 61.6% only two years earlier. Over the same period the male activity rate has also fallen sharply. This contrasts with the experience in the EU countries, where increased numbers of women are entering the labour market, and with Belarus, where job losses have not been permitted.

Table 3.1: Demographic Indicators

Indicator	Belarus (1995)	Finland (1995)	Russia (1995)	UK (1995)
Population (million)	10.3	5.1	147.9	58.4
Working population (million)	5.9	3.4	74.0	38.1
Employment (million)	4.4	1.9	72.0	25.1
Activity rate (%)	74.6	69.9	63.1	72.8
Female activity rate (%)	-	67.2	56.3	64.6

Source: National Statistics

Employment

In comparison with the two EU countries, Belarus and Russia have a much larger proportion of total employment in agriculture with 19.1% and 15.1% respectively. However, even between the two EU countries there is a marked difference, with the UK having a comparatively small proportion of employment in agriculture at 2.1% compared with 8.6% in Finland. Figures for employment in industry are, however, more consistent between the four countries ranging from 27.8% in the UK, which is only marginally higher than the smallest proportion - in Finland (26.3%). Comparisons of service sector employment across the four countries are not possible due to the deficiencies of the Belarusan figures, although between the three remaining countries the two EU Member States have much higher service sector employment than Russia, with the highest in the UK.

Table 3.2: Employment by Broad Sector
(1995, Percentage of Total Employment)

Sector	Belarus	Finland	Russia	UK
Agriculture	19.1	8.6	15.1	2.1
Industry	27.6	26.3	27.1	27.8
Services	*29.3	65.1	57.8	70.1

* in 'non-material sphere', excludes public sector (for example civil service, government, etc.)

Source: National Statistics

It is difficult to be precise about the reliability of the Russian employment figures since the estimated large informal sector (accounting for anything between 20-40% of overall economic activity) will distort the information shown. Employment in the informal sector is not concentrated in any particular industry but widely distributed in the economy. However, services may be a higher proportion of the informal than the formal economy. In Belarus, estimates of the size of the informal economy are equally precarious, although 36-46% has been estimated on the basis of changing cash shares. Other more cautiously based estimates put it at between 5.5% and 13.5% of GDP. In the two EU Member States there is undoubtedly some informal economic activity, but it is generally reckoned to be comparatively small and does not represent the same potential threat to economic policy as is the case in the transitional states. In the UK, for example, the informal sector is thought to be relatively small and concentrated in certain occupational areas such as construction and personal services.

Employment Status

It would be expected that these variations in the sectoral distribution of employment would be reflected in the types of employment status found in each country, but this is only partly confirmed by the information in Table 3.3. For example, in EU Member States with high levels of employment in agriculture there is an associated high proportion of self employment (representing the farm owners). This is not the case in either Belarus or Russia where despite high levels of agricultural employment, self employment is comparatively small at 7.2% and 9.4% respectively. Finland, with a higher proportion of agricultural employment than the UK, has a correspondingly higher level of self employment. A similar argument applies to the number of family workers, and here the expected relationship with high agricultural employment obtains in Belarus, figures not being available for Russia.

Table 3.3: Employment Status
(1995, Percentage of total employment)

Employment Status	Belarus	Finland	Russia	UK
Employees	80.4	84.2	90.6	86.5
Self employed	7.2	14.3	9.4	12.9
Family workers	12.0	1.5	NA	0.6
Temporary workers	NA	12.9	NA	6.3
Part-time workers	0.9	8.4	4.0*	3.8

* Includes only those voluntarily working part-time.

Source: National Statistics

In the two EU Member States the number of those with fixed term contracts is significant, but the use of such contracts is well established. In Finland there are over twice as many temporary workers as there are in the UK. By contrast, part-time working is far higher in the UK than in Finland or Russia, with over one quarter of all

those in employment working part-time (mostly because they want to). In the UK and Finland the majority of part-time workers are women. The Russian figures on part-time working provide only a partial picture since they do not take into account the increasingly common factor of those working less than full-time because they have had their normal hours cut by the firm. Further, in the informal economy there may be much moonlighting by (officially) full-time workers who are in practice under-employed. Voluntary part-time working in Belarus is not common practice, hence the low figure of less than 1% working part-time.

Unemployment

Of all the labour market statistics presented here, those on unemployment present the greatest challenge in comparisons between the four countries. Within the EU the problem is less severe in that the measure used in Table 3.4 for Finland and the UK is derived from *Labour Force Survey* sources which are carried out in each Member State along reasonably comparable lines. For these two countries the statistics for 1995 show that Finland has a comparatively high rate of unemployment, well over twice that of the UK.

Table 3.4: Unemployment
(1995, Percentages)

Country	Unemployment Rate
Belarus	2.4
Finland	18.4
Russia	7.9
UK	8.3

Source: National Statistics

The unemployment rates of 2.4% for Belarus and 7.9% for Russia are wholly misleading. In the case of Belarus there is substantial hidden unemployment and underemployment with firms compelled to hold on to labour they do not really need, as evidenced in the high level of unpaid layoffs. Unemployment is not yet allowed to become visible. This is also still the case to some extent in Russia with, for example, the statutory costs of redundancy a definite disincentive for firms to release labour they do not need. There is also a high level of hidden unemployment estimated at over 9% of all employment and over 28% of employment in light industry. Underemployment is also prevalent with an estimated 8.8% working below their capabilities across all industries. 'Forced vacations' without pay (in effect unpaid temporary layoffs) have increased and are a common feature of larger firms.

