

Section 3

Policy recommendations

In order to maintain and develop its economy, the EU will need to manage the effects of several megatrends (automation, demography, resource scarcity and globalisation) on the labour market. This need will be strengthened and its urgency increased due to the Covid-19 crisis, which will have profound implications for Europe's economy and society, and which will drive governments across the world to put in place stimulus and recovery plans. At the same time, the EU must continue to face up to the impacts of climate change and the imperative need to achieve climate neutrality – requiring a set of policies with significant social and employment impacts.

All these objectives can and should be combined: policies should be designed to harness the climate benefits of the megatrends and overcome some of the challenges they bring in a way that delivers a competitive, prosperous and socially just climate neutral economy with a thriving and resilient labour market. At the same time, as governments face up to the economic fallout of the pandemic and develop longer term plans for recovery, they should ensure that they are building back better – supporting economic activity with genuine long-term sustainability, aligned with the industries of the future and effective in addressing other concerns like the climate challenge.

Policymakers have started to grasp the range and depth of actions they need to take, and the EU already has experience and initiatives it can build on. However, greater coherence and resolve is required – some instruments will need to be adapted and strengthened, key approaches should be joined up to exploit synergies and avoid fragmentation, and new policies will need to be developed through a strong social dialogue.

At this moment, there is both opportunity and necessity for climate and environmental breakdown, economic damage, social inequalities and resilience to all be addressed together, if we are to build a stronger and more resilient European economy.

Our recommendations for policymakers are as follows:



Commit to the European Green Deal and a clear and managed transition to a climate neutral economy

The European Green Deal, with climate neutrality at its core, provides an opportunity for the EU to develop policies across a wide range of areas to help promote a reinvigorated and modernised labour market in the context of the megatrends and the task of addressing climate change. **Action to mitigate climate change is not optional**, and sensible, **well-managed approaches can have a positive impact** on the environment, economy and employment. But support will be required for workers, sectors and communities that are undermined by climate action and other megatrends to ensure the best economic and societal outcomes.

A transition to climate neutrality has **significant prospects for job creation** in a number of sectors, such as energy, transport and sustainable land management. Another key area is jobs linked to the **circular economy** which are already rapidly growing. Both the new European Commission Industrial Strategy and the Circular Economy Action Plan⁶¹ aim to ensure that the EU instruments supporting skills and job creation also contribute to the acceleration to a circular economy. In order to achieve this, more must be done to identify the skills needed to fill circular economy related jobs and address gaps accordingly. Circularity should be integrated into education and training programmes to provide skilling and reskilling opportunities for workers.¹¹⁸

Finally, the future of the European labour market will depend on the EU's ability to remain competitive at a global level. Increasing the EU's know-how and entrepreneurial capacity in low carbon technologies and the circular economy will help **position Europe as a leader** in growing international markets for the design, production, assembly and marketing of clean products.

2

Develop a comprehensive vision to scale up skills and adaptability

The European workforce will cope better if they are supported to be as adaptable as possible to a changing work environment. **Learning skills** and lifelong learning approaches will be key to this. The other most important area will be **digital skills** as automation and digitalisation are likely to most significantly impact jobs and skills. Increasing efforts on digital skills is necessary to enable workers to harness the benefits of these technologies and adapt to the changes they bring. This report has identified some under-recognised priorities and challenges in this area, for example digital skills are in growing demand in sectors such as **agriculture**, where the ageing workforce and limited access to educational opportunities currently restrict their uptake. Generally **older workers**, who will comprise a growing part of the workforce, might need additional support in acquiring digital skills – policymakers have a key role in ensuring lifelong learning. Similarly, **smaller businesses** will often need additional investment and support. Finally, the **Covid-19** crisis has led to a massive requirement for digital infrastructure and skills, with children pursuing schooling online and teleworking, virtual meetings and webinars taking over. It is likely that teleworking and digital services will continue at much higher levels than before.¹¹⁹

Given that these skills are key for adaptability, it is important that initiatives in this field do not leave significant parts of the workforce behind. The EU also needs to avoid fragmentation of its initiatives and bring them together behind a **comprehensive vision**, potentially as part of the new Industrial Strategy, which addresses what digital skills need to be developed across various sectors to increase economic competitiveness, resilience and innovation in support of its climate neutrality goal.

