An early analysis of the European Globalisation Adjustment Fund

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INTRODUCTION

In 2007, the European Commission established the European Globalisation Adjustment Fund (EGF). The aim of the fund is to provide active labour market support for workers who have been made redundant as a result of major structural changes in world trade patterns (see European Commission, 2006a). The aim of this paper is to provide an early assessment of the operation of the EGF. To do this we conduct case studies of the first four successful applications to the EGF. Amidst a deepening global economic recession, in which restructuring and layoffs are increasingly commonplace, a key focus of our case study analysis is on the extent to which national level legislation in European countries supports the achievement of the goals of the EGF and provides the framework for meaningful interventions during restructuring.

BACKGROUND

Amidst a deepening global economic recession, economic restructuring and layoffs are becoming increasingly commonplace. Globally, there are predictions of between 25 to 50 million job losses between 2008 and 2010 (International Labour Organization, 2009). In developing an understanding of the causes and consequences of the recent economic downturn, much attention has focused on the global nature of competition and labour markets. The labour market consequences of globalisation have generated particular interest. Advocates of free trade argue that globalisation is unambiguously welfare enhancing at the macroeconomic level, and that restructuring is an inevitable – and indeed desirable – consequence of globalization (see Samuelsson and Stolper, 1941). Yet, as Storrie (2007) notes, free trade theorists neglect to factor in the considerable adjustment costs that accompany restructuring and the reallocation of workers between declining and expanding sectors: these costs may be 'considerable and long lasting'. As the current economic downturn intensifies, these effects can be seen in rising levels of long-term unemployment, and in severe economic decline in particular localities, regions and sectors.

It is against this backdrop of increased restructuring and layoffs that the European Union's (EU) 'anticipating and managing change' agenda can be viewed. Supranational institutions such as the EU, NAFTA and the OECD are increasingly seen as the 'global policemen' of the free market, deepening and extending the neoliberal consensus through free trade policies and free market agendas (Radice, 1999). In the case of the EU, the 'management of change' formed a key element of the Lisbon Strategy of 2000, enshrined in its adaptability 'pillar'. In 2002 the European Commission (EC) sought to position the anticipation and management of change more centrally within EU policies, arguing for the need to develop active labour market policies to soften the negative aspects of economic restructuring and maintain and improve human capital in Europe (EC, 2002). The neo-liberal agenda underpinning the drive for such policies was very clear: 'Despite its sometimes painful social consequences, corporate restructuring is not only inevitable but also a driving force for change. It contributes to increasing productivity and to the introduction of new technologies…. Properly taking into account and addressing the social impact of restructuring greatly contributes to its acceptance and to enhance its positive potential' (EC, 2002).

The European Globalisation Adjustment Fund (EGF) is one of the key EU labour market policies to have emerged from this broader anticipating and managing change agenda. The Commission argued that whilst the opening-up of economies to international competition brought new opportunities in terms of economic dynamism, competitiveness and the creation of high-quality jobs, job losses in less competitive sectors were an 'inevitable impact' of trade opening and globalization (European Commission, 2006a: 1). The EGF was seen as a means of managing these negative consequences 'because we want a competitive, but also a fair EU' (ibid.). The EGF would provide assistance for workers made redundant as a result of trade patterns, by offering 'one-off, time limited individual support for tailor-made services to help….workers affected by globalisation with individual wage allowances, re-training or concrete assistance to find new jobs' (ibid.).

Introduced on January 1st 2007, there are five key features of the EGF. First, an application can be made in the event of 1000 or more redundancies over a period of 4 months in an enterprise (including suppliers and downstream producers) or 1000 redundancies in 9 months in SME's or NACE2 sectors. Secondly, the EGF will focus on *active* rather than passive support measures, with the aim of re-integrating displaced workers into the labour market. Thirdly, member states (rather than individual workers or firms) will submit an application for an EGF contribution, detailing the link between redundancies and structural trade patterns and the actions to be funded. Fourthly, EGF assistance will not replace existing national laws, and the fund is envisaged to be complementary to the actions of individual Member States. Finally, up to €500 million would be available per year to fund these activities. The Commission envisaged €10 000 intervention support per worker. Thus the fund could provide assistance for up to 50 000 workers affected by restructuring per year (see European Commission, 2008).