Social Partners

Between Finland and the UK there are substantial differences in the social partner framework and their involvement in such activities as collective bargaining, tripartite consultations, and the like. However, these differences have to be seen in the context of free, independent trade unions and employer bodies with a long tradition in both countries. In Belarus and Russia the prevalence of similarly based organisations is less clear and in order to illustrate this the basic parameters of the social partners in all four countries are summarised:

- **Finland:** Trade union membership is high at almost 100%, mostly because the unions are involved with the payment of unemployment benefits. There are some 81 individual trade unions grouped into three main confederations. For employers there are seven employers' associations. These do not represent all firms, but firms which are not members must also follow the collective bargaining agreements reached.
- **United Kingdom:** Membership has been steadily declining since 1989. In 1995 there were around 7.2 million trade union members indicating a membership density of under one third. There are in excess of 200 individual trade unions with a mix of general, industrial and craft based, although amalgamations have brought the overall figure down. The sole confederation is the Trades Union Congress (TUC) which has the majority of individual unions as members. There is a dominant employers' association, the Confederation of British Industry (CBI). It can claim only a small proportion of total firms as members but most of the largest are represented. Other federations exist and tend to be organised along sectoral lines.
- **Belarus:** There is one dominant government-backed trade union federation, the FPB or Federation of Trade Unions of the Republic of Belarus, which has over 31,000 organisations at branch, region and plant levels and claims over 4 million members, amounting to almost all those in employment. Union membership is seen as a normal requirement of employment, and although there are some additional small independent unions emerging, they are at present insignificant. For employers there are six employers' associations of a general nature.
- **Russia:** There are more than 100 separate trade unions with a combined membership of over 50 million, or around 75% of those in employment. Many of these unions were operational before the reform process started and have been slow to change their approach. The majority form the main confederation, the FNPR (Federation of Independent Trade Unions of Russia) but there are some additional smaller federations emerging which are particularly attractive to the new trade unions. Employers' associations have emerged since the reforms, with three growing national bodies and many regional associations.

The degree of involvement of the social partners in fundamental issues such as collective bargaining varies a great deal and is at its most intense in Finland where both sides are involved in forming sectoral agreements. In addition, if problems occur and the parties cannot make an agreement, the partners work with the government under a tripartite framework that sets a general agreement on incomes policy for the whole economy on an annual basis. This differs substantially from the UK where

there currently is no tripartite framework that consults with the social partners. In addition, the main employer and trade union confederations do not get involved in collective bargaining, being seen more as pressure groups.

In Belarus the closeness of the trade unions to the state indicates that they will reflect government policy on wage increases and such matters, suggesting that the degree of 'bargaining' may be limited. This was also the case in Russia, although more recently the unions have themselves been reformed and are involved with collective bargaining and protecting the interests of their members. The law on collective agreements allows them to be conducted at federal and regional levels and for specific professions at a local level, although the most common types of agreement reached are those at federal and regional levels for all industries and federal ones for specific sectors and occupations.

Wage Determination

The collective bargaining arrangements outlined above suggest a highly formalised process in Finland and Belarus, with national economic policy providing a backdrop against which sectoral or enterprise level wages are set. In the Finnish case tripartite discussions are held only if employers' and employees' central organisations cannot agree on wage increases, otherwise agreements typically establish a general level of pay increases and possibly other terms and conditions of employment. The agreement currently in force, for example, provides for minimum increases each year to the end of the agreement period (January 1998) as well as provisions for low paid workers and the prevention of a widening income differentials. However, outside this broad agreement, individual firms have the right to negotiate and award other changes to remuneration but this is normally done through the consultative machinery in place.

In principle, in Belarus enterprises are free to determine the wages of their employees (subject to the provisions of the minimum wage). In practice virtually all follow the public sector pay scales; a grid of 28 wage groups, all based on percentage mark-ups over the first budgetary wage scale (which is slightly above the minimum wage). Thus there is a great deal of uniformity in wages between industries, although variations do exist. Clearly the national minimum wage is a fundamental part of the process and, it is seen as an instrument of economic policy and benchmark for the setting of social benefits such as pensions and child allowances. Over the past few years the real level of the minimum wage has steadily declined under the pressure of inflation.

This system differs from the current situation in the UK where government has only a minimal involvement in wage setting. There is currently no national minimum wage and basic rates are set only in the agricultural sector. Collective bargaining (normally

between the employer and trade union) is still important in setting base rates of pay and establishing minimum terms and conditions in the manufacturing, transport and financial services sectors and in the public sector (health, education, etc.). Yet the trend even in these sectors is towards fragmentation with local and individually negotiated remuneration packages, with performance related pay increasingly used as an incentive.

In Russia the Russian Tripartite Commission has an intermediary role in collective bargaining, although industry based agreements and (increasingly) plant-based agreements are establishing themselves as the norm. There is a minimum wage which is set by government and updated according to cost of living measures. The level of the minimum wage has been set well below what can be deemed a 'survival wage' and so few workers actually receive the minimum. Prior to 1995 the minimum wage was used as a benchmark to determine whether firms would pay an 'excess wage tax' which was set at a level six times the minimum wage, after which tax rates would increase progressively. However, firms manoeuvred around this by keeping low paid workers on the payroll so that other employees could be paid more than the threshold but without attracting the tax.

Many workers in Belarus and Russia currently suffer from late payment of wages, with 2-3 months being typical in Russia. This arises from cash flow problems caused by customer firms, and from a lack of funds to the firms through the taxation system (since most are still dependent on the public sector). This is not a situation likely to arise in the EU Member States where legislation protects workers' rights to receive their income, even in the event of bankruptcies.

Labour Legislation

All four countries have a degree of legislation geared towards employment matters, although there are substantial differences in the intensity of the measures and their enforcement. It is not the purpose of this report to provide a comprehensive account of all such legislation, but more it is to provide a view on the effects of the overall package on international competitiveness. The judgement of employers on this matter is covered in the three subsequent case studies and here it is appropriate to make some broader statements on the possible effects.

