EPSU Briefing

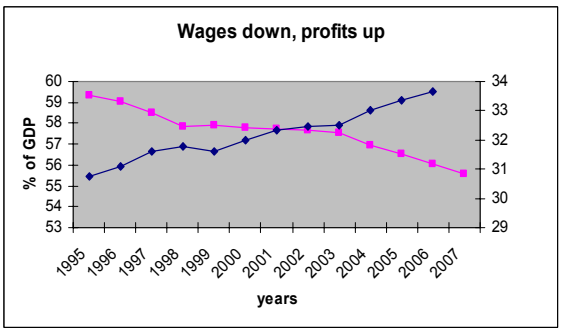
Fair shares?

Wages, profits and dividends in the energy sector – an analysis of recent trends in European energy multinationals

The financial crisis has put the issue of wage moderation at the centre of political and economic debate. Many governments and employers, supported by international institutions such as the European Central Bank (ECB) and International Monetary Fund (IMF), argue that wage increases have to be held back or wages frozen or even reduced as part of the response to the crisis. The recession is being used as a reason to restrain wage increases even in sectors, such as energy, where the impact of the downturn has yet to have a significant impact on profits.

This focus on wage moderation would not only reinforce a trend that was apparent even before the crisis took hold but would also, on the basis of past evidence, fail to deliver any positive outcome in terms of employment. As the ETUC says[i]: "Eurostat certifies that during the period 2002-2007, salaries accounted for a dwindling share of European GDP (a reduction in the shares of salaries across the EU27 of 4.18% and 6.36% in the Eurozone countries)."

Chart 1: Trend in wages and profits as a share of GDP – 1995-2007



Source: ETUC

Wage moderation has been a characteristic of European collective bargaining for more than 10 years. An analysis[ii] of wage, profit and employment trends found that "lower wages and higher profits do not systematically tend to lead to improved job performance and higher employment rates."

Chart 2: Trend in collectively bargained wages in the Euro area – 1992-2006

Source: ETUC

The trend in the energy sector has certainly been one of rising profits and falling employment as liberalisation and privatisation have been implemented across the European Union. A major study[iii] carried out for the electricity and gas social dialogue committees confirmed EPSU's estimates that the electricity and gas sectors had lost around 300,000 jobs over the previous decade.

The restructuring in the sector has led to mergers and takeovers and the growth of large multinationals that have come to dominate energy provision in many countries. An analysis of the annual reports[iv] of 10 of these major companies reveals common trends in terms of profits, dividends and the wage share that are set

out below and summarised in the charts overleaf.

Taking a period beginning 2000-2001 virtually all the 10 companies[v] show significant increases in profits, ranging from 52% at RWE to nearly 700% at Verbund. There were similar sharp increases in the total dividend payout. The increase at Verbund is the most dramatic, rising seven-fold from 2000 to 2008, with EDF also seeing an increase of a similar scale (+674%) between 2002 and 2008. Elsewhere the dividend increases were lower but with all registering rises of more than 100% - the lowest at Iberdrola (129% between 2004 and 2008).

Although in some cases the total wage bill might have fallen as a result of reductions in employment through job cuts or disposal of subsidiaries, over the same period there was a fairly steady upward trend in wages and salaries reflected in average wages. Looking at the the wage and salary bill (excluding pension and other social security contributions) in each company and calculating it as a percentage of profits and dividends reveals a marked trend across the 10 companies as demonstrated in the two charts on page 3.

The falling share of wages is significant in most of the 10, in fact, declining by a third or more. The only exception to this is Iberdrola where wages as a share of profits were fairly static for the five-year period to 2008 at around 36%

All 10 companies registered a fall in wages as a proportion of dividends (see chart four below), although this was a modest nine percentage points at Iberdrola. EDF registered the most significant change and, in fact, has been excluded from the second chart because its figures would have distorted the scale. With total dividend payments rising from €315m to €2438m between 2002 and 2008, wages as a proportion of dividends fell from over 1600% to 286%. There were also significant falls at other companies – from 984% to 182% at RWE, from over 450% to 60% at Verbund and from 684% to 145% at EON.

This analysis of the energy sector confirms the general picture in Europe with falling wage shares and rising profits and payouts to shareholders. While the sector has also seen massive job cuts and widespread outsourcing. It underlines how essential services such as the provision of electricity and gas have been infected with the culture of greed, putting shareholders' interests first before those of workers and consumers. EPSU wants to see this trend reversed. We want to put workers and people first – in the electricity and gas industry and across the whole economy. Decent salary increases, more investment – particularly in green alternatives – and lower electricity and gas prices will help Europe recover from the crisis.

This is the message that EPSU will be putting across in its support for the ETUC's days of action in May. The ETUC argues that it is unacceptable for workers and citizens to shoulder the burden of a crisis they did not cause and wants to see coordinated measures to tackle the recession. It is calling on European trade unions to mobilise from 14 to 16 May in Berlin (16 May), Brussels (15 May), Madrid (14 May) and Prague (16 May).