3

Establish an inclusive economy through a just transition

The trends outlined in this report have great potential in terms of job creation, but they will also disrupt the economy and lead to job losses, a situation that will be exacerbated by the coronavirus crisis. Policymakers have an essential role to play in providing **support for businesses and workers that are negatively impacted**. Several case studies in this report indicate sectors that are contracting (energy generation from fossil fuels, car manufacturing based around the internal combustion engine), shedding jobs through productivity improvements (agriculture), or transforming in a way that will shift the required skill set (steel, agriculture). In each case existing jobs will be lost through the process of economic change but it is possible to **identify new employment opportunities** where workers will need to be supported to find new careers. Workers should be able to have access to decent jobs, that will increase their wellbeing and higher skilled jobs which will result in higher wages.

The geographic concentration of employment from an affected industry is a key concern. **Regions with a high dependence on a single declining sector (such as coal) should be a priority for support**, and more must be done to anticipate future disruptions in other sectors including the heavy industry and automotive sectors. **Transition plans, designed to help regions steer investments, will need to be consistent with the objective to achieve climate neutrality by 2050** and elaborated through close cooperation between regional governments, industry, investors and trade unions.

4

Define a shared European agenda for the future of work

To deliver sustainable economic development, policymakers will need to work with businesses to **identify and structure sectors that will thrive in the future**. Businesses can help identify skills gaps and shortages that policies could seek to address. For example, in Sweden, where they are focusing on fossil-free steel, the clear direction seems to be towards high-skill jobs in hydrogen-based steel production. This should not be limited to large-scale incumbent industries – in many sectors new businesses are emerging, such as those centred around renewable energy generation. As demonstrated in the offshore wind and coal case studies, such **new businesses** are often able to repurpose some of the skillsets of outgoing workers from declining sectors, or where automation is improving productivity and leading to declining labour demand. **Social partners** (such as trade unions), educational establishments, businesses and policymakers will also need to work together to deliver a regulatory framework for the future of work as well as educational and vocational training programmes. Companies and governments' forward-looking positioning on these themes will contribute to the risks and opportunities being incorporated into analysis by the financial industry. How strategies and operations are adjusted and delivered will impact equity and debt decisions at both business and national level.

European action depends on aligned implementation from its **member states**. Policies related to jobs and skills are mostly national competences, but the EU provides guidance to member states, including advice and analysis on socio-economic challenges and opportunities from the climate and energy transition.¹²⁰ National governments across Europe should seek to incorporate these lessons into their climate and social policies.

5

Implement green and equitable Covid-19 recovery plans, while urgently addressing which skills will be needed for the future

The Covid-19 pandemic and its response will inevitably lead to significant economic damage and loss of employment. Recovery plans will need to address both public spending and investment, and also put in place policies and funding instruments (for example from the European Investment Bank and the European Bank for Reconstruction and Development), that incentivise private investment to rebuild economic capacity in an environmentally sustainable way. Public spending can invest in **critical infrastructure** such as energy, transport and digital communications, support **innovation** and clean technologies and fund areas such as **health and social care, sustainable land management and energy efficiency programmes for buildings**. Sustainable finance principles including the EU Low Carbon Taxonomy should be used to encourage **long-term investment alignment with sustainability goals**. Other key policy options include **public procurement** to provide markets for innovative goods and services such as electric vehicles.

All of these are key areas for business investment, and essential areas to innovate to develop a competitive, climate neutral economy. Policy incentives, such as mandates, fiscal incentives and regulation should all be aligned to ensure private sector activity helps public finance go further. The right expenditure can deliver more jobs quickly. For example, energy efficiency developments are labour intensive and can result in significant job creation, although they will need to be accompanied by **targeted training**. As can be seen in the Romania case study, renovation of the building stock can also offer major opportunities in some of the most disadvantaged regions of Europe. On the other hand, where appropriate **companies receiving public support** should be required to align their investments with common goals such as climate action and resilience.