When assessing the effects of labour legislation it may be too simplistic to concentrate on the provisions of the law in such matters. While all employers are expected to comply with the statutory provisions, it could also be argued that those provisions of a non-statutory nature, but which have, by virtue of custom and practice, become normal provisions should also be included. In many cases, employers who choose to ignore these established, but non-statutory, provisions will tend to lose out when it comes to the recruitment and retention of employees. The issue is particularly important for EU Member States where there tends to be a higher level of occupational mobility than in the transitional states. Also, tighter labour markets (as proxied by a low level of unemployment) will also experience greater movement of labour between jobs as employers bid up wages in order to achieve their labour needs. However, of the four countries studied, this scenario would tend to apply principally

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to the UK where unemployment is comparatively low, although in all countries particular occupations and sectors will display their own supply and demand conditions.

Table 3.5 summarises the extent of statutory provisions in all four countries using the main headings emerging from this study. The information shows that all four countries have basic provisions covering such aspects of employment as pensions, unemployment insurance and holidays, etc., albeit set at different levels, thereby constituting different proportions of non-wage costs to employers. Also some of the statutory provisions may allow for rather partial coverage of the issue. For example, sick pay in the UK is governed by the terms of the Statutory Sick Pay Scheme but this only guarantees a minimum level of payment from the employer-contributed fund and for a maximum period of 28 weeks. However, it is common practice amongst the larger employers to have an additional privately funded sick pay scheme which allows employees to claim a much higher proportion of their earnings for a longer period of absence due to sickness.

It is problematic to go one stage further in this analysis by including actual levels of provision because of the different contexts within which they operate and the very real difficulties in finding comparable exchange rates, etc. However, it is evident that in Russia, for example, the statutory provisions are often inadequate and suffer from late payment.

Table 3.5: Comparisons of Statutory Provisions
(Indicates whether statutory provisions exist (√) or not (X))

Statutory Provision	Belarus	Finland	Russia	UK
Social security	√	√	√	√
Pension (basic)	√	√	√	√
Pension (additional)	X	√	X	X
Unemployment insurance	X	√	√	√
Accident insurance	X	√	√	√
Sick pay	√	√	√	√
Maternity leave/pay	√	√	√	√
Paternity leave/pay	X	√	X	X
Accident pay	√	√	√	√
Holiday pay	√	√	√	√
Layoff pay	X	√	X	√
Redundancy notice/pay	X	√	√	√
Minimum wage	√	√	√	X
Working time	X	√	X	X
Equal opportunity	X	√	√	√
Employment of disabled	√	√	√	√
Health and safety at work	√	√	√	√

Source: National information.

Table 3.6 provides a similar analysis for those non-statutory provisions by employers which have become established practice amongst at least the larger employers. The EU Member States, for example, frequently provide a contributory pension scheme that is additional to the state pension covered by general taxation. Employer-based pensions are normally made up from contributions from employer and employee and in the UK represent one of the largest elements of non-wage costs for employers, often adding upwards of 10% to the wage bill. Insofar as they are voluntary they could, theoretically, be withdrawn by employers at any time. In reality, however, they have become an intrinsic part of the employee's remuneration package and in some cases have been enshrined in collective agreements which, of course, provides a legal limit on what the employer can do with such benefits.

Table 3.6: Comparisons of Non-Statutory Provisions
(Indicates whether provisions exist (√) or not (X))

Non-Statutory Provision	Belarus	Finland	Russia	UK
Pensions	X	√	X	√
Workplace catering	√	√	√	√
Employee housing	√	X	√	X
Holiday accommodation	√	√	√	X
Medical/health service	√	√	√	√
Additional leave	X	√	X	√
Protective clothing	√	√	√	√

Source: National information

The UK is, by common consent, the least regulated labour market in the EU. It relies on a 'voluntarist' approach which basically means that the state will remain outside the employment relationship allowing employers and employees (or their representative bodies) to strike whatever contractual relationships that are appropriate for them, subject to a minimum of statutory provisions. This situation has endured despite the UK's membership of the EU. Some reliance is placed on 'codes of practice' in areas such as good industrial relations or disciplinary practices which employers are encouraged to follow³. In taking this approach the UK amongst the four countries studied here therefore represents the polar case in terms of labour market regulation. It also indicates that in the UK the non-wage costs are generally lower than those with more highly regulated labour markets (such as Finland), although the custom and practice of non-statutory elements should be brought into the debate. However, by their very nature these will vary in scale, thus making any meaningful comparisons impossible.

Economic Indicators

Comparisons of key economic indicators between the four countries is severely hampered by a lack of comparable data. It is accepted that the economic activity of the two EU Member States, as measured by GDP per capita for example, will far exceed those of Belarus and Russia. However, the extent of this difference cannot be judged from the official statistics available in the NIS, where reliance on the traditional methods of measurement is problematic.

For Belarus and Russia it is possible to identify those key features of economic life that they have had to grapple with since the reform process started, as summarised below:

- falling output
- high levels of inflation
- low savings ratio
- falling government tax revenues
- high interest rates
- reducing value of the currency

In the case of Russia, there are signs of improvement in some of the economic indicators as policy achieves a degree of stability. Inflation, for example, peaked in 1992 at around 2,600% per annum and has since fallen back to a comparatively moderate 27% in 1996. However, the tight monetary policy behind such improvements has also had a negative effect on the economy, encouraging the non-payment of debts which causes problems for businesses and their workers alike.

Belarus displays many of the characteristics of economic change that Russia is experiencing (particularly high inflation, falling output and currency values) but here the changes are taking place against a somewhat different policy backdrop. In Belarus the pace of privatisation has been much slower. Official figures quoted by the IMF suggest that the overall share of employment in so-called public enterprises had fallen from 81% in 1985 to 68% in 1993. This suggests a much stronger direct involvement of government in the management of the economy. However, the fact that the country is still experiencing the same economic effects as others which have liberalised further, indicates that economic and labour market problems are not being overcome but simply stored up for the future.

