GOOD PRACTICE

Bargaining under uncertainty

JUNE 2022

GLOBAL DEAL

INTRODUCTION

The agreement that was negotiated in German chemical industry on 4 April 2022 by the trade union IGBCE (partner to the Global Deal) with the employer federation Bundesarbeitgeberverband Chemie (BAVC) illustrates how social partners are dealing pragmatically with economic insecurity from the war in Ukraine by shaping balanced and flexible approaches.

This good practice case describes the contents of this collective bargaining agreement, and how it was reached.

COLLECTIVE BARGAINING IS CURRENTLY FACING STRONGLY DIVERGING EXPECTATIONS

The invasion of Ukraine has led to major uncertainties for businesses. In a worst-case scenario, energy rationing could force industries to shut down. An additional uncertainty is whether monetary policy action will risk triggering a substantial downturn, in order to avoid the possibility of a wage/price spiral sustaining high inflation rates. Were such a downturn to occur, it would most likely have implications in terms of companies getting into economic and financial difficulties. Businesses are therefore looking to re-focus collective bargaining on ways to avoid such a scenario and to strengthen business resilience against crises.

At the same time, inflation has moved to rates not seen in a long time because of energy and commodity prices that have been driven up by the war in Ukraine, and by continuing disruptions in global supply chains. This is eroding the purchasing power of wages. Workers are thus expecting collective bargaining to increase wages substantively and compensate for this high inflation.

How social dialogue can work to overcome these two widely diverging expectations is illustrated by the so-called "bridge" agreement recently reached in the chemicals sector of Germany.

STARTING UP NEGOTIATIONS

In mid-February 2022, the IGBCE's Collective Bargaining Committee (Tarifkommission), after wide consultations with its membership base, formulated the demands in wages and working conditions the trade union would seek to achieve in its next bargaining round. That round, which started at the beginning of March 2022 in several regions, aimed to renew the collective bargaining agreement for the 580,000 workers and 1,900 companies in the chemical sector that was about to expire on 31 March. With inflation and prices of heating, electricity, rents and food going up fast, the IGBCE put a strong focus on securing and increasing the purchasing power of workers through nominal wage increases. It added that the latter would take on another dimension compared to previously, when inflation rates were no higher than 0.5-1%. Besides increasing wage rates for young apprenticeships, the IGBCE was also looking to increase to 25% the premiums paid to workers doing shift work. In addition, the trade union was also demanding better working conditions for those working from home.

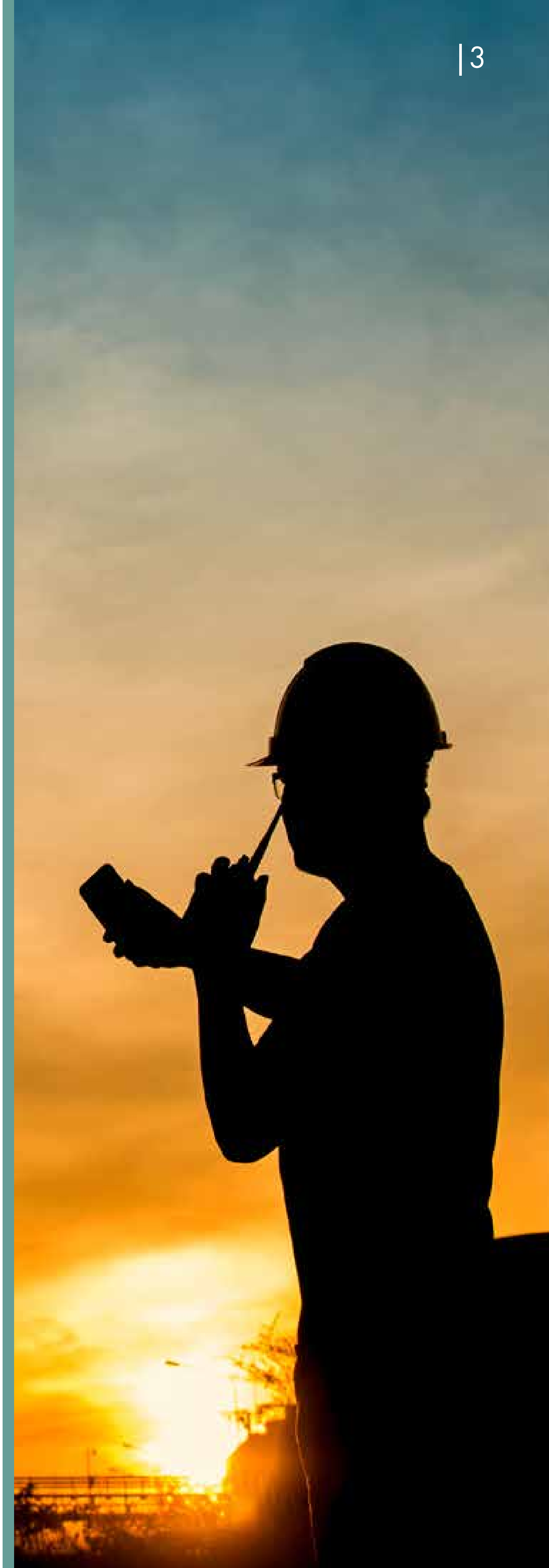
These demands were backed up by the IGBCE highlighting that businesses in the sector were doing rather well. On the back of rising producer prices (+ 8.5%), sales had increased by 15% in 2021, large corporations of the sector had been making significant profits and were disbursing record dividends to their shareholders with some of them increasing profits by 50% and dividend pay-outs by 25%. And according to a survey of 531 enterprise councils, companies