Chart 3: Total wage and salary bill as a percentage of profit

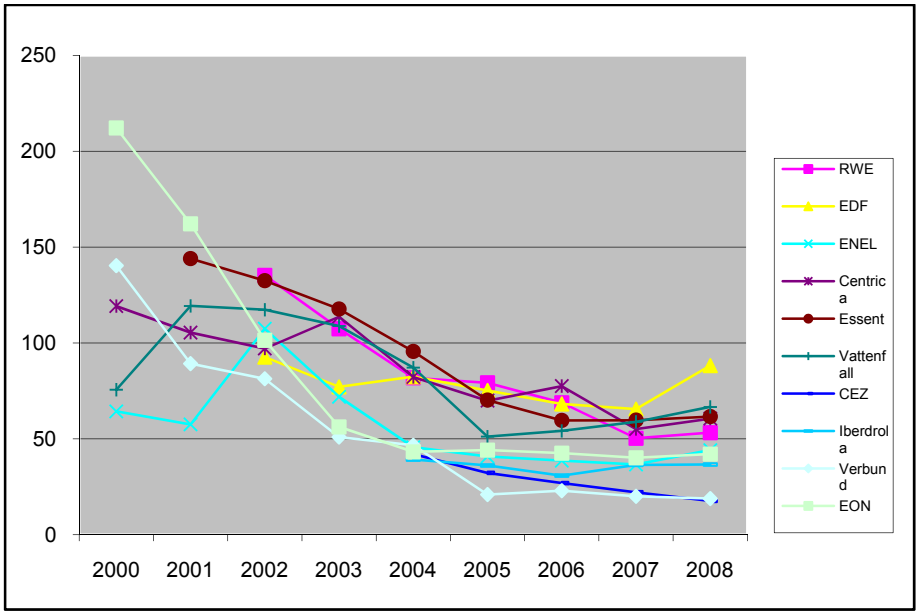
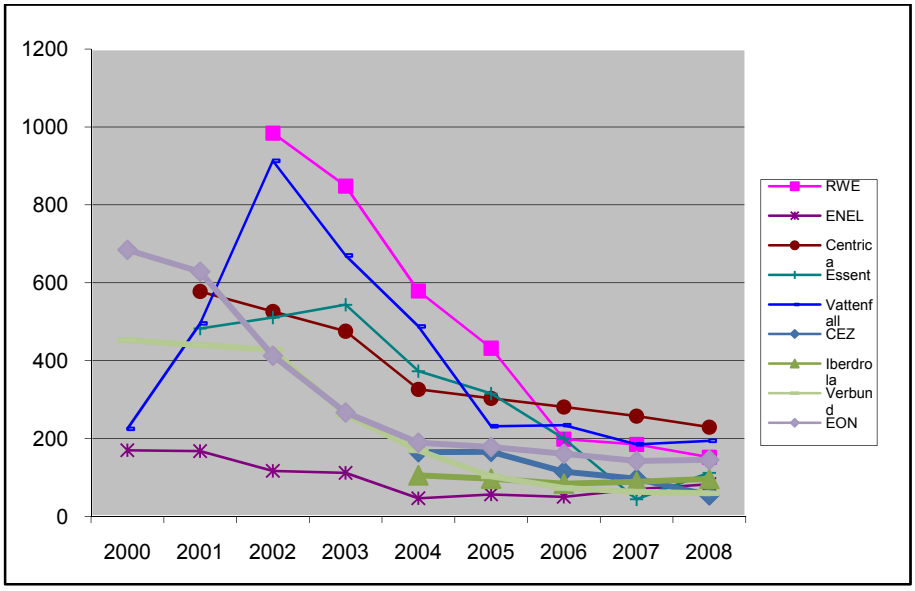


Chart 4: Total wage and salary bill as a percentage of total dividend payout



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[i] ETUC Resolution on the salary campaign and guidelines for collective bargaining coordination in 2009, adopted by the ETUC Executive Committee of 3-4 December 2008

[ii] *The real facts about wages, profits and jobs*, ETUC Collective Bargaining Information Bulletin, 2008/1

[iii] *The impact of the opening of electricity and gas markets on employment in the EU-27, and of key EU directives in the field of energy*, European Commisson 2007

[iv] The annual reports are for the publicly quoted corporations and so the overall figures in some cases will include operations outside of Europe and activities other than gas and electricity.

[v] The 10 are: Centrica (UK), CEZ (Czech Republic), EDF (France), ENEL (Italy), EON (Germany), Essent (Netherlands), Iberdrola (Spain), RWE (Germany), Verbund (Austria), Vattenfall (Sweden). In most case we have taken figures from 2000 to 2008 but for some companies comparable figures are only available for a shorter period of four or five years.