Overview

All four countries are facing similar kinds of demographic pressure, such as an ageing population, but activity rates are falling rapidly in Russia, especially for women. This is against the general trend observed in the EU Member States where female activity rates are tending to increase. Much of this increase is in part-time working which is yet to establish itself in Belarus and is relatively small in Russia. The UK has one of the highest proportions of part-time workers in the EU with almost one in four workers, and one in two women in employment being part-time.

Other indicative statistics of a changing labour market would be the proportion of those in employment on fixed term contracts (temporary workers). Here there is only information available for the EU Member States which shows Finland with twice the proportion of temporary workers as the UK. Self employment has been growing in all four countries, although Belarus and Russia are some way behind the proportions in Finland or the UK. Unfortunately the statistics on unemployment are much less reliable and meaningful comparisons between the four countries cannot be

made. It is evident that there is considerable hidden unemployment in Belarus and Russia, with underemployment a significant problem bolstered by government policy towards the release of employees in enterprises.

The role of the social partners is still emerging in the NIS. Trade unions are developing their own separate identity and employers' associations are in their infancy. Comparisons with the EU Member States are also complicated by differences within the EU, and this is clearly illustrated by the two examples of Finland and the UK. The UK, with its falling trade union membership and influence and absence of any tripartite framework, represents the polar case within the EU. By contrast Finland follows more closely the European 'Social Model' of fairly formalised structures and procedures in such areas as collective agreements and incomes policy. The situation illustrates above all that there is no single approach to the regulation of the labour market within the EU and suggests that the transitional states would be advised to adopt policies and procedures that suit their local conditions best.

The Steel Industry

The steel sector is an important job and wealth creator in all four countries, accounting for a substantial proportion of manufacturing employment. In Finland, for example, at the end of 1994 some 8,800 were engaged in the sector, representing some 1.7 percent of all jobs in the production industries. In the UK the proportion was higher at around three percent. The sector covers a wide range of activities, including the following types of product:

- sections, plates, etc.
- strip products
- tin plate
- forgings
- tubes and pipes
- stainless steel

Each will be dependent on a different set of inputs. For example, in the case of the manufacture of basic iron and steel the primary ingredient of iron ore normally demands importation from the main producer countries of Australia and Brazil (although Russia has reserves supplying its own sector), making this input vulnerable to fluctuations in price on the world markets. The other sub-sectors are also vulnerable in this respect since they are dependent on using iron and steel in their forging, rolling and stamping operations, for example.

Many of the larger producers have vertically integrated to encompass the production of basic iron and steel and the subsequent use of it for making finished products and this has undoubtedly helped control both costs and to a certain extent demand. However, the often bulky nature of the product limits the degree of international competition, although cross-border trade between the EU and neighbouring countries of Central and Eastern Europe is a growing feature of trade in the sector, with Germany/Poland providing the most active example at present.

However, within each country there are important differences to observe as summarised below:

Belarus

There is one dominant firm which is relatively new. State control of the industry is total, although there has been EU expertise brought in to develop operations. The industry is still committed to the provision of a whole raft of social support measures for employees, despite the fact that many firms in other sectors are withdrawing from this practice. Employment is generally stable or even increasing.

Finland

There is a small number of large firms (with considerable state holdings) which constitute the sector. They have a strong export orientation based on a quality product. Firms tend to offer a product range which helps overcome some of the regional fluctuations in trade. Employment in most cases has fallen marginally over the past decade.

Russia

Large firms dominate but now all are joint stock companies after privatisation, many with strong export orientation. They have a large domestic market to service. Quality issues in relation to foreign producers are beginning to loom large. Employment has tended to fall in all firms with a 20 per cent fall since the early 1990s being typical. However, over-staffing remains a problem as witnessed by the increasing use of unpaid layoffs ('no pay vacations').

United Kingdom

Large scale restructuring in the sector has meant a high proportion of jobs have been lost, particularly following the break-up and privatisation of British Steel in the 1980s. The sector is now highly competitive and quality driven with a growing emphasis on niche products and/or processes. While domestic demand remains dominant, international business is growing, including the acquisition of manufacturing operations abroad.

Structural change has been endemic to the steel sector in the developed economies, occasioned by the need to remain globally competitive and increasingly responsive to the demands of customers. New technology has also played a significant part in the restructuring, allowing more sophisticated equipment and control systems to eliminate the need for certain types of labour. Finland and the UK provide good examples of where firms have been through this process of adaptation and have now settled into

the development of their products. In comparison, Belarus and Russia have made little progress in adjusting to the new economic and trading conditions, partly as a result of their still relatively sheltered position.

Labour Costs and Productivity

The case study firms across the four countries studied provided a varied picture of adaptation and adjustment over the recent period. In Finland and the UK there was now a relatively stable situation regarding steel producers after much turmoil in the 1980s particularly. In Russia the steel producers have faced new challenges since 1991 which they are trying to cope with in difficult circumstances. In Belarus, steel production more or less continues in the way it has done for years with the effects of international competition only marginally affecting manufacturing operations.

Labour Costs

The principal element of labour costs for all the steel firms remains wages, although the extent of this varies from country to country and to a great extent reflects the characteristics of national pay determination systems. The topic is more fully discussed below (see Section 4.3) and here the discussion concentrates on the non-wage element of labour costs which itself can be broken down into two key elements as follows:

- statutory non-wage costs
- voluntary non-wage costs

The statutory element of non-wage costs faced by steel producers in each country reflects the national legislation as discussed in Chapter 2. However, for the steel sector there is the additional consideration of the extra costs arising from its classification as a potentially 'hazardous' sector. Here the main additional statutory costs derive from consideration of the health and safety legislation. The provision of safety equipment for example, such as hard hats, protective footwear, goggles and shields is taken as normal practice by all firms in this study, but they represent items that clearly add to employment costs, although only as a small proportion of overall costs of production. However, variations do emerge in the application and policing of health and safety practices which is generally much tighter in the two EU countries, implying higher costs of compliance for the Finnish and UK manufacturers.