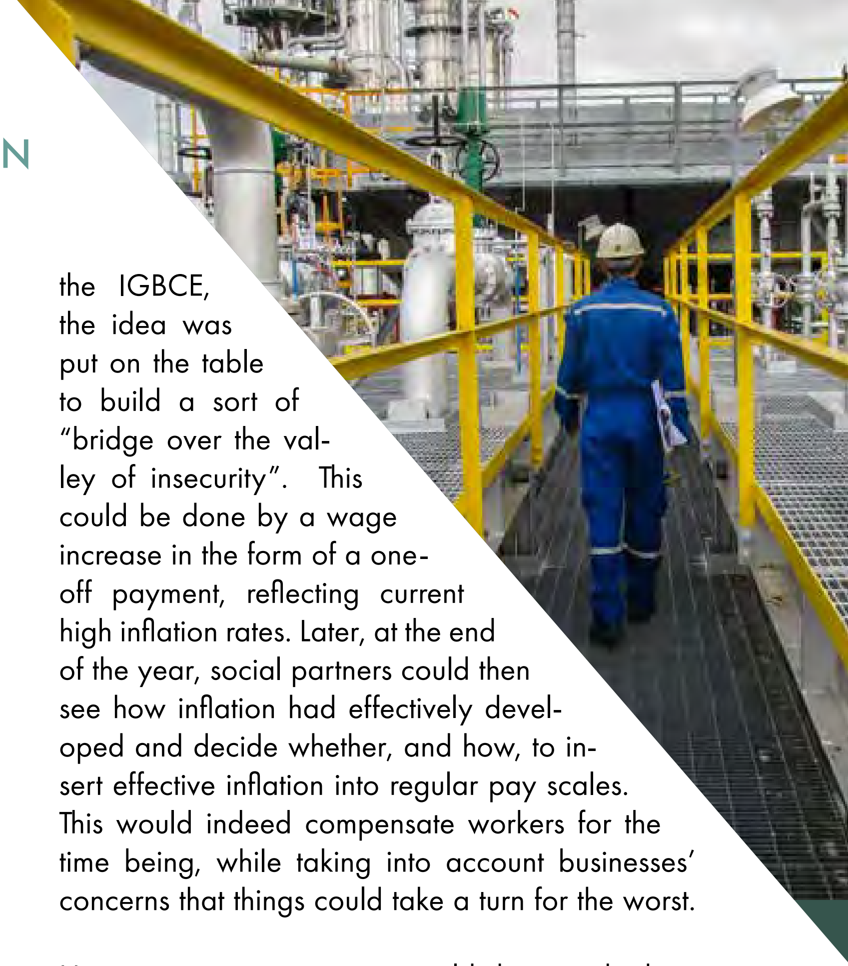
in the sector were operating at a high rate of capacity utilisation with 80% of businesses observing increases in profits compared to the previous year. Another argument advanced by the IGBCE in starting up the bargaining round was that the sector is facing a lack of qualified workers, among other things because of an ageing workforce requiring business to invest in training, but also in good working conditions to keep the sector attractive for workers.

One particular point to note is that the IGBCE, in contrast to the usual process of collective bargaining , did not introduce a precise demand on the exact percentage increase in nominal wages it was seeking to achieve. The reason quoted by the trade union's top bargainers is that the pattern of inflation had become very volatile, with big jumps in the rate of inflation in a short period of time. If a precise wage demand were to have been made, it is likely that this demand would have become quickly outdated because of inflation turning out to be higher (or lower) than was expected when the wage demand was set.

The employer federation BAVC entered negotiations from a different perspective, arguing that economic prospects had already been extremely difficult even before the war in Ukraine started at the end of February. Climate change, digitalisation, ageing and the European Union's chemicals policy were enormous challenges, requiring hundreds of billions of investment to secure the future of the industry. Hence, the BAVC's message until the 24th of February was to "invest not distribute" ("Investieren statt verteilen").

With Russia invading Ukraine, new challenges were added overnight: unstable commodity prices, possible economic sanctions against Russia, bottlenecks in commodity and intermediate input materials supply chains and, in particular, question marks concerning the stability of gas deliveries from Russia, had created an extremely uncertain environment in which to do business. Employers also stressed that skyrocketing prices for electricity, gas and oil were hitting companies very hard. For the majority of companies, increased energy costs are resulting in a reduction of profit margins as only few companies can fully pass on these price increases to their customers. Moreover, the BAVC pointed out that large parts of the industry were still producing far below the pre-COVID-19 activity level.