Voluntary aspects of non-wage costs tend to feature more in the UK companies than in the others. The UK has a raft of statutory provision (albeit modest by comparison with the other countries) but equally there is great reliance on the voluntary elements to bolster employee benefits. This is clearly illustrated by the case of pensions where the emphasis is on employers developing their own occupational pension plans that supplement the state retirement pension and are based on contributions from the firm and voluntary contributions from the employee. In discussions with the UK steel sector case study firms, the normal employer contribution to an employee's pensions

scheme was around 10 per cent of wages with employees expected to put in another 3-6 per cent of their basic salary. These pension options have now been extended to

virtually all employees whereas a decade ago they were often restricted to salaried staff (mostly white collar) only.

In Belarus and Russia the tradition of employers providing all manner of support services continues. Such provisions as subsidised homes for employees, holiday accommodation and nurseries prevails and is at its most extensive in Belarus where it was estimated to add approximately five per cent to the total production costs at the major steel plant. The provision of such support is breaking down in Russia, although all the case study steel firms were still providing some elements of this. However, they were considered to be costs that would be phased out over the next few years.

In Finland the steel firms were more aligned with the Belarus and Russian examples than with the UK on this issue. The provision of housing for some staff was still prevalent, for example, although it was evidently a declining practice. All the Finnish case study firms also provided some form of holiday accommodation or subsidy for holidays, although again provision and usage had fallen back considerably over the past few years.

Productivity

Within the UK steel sector in particular there have been significant improvements in labour productivity, largely achieved through drastic cuts in labour and substantial investment in new capital equipment. Jobs losses have been massive, with one firm losing around 86 per cent of its workforce since the early 1980s. In another firm the reduction was around 73 per cent. Much of the change arose from the privatisation of the British Steel Corporation in the early 1980s which had devastating effects on those areas of the UK dependent on steel employment (such as South Wales, Midlands and Teesside). However, this long period of rationalisation has produced a steel industry that is reckoned to be amongst the most efficient in the world and hence capable of meeting the challenges of the international marketplace head-on.

The UK case study companies were of varying sizes and some specialised in particular aspects of steel production (for example tubes). All felt that the key to their survival in a tough economic environment was attention to investment in capital and labour. Downsizing was accompanied by increased investment in new technology, especially in control systems. However, there was some evidence in one medium sized manufacturer that as part of a wider group, it was having some difficulty in securing adequate funds for capital investment, although the business was still profitable. In this same business progress towards the development of a more flexible, multi-skilled workforce had also been slow whereas in the other case study firms this had been a key plank of their policy throughout the 1990s. Other important developments in the UK manufacturers had been the embracement of teamworking practices and the out-sourcing of all those peripheral areas of activity (from cleaning/sand-blasting furnaces to catering).

In the Finnish case study firms there had also been substantial attention to the introduction of the latest technology, particularly computer control systems, although one company also included the use of electronic control of working time as an important part of this improvement process. However, the experience of the Finnish industry was somewhat different to that in the UK: in particular there had not been the wholesale reduction in employment, but then the Finnish firms are in general more specialised producers. In one firm employment had actually increased by 65 per cent between 1990-95 and financial turnover over the same period had gone up by 126 per cent. Nevertheless, like their UK counterparts, the Finnish firms had introduced considerable out-sourcing of activities (such as cleaning, security and catering) in an effort to concentrate on core business activities and in the interests of reducing overhead costs.

Comparing the experience of the two EU countries with Belarus and Russian steel plants is inevitably problematic given the different starting points for the sector in each case. The Belarus and Russian plants are generally very large in terms of employment and whilst there have been substantial job losses in the Russian firms (albeit with still some way to go), in the case of Belarus employment has actually increased (up by 15 percent in one year). In this case the plant would also appear to have relatively modern equipment with automation prevalent. The main problems faced by the Belarusan industry are the need to diversify production and shift sales away from the FSU (former Soviet Union) to a wider world market.

Russian producers have managed to reduce their labour forces by around one quarter, but the incidence of unpaid layoffs indicates that excess labour that is still being carried by these firms. However, all case study firms have experienced substantial falls in their output (up to 50 percent in one case) and corresponding plunges in productivity. In one particular case the firm was working with particularly obsolete equipment which, it was claimed, added 15-20 per cent to the fuel bill alone because of the increased operational costs.

Wage Determination

Across the four countries there was considerable variation in the way in which wages were set, although differences were less marked between steel firms within countries. The following summarises the main features of wage determination in each country:

- **Belarus:** National collective agreement sets wage levels; no performance-related elements
- **Finland:** National sectoral agreements with no plant level variations; bonus payments common; performance-related pay representing a significant part of total wages
- **Russia:** Wages set by management or through company-level collective agreement; bonuses and social payments may add substantially to basic wages

- **United Kingdom:** Decentralised bargaining at plant level; bonuses and performance-related pay elements common

Aside from Belarus, all three other countries had established systems of rewarding performance. This was at its most unsophisticated in the Russian steel firms where bonus payments tended to be based on an annual review of performance across the business, along with payments based on factors such as length of service with the firm. However, in one exceptional case there was much more attention to individual performance to the extent that bonuses may add 40-50 per cent to the earnings of the most productive workers.

For the two EU Member States the use of performance-related pay mechanisms was well established, though not universally applied. In the UK steel firms, PRP ranged from 20-25 per cent of total wages and tended to be linked to quality issues as well as simple measures of increased output but normally based on the assessment of team performance rather than individual performance. PRP was less advanced in the smaller UK firms where employee and to a certain extent management resistance was most marked.

In the Finnish case study firms there was evidence of much more variation in practice. In one firm, for example, PRP accounted for up to 50 per cent of the total wage bill. However, this was exceptional and 15-20 per cent was more normal, again largely based on departmental or team performance in such areas as quality, meeting production targets and delivery times.

The payment of wages was an important issue in Russian firms where late payment was commonplace, with the average delay being up to two months. However, Finnish firms shared with their Belarusian and Russian counterparts a fortnightly payment system whereas in the UK it tended to be monthly by direct credit to the employee's bank account.

Trade Unions

Trade unions were involved in wage determination in all four countries with some degree of variation on custom and practice. Whilst union membership was comparatively high in UK steel firms, there had been a transformation in relations between them and management. All case study firms now dealt with one principal union in negotiations over pay, even though other unions may be represented on site. Wage negotiations under these circumstances were more consultative rather than combative and ensuing agreements tended to establish only the minimum rates for the job.

In Finland the steel firms claimed very high levels of union membership, approaching 100 per cent in most cases. This reflects the system of paying unemployment benefit to a great extent but also the national structure of collective bargaining that prevails in Finland, where national sectoral agreements are struck between trade unions and employers' associations leaving little room for plant level variations.

Belarus also has full union membership and a standard labour contract that runs to 43 pages with pay levels set nationally. This differs substantially from the current Russian experience where plant bargaining dominates, in many cases involving a single trade union.

Legislative Pressures

Discussion about the effects of legislative pressures on firms concentrated on the following key aspects:

- Labour laws
- Environmental laws

In terms of labour law there was a clear divide between the UK and the other three countries. In the UK the limited levels of labour regulation were thought to be generally favourable to the operation of businesses and were considered 'fair'. Health and safety legislation was most commonly mentioned here and the need for it had a high profile in the steel sector which was considered a relatively hazardous environment. Larger firms committed considerable resources to the maintenance of high safety standards, from the provision of protective equipment to the training of all staff in the optimum approach to health and safety at work. In the UK the emphasis has switched over the past decade towards the assessment of risk in the workplace, with a duty on managers to identify problems before they create hazards.

The need for high standards of health and safety was also recognised in the Finnish steel firms and at least one company boasted that it had invested well beyond the requirements of current legislation in this field. The labour market in Finland is much more structured than in the UK with a raft of labour legislation mapping out the nature of the employer/employee relationship. The restrictions of this system were particularly felt by firms when they wished to reduce staff numbers; the process of redundancy was costly and complex and was felt to be an obstacle to making even further improvements in labour productivity. Generally, however, the Finnish case study firms were resigned to their labour market structure and felt 'it had to be lived with'.

In Belarus the labour market is tightly regulated with little change over the 1990s. This has meant that the employer has been put at a disadvantage compared even to similar producers in Russia. The fact that every worker is entitled to take a holiday in the company sanatorium once every three years was used as an illustration of the historical practices they have to deal with. This is not the case with the Russian steel firms where the general view was that labour legislation was not unduly burdensome except in the area of collective redundancy where firms complained that they could not afford the costs of the statutory payments, hence the proliferation of unpaid layoffs.

In Finland and the UK there had been significant extra costs imposed on the steel firms through the tightening up of environmental legislation. In one UK company, for example, this has led to the recruitment of a dedicated specialist supported by external

consultants, all at considerable cost to the firm. In addition, staff are being systematically trained in environmental awareness which also has cost implications for the business. More directly, one Finnish company stressed the increased legislation that has meant it investing in new equipment to reduce emissions which, in the final analysis, does not contribute to the company's productivity.

In Belarus environmental issues were not mentioned in the case studies and in Russia the firms made the point that in general environmental legislation was weak. Certainly there were in place restrictions on what they could do, but the firms admitted to paying the fines for polluting rather than taking the more expensive option of complying with the legislation. One firm estimated that the cost of such fines accounted for 0.04 per cent of its turnover in 1996.

Future Expectations

One of the main concerns of the EU steel firms is the prospect of greater competition from the transitional states of Central and Eastern Europe and to a lesser extent countries such as Belarus and Russia. Poland and the Czech Republic were mentioned by the UK firms, but for the Finnish firms proximity to Russia increases their fear of dumping. Aside from quota restrictions on imports, the EU producers feel that they have the advantage when it comes to quality which is an important consideration for many, but not all products from the steel firms. However, Finnish firms felt that quality standards must eventually rise in these firms, which may coincide with the opening up of imports from Russia and Belarus (should this eventually happen). Inevitably the steel firms in Belarus and Russia saw this trading issue from the opposite perspective.

Steel firms in the UK were not anticipating any significant changes in their workforces over the next few years. They had been through their fundamental restructuring exercises and felt that they were now in a lean and fit state. Finnish producers were also not expecting any great changes to their workforces, although improvements in productivity were being sought from the greater use of telematics and capital investment. One firm expressed an expectation that it would move into manufacturing in Poland and Russia within the next few years, but not at the expense of Finnish jobs.

In Belarus the case study firm was anticipating a further increase in jobs, subject to ministerial decision. This contrasts with the expectations of the Russian producers who saw a need to substantially reduce their workforces, but felt constrained in doing so by the statutory costs of collective redundancies. Because of this the process of job reduction would be largely achieved through natural leakage (retirements, etc.) and consequently slow to realise. More optimistically most firms felt that they would be investing substantially in new capital equipment and one large firm in particular was over half way through a comprehensive ten-year development plan that would see the plant thoroughly restructured and modernised by the year 2000.

In terms of labour standards, potential change was most likely in the case of the UK given its (previous) opt-out on the Social Chapter of the Maastricht Treaty. Some

firms had considered the possible implications of an incoming UK government adopting the provisions of the Social Chapter alongside the introduction of a National Minimum Wage and all felt that it would have little effect on their business. Only the potential of working time restrictions were mentioned as a potential problem by one firm due to its comparatively high usage of overtime working, but this was felt to be a small issue for them.