MARCH 2022: A FIRST NEGOTIATION ROUND

A first discussion round between the IGBCE and BAVC took place on 21 and 22 March. As the war in Ukraine had been going on for several weeks by then, it was clear that the chemicals sector, as an energy-intensive sector, was facing additional and significant insecurity.

Given these circumstances, the BAVC's position in this first round of negotiations was to argue that there was no room to raise regular wages and that a recurrent increase of the pay scales of the sector agreement represented too much of a risk for the future. The fact that businesses were unsure whether they would still have sufficient access to gas deliveries to continue production within the next three months excluded any structural increase in wage levels.

For the IGBCE however, the idea of postponing the entire bargaining round until things had cleared up was not an option. As living costs for their members were immediately becoming much more expensive, the purchasing power of wages needed to be upgraded now and not later. During these discussions between the BAVG and the IGBCE, the idea was put on the table to build a sort of "bridge over the valley of insecurity". This could be done by a wage increase in the form of a one-off payment, reflecting current high inflation rates. Later, at the end of the year, social partners could then see how inflation had effectively developed and decide whether, and how, to insert effective inflation into regular pay scales. This would indeed compensate workers for the time being, while taking into account businesses' concerns that things could take a turn for the worst.

However, no agreement could be reached at this point, as the IGBCE still wanted to combine the one-off payment with a recurrent wage increase, while the BAVG held to its position that this bridge was the only possibility, and that this one-off payment also needed to be moderate.

BUILDING A FINANCIAL BRIDGE

A breakthrough came in the second and final negotiation when social partners in the early morning of 5 April agreed on the following measures:

- Negotiations on a structural wage increase are to be postponed and resumed in October.

- Workers will be paid a lump sum of 1,400 Euro no later than May. This corresponds to 5.3% of the average annual wage paid in the sector over all groups and categories of workers. Apprenticeships will receive a sum of 500 Euro. The one- off payment aims to help workers to bridge the period of six months until negotiations are resumed by immediately providing them with financial relief in the face of currently higher costs of living.

- In October, when the economic situation would hopefully be clearer, social partners will meet again to decide to what extent the one-off payment can be transformed into a regular wage increase that can be inserted into the pay grades of the sector collective agreement.

- Businesses that find themselves in major economic difficulties can request to reduce the one-off payment to 1,000 Euro. More specifically, this is the case for companies that (i) were having a financial loss in the previous year; (ii) had a profit over sales rate lower than 3% in the previous year or; (iii) are expecting a lower than 3% profit over sales rate in 2022. In the latter two cases, an economic expert needs to validate the profits over sales rate and permission needs to be granted from the IGBCE and its counterpart the BVAC. In case the profit margin for 2022 in the end does exceed 3%, workers will receive the 500 Euro difference in the one-off payment no later than June 2022.

- Other measures where social partners reached agreement are: (i) increasing the night shift premium to a level of 20% of the basic wage (+ 1.7%); (ii) extra-funding to strengthen training of workers in small and medium enterprises; (iii) commissioning a study on mobile working and; (iv) key principles on a social partner model that makes company based pension systems more attractive.

DEFENDING WAGES WHILE PROTECTING JOBS

With this agreement, social partners in the German chemicals sector provide each other with breathing space to await the economic and geopolitical developments of the next months. While the agreement restores and maintains the purchasing power of wages in the short run by a substantial one-off payment, it also recognizes the economic reality and the challenges the chemicals sector and its businesses are facing by postponing any structural wage increase, thus setting the counter for wage negotiations in the autumn back at its initial level.

In addition, the agreement provides lower wage earners with an improved shield against inflation, which, according to the IGBCE, is exactly the intention of its bargainers. Lower income groups are especially suffering from current high inflation rates since energy and food expenditures tend to take up a higher share of their wages and income. By providing inflation compensation in the form of fixed amount instead of a percentage, lower wage earners obtain an increase of their nominal wages that is relatively higher compared to workers that are higher up in the pay scale. They are therefore better prepared to withstand the rising price of the goods and services that constitute a larger part of their expenditure.

From the employers' perspective, it was important to allow companies in economic difficulty to reduce the one-off payment. Not all companies in the industry are doing well, hence it is important that the BAVC find solutions that are affordable for everyone. In the BAVC's view, negotiations in autumn 2022 will be part of the same bargaining round and will not include new demands. This allows social partners to focus on negotiating a possible permanent wage increase in the light of a clearer geopolitical and economic perspective.

Finally, the agreement also gives an important macroeconomic signal: By jointly developing good ideas and innovative approaches, social partners can fend-off the wage-price spiral that otherwise could trigger a monetary policy response ravaging the economy even more.

THE GLOBAL DEAL FOR DECENT WORK AND INCLUSIVE GROWTH

The Global Deal is a multi-stakeholder partnership that aims to address the challenges in the global labour market to enable all people to benefit from globalisation. It highlights the potential of sound industrial relations and enhanced social dialogue to foster decent work and quality jobs, to increase productivity, and to promote equality and inclusive growth. The Global Deal welcomes governments, businesses, employers' organisations, trade unions, as well as civil society and other organisations to join the partnership.

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