Overview

In the steel sector the contrast between the EU producers and their Belarusian and Russian counterparts is quite marked. Firms in the UK and to a lesser extent Finland have undergone considerable change over the past decade or more and have emerged as highly competitive businesses operating in world markets, albeit with some protection within the EU itself. It is noticeable that the size of plant is much smaller in the UK and Finnish examples than those in Belarus and Russia, although in the case of Russian firms, efforts at reducing labour are thwarted to some extent by the statutory costs of redundancy.

Labour standards are high in both EU countries but have been achieved by somewhat differing emphases on the role of legislation, with a much less prescriptive approach in the UK compared to Finland. The Belarusian firm is faced with a comprehensive set of labour laws, but it is unlikely that it is achieving the same level of standards found in the EU firms. This contrasts somewhat with the situation in Russia where labour legislation has been relaxed, allowing firms to become more flexible.

Non-wage employment costs have therefore fallen for the Russian producers (except for redundancy) and this has contributed to the alarm in Finnish firms in particular who see these cost advantages posing a threat to their own businesses in the longer term.

To illustrate the basis for this concern, a rough cost comparison has been made between similar steel firms, one in Finland and one in Russia. The results of this exercise are summarised in Table 3.1 and shows that in all aspects of production the Russian producer has a considerable cost advantage. However, the advantage was most marked in direct wages, where Russian costs were just 30 per cent of those paid in Finland. Indications are that the gap has narrowed considerably since this comparison was made, although a cost advantage to the Russians nevertheless remains.

Table 4.1: Cost Comparison Between Finnish and Russian Steel Firms
(Russian producer costs as a percentage of Finnish costs)

Cost Element	% of Finnish Costs
Raw materials	66
Energy	50
Other materials	50
Other sales costs	50
Indirect costs	50
Direct Wages	30

Source: Finnish case study.

Future expectations would be that labour costs in Russia will rise as firms become leaner and the phased restructuring is achieved. However, labour costs in the EU countries are also likely to rise and this is likely to maintain an advantageous differential to the Russians. These concerns for EU producers come alongside a general recognition that a further restructuring of the industry in the EU is imminent as global competition increases and the over capacity in the industry is further exposed.

Policy Issues

There is a range of influences that affect the competitive position of firms in the EU alongside NIS producers. Labour market structures can inhibit firms in doing what they wish to do to maximise productivity and this is the case in Finland as well as in Belarus and Russia, but less so in the UK where legislation is less comprehensive and the social dialogue less prescribed. However, the provision of an adequate legislative framework in such areas as health and safety at work may impose significant costs on firms, but could also have beneficial effects on productivity. The extent of non-wage costs in the four countries studied here vary from high in Finland to the lowest in the UK. The tradition of supporting employees is breaking down in the NIS and this will have the effect of reducing non-wage costs for firms, but at the same time wage costs are set to increase.

Convergence towards an EU approach to these matters is therefore observable in the NIS countries, but the process is extremely slow in Belarus and seriously inhibited in Russia. Issues likely to occupy firms in all four countries in the future include the cost of meeting environmental measures, where many firms in Finland in particular felt that they had much higher costs to contend with.

The study isolates a number of key issues that could provide a focus for attention by the EU in its dealing with industry within and outside the Union. These are as follows: Statistics, Social dialogue, Products and marketing, Import restrictions, and Labour standards generally.

Key Issues for International Competitiveness

The demographic and labour market backdrop strongly influences international competitiveness from a number of perspectives. Firstly the general availability of labour will be reflected in its cost (wage) to an employer so that in the generally tighter labour markets of the EU Member States, the cost of labour will be higher than in the countries of the NIS. This, of course, is a simplistic interpretation of a more complex issue. There is unlikely to be a *national* labour market for most occupational groups and there will tend to be strong *sectoral* tendencies. This is illustrated by the evidence in this report from the three sectors studied.

The availability of appropriate labour and its price will be a key determinant of the decision of industry to invest in capital equipment, particularly in those sectors such as textiles and steel, where there are reasonable alternatives in the methods of production. For example, it might be more rational for a steel producer in Russia (assuming that investment is an option) to defer investment in new equipment in the knowledge that the older, more labour intensive equipment will still meet the needs of the customer, albeit at a slower rate of output. However, speed of output may not be the dominant measure of productivity in the transitional states (as it tends to be in the EU producers), when labour can be used cheaply but not just because of low levels of wage, but also due to a lack of attention to such matters as health and safety which have the effect of increasing production costs, if adhered to.

However, it is clear from the case study firms that wages in Belarus and to a lesser extent Russia are artificially depressed at the moment. There are signs that in some sectors (such as steel in Russia) bonus systems have developed which aim to reward effort, but they tend to be poorly targeted and in some cases set at too high a proportion of income (50 per cent or more) that they act as a disincentive to the majority of the workforce that do not meet the demanding targets set. In the EU Member States, while there has been a significant spread of pay systems based on individual or team performance, they are normally at a proportion of income that enables firms to maintain the balance between incentive and disincentive.

Another issue is the extent of unemployment and under-employment in the countries studied. As discussed in Chapter 2, the differences in measuring unemployment between the EU Member States and the NIS countries effectively rules out meaningful statistical comparisons, though it is evident that the official figures on unemployment in Belarus and Russia significantly understate the true extent of the problem. High levels of hidden unemployment and underemployment in firms in the NIS countries, coupled with growing levels of unpaid layoffs (euphemistically called 'forced vacations') means that national labour resources are not being used effectively. From a competitive perspective it means that firms in Belarus and Russia are at a disadvantage when it comes to adjusting their workforce in the most productive manner. In Belarus, for example, firms have been encouraged to take on labour whilst output has been falling. In Russia the situation is only slightly better in

that firms are dissuaded from shedding surplus labour because of the punitive costs of redundancy.

Of course the price to pay for this freedom among firms to adjust their labour requirements is visible unemployment and the associated social and economic costs that come with it. Many firms in the UK have been through this adjustment process (and spectacularly so in the steel sector) and have found it painful but ultimately beneficial (although the displaced workers might disagree). Productivity levels are generally comparatively high in the UK firms, while wage and non-wage employment costs are comparatively low (among the EU Member States). Unemployment is also comparatively low which is not the case in Finland, yet here too the firms studied had in the majority of cases gone through labour adjustment. However, wages are noticeably higher in Finland and the associated employment costs substantial when compared to the UK.

It is possible to identify some of the key competitive issues that emerged from the analysis:

- Sometimes the bulky nature of the product limits export potential, although border areas are more prone to EU/external competition
- Plant size in the NIS is very large in employment terms whereas in the EU Member States the tendency has been for reductions in employment with smaller concentrations
- Sector is capital intensive, high productivity, high quality in the EU which maintains a distance between it and NIS production
- EU firms are stricter in their health and safety and environmental policies than their NIS counterparts where legislation is less prescriptive and poorly enforced
- Tradition of firms providing a raft of social benefits to their employees is breaking down in the NIS with more emphasis on earnings as in the EU Member States

Another issue relates to standards on health and safety at work where the divergence between the EU firms and the NIS firms is quite marked. It is often assumed by employers that a greater degree of attention to these issues poses a financial burden on the firm with consequent extra costs that will ultimately contribute to a worsening competitive position. However, the argument is advanced that instigating appropriate health and safety practices, while imposing extra costs, will eventually contribute to increased productivity through such factors as reduced absence from work.

The Future

There are signs that labour markets and employer practices are moving towards the EU 'model', though the process is extremely slow in Belarus and seriously inhibited in Russia. However, it is difficult to conceive a clear idea of this EU model when there is still so much difference in approach between Member States, as amply illustrated by the labour markets in Finland and the UK. It is too misleading to consider that EU labour markets are converging, although it is reasonable to consider that certain aspects of their operation show increasing similarity. This emerges in the case studies, with the development of outsourcing and performance related pay elements as clear indications of employers in Finland and the UK adopting similar approaches. On this basis, labour markets in Belarus and Russia are also moving in the general direction of the EU, although it is obvious that there are still too many impediments to expect them to achieve even partial convergence within the next five or more years.

One particular area of legislation that is likely to figure prominently in the medium to longer term is that relating to the environment. Firms in Finland and the UK raised this as an important factor in their cost structure and one that was becoming increasingly demanding of resources. Firms in the steel sector are in a sensitive environmental position and there was clearly some frustration amongst EU producers at the cost advantages enjoyed by NIS firms in the lack of comparable legislation and enforcement.

Greater attention to environmental matters will demand more capital investment from firms and this was recognised by case studies in all four countries. However, the EU firms had clearly a head start in terms of the quality and relevance of their equipment including that needed for environmental controls. Furthermore, the EU firms were generally committed to maintaining an investment programme that would ensure a head start over their NIS counterparts would remain. This is not to suggest that firms in the NIS were not planning to invest since some were. Russian steel firms in particular had firm investment plans phased over a decade in one case, but even at the end of this phase it would not have caught up with its potential competitors in the EU.

Issues for the European Union

From this study of labour standards and international competitiveness it is possible to isolate a number of key issues that could provide a focus for future policy in the EU. The issues discussed below are in no particular order and offer no solutions. Rather they are intended to stimulate debate about the future competitiveness of EU industry arising from its relations with the NIS.

Statistics

The serious problems with the comparability of economic, social and labour market statistics represents a serious threat to understanding the scale of any potential threat to the EU from the NIS. Some efforts have been made to bring statistics in the transitional states in line with international recommendations and practices, but the rate and scale of the improvements has not been encouraging.

Social Dialogue

Effective social dialogue is in its infancy in the NIS with independent trade unions and employers' associations only emerging slowly. Social partner involvement in the development of industry must be considered a prerequisite for firms and employees alike and the considerable, though varied experience of the EU Member States provides a good basis for advice.

Products and Marketing

The degree to which firms in the transitional states represent serious competition for EU firms will vary between sectors. The nature of the product is important here (its bulk and ease of transportation, for example) and the proximity of NIS producers to EU markets. This makes Member States sharing borders with NIS countries (and CEE countries) particularly vulnerable and demanding special attention.

Import Restrictions

In some sectors the prevalence of EU import restrictions is considered highly protective and their removal threatens the existence of some EU producers.

Labour Standards

The threat posed by the relatively high labour standards and their contribution to labour costs in the EU is, for the most part, illusory. High standards in such areas as health and safety bring associated benefits which are not currently enjoyed by most NIS firms. Greater flexibility in pay and conditions allows EU firms to adjust production as required and encourage increased productivity.

The above issues provide a focus for assistance projects such as TACIS and PHARE, as well as indicating the kinds of support EU firms might need in the longer term as markets are inevitably opened up and competition intensifies.

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FOOTNOTES

- ¹ The Tacis Programme is an EU initiative in the NIS and Mongolia which fosters the development of harmonious and prosperous economic and political links between the EU and these partner countries. Its aim is to support the partner countries' initiatives to develop societies based on political freedoms and economic prosperity. ACE represents a focused strand of the programme covering Action for Co-operation in the Field of Economics.

- ² Trade union membership density is the ratio of total membership to potential membership, the latter including only those groups eligible to become union members (which normally excludes those unemployed, for example).

- ³ These codes of practice are not legally enforceable but can be used in evidence in the law (such as during an industrial tribunal).

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