The EGF was introduced in January 2007, thus at the time of writing, the fund has been operating for 2 years. Table 1 (overleaf) below lists all the applications for EGF funding to date. In total there have been 17 applications. The applications have requested a total of €88,193,561, less than 10 per cent of the €1000m allocated for the EGF over the 24 month period. The country making the largest number of applications has been Italy, followed by France, Germany, Spain and Belgium. The textiles, telecoms and automotive sectors have seen the largest concentration of applications.

Table 1: Applications to the European Globalization Adjustment Fund 2007-2009

Company (or in some cases region) making application	Year of application	Country	Sector	Amount requested (Euros)
Lombardia	2007	Italy	Textiles	12,534,125
Perlos	2007	Finland	Telecoms	2,028,538
Piemonte	2007	Italy	Textiles	7,798,750
Lisboa-Alejento	2007	Portugal	Autos	2,425,675
Sardegna	2007	Italy	Textiles	10,971,000
Renault Suppliers	2007	France	Autos	1,258,030
BenQ	2007	Germany	Telecoms	12,766,150
Peugeot suppliers	2007	France	Autos	2,558,250
Delphi	2008	Spain	Autos	10,471,778
Alytaus Textile	2008	Lithuania	Textiles	298,994
Toxana	2008	Italy	Textiles	3,854,200
Castilla y Leon and Aragon	2008	Spain	Automobiles	2,694,300
Limburg textiel	2009	Belgium	Textiles	1,681,290
Oest en West Vlanderen Textiel	2009	Belgium	Textiles	8,067,131
Nokia	2009	Germany	Telecoms	8,787,350

Source: EGF website

RESULTS

In the remainder of the paper we offer an early assessment of the operation of the EGF. We draw on case studies of four of the earliest applications for EGF funding, two in France, one in Germany and one in Finland.

i) Peugeot suppliers, France

France submitted an application for EGF assistance in March 2007, following redundancies amongst suppliers of Peugeot. The redundancies were said to stem from increased global car production, and rising competition from Asian car manufacturers in particular. The lower segments of the car market, where Peugeot's car production was concentrated had seen a particularly large increase in competition, and had impacted upon upstream suppliers to Peugeot. 1345 workers in 18 enterprises and 11 regions of France had been made redundant between September 1st and December 31st 2006. However, EGF support was requested for only one of these suppliers, *Ateliers de Thome Genot* in Ardennes, where 267 workers had been made redundant when the supplier went into liquidation. 226 of the workers were male, and the majority (85%) were aged between 25 and 54. 195 of those made redundant were skilled workers. The locality in which the redundancies took place was classed as 'in difficulty', having few alternative opportunities for employment.

The activities to be funded by the EGF in this case included retraining for new qualifications (lasting an average of 800 hours, with professional certification from the

Ministry of Labour) and certification of acquired experience in the car industry. Job search allowances would be made available for up to 12 months and additional grants were to be made available for older workers. 50% of the funding for these programmes is provided by the EGF, and 50% by the French state. Some of these personalised services were already being provided by the French government for the Ateliers workers as early as November 2006, in line with national level redundancy legislation, 6 months before the EGF application was made.

ii) Renault suppliers, France

The application for support for Renault suppliers was submitted two weeks after the Peugeot case, in May 2007. The rationale for the application was identical to the Renault case. The French government cited rising competition from Asia, particularly affecting the lower segment of the car market where Renault was competing. In this case 1057 workers in Renault suppliers had been made redundant between 1st December 2006 and the 31st March 2007. 10 suppliers were affected in total, but EGF assistance was sought only for 628 workers made redundant in one supplier, Cadence Innovation. The firm had sites in 4 French regions. Two of the sites were in locations classed as ‘in difficulty’, one was ‘under observation’ and another was considered to be ‘at risk in the medium term’. Two-thirds of the workers were male and 85% were aged between 15-24. In this case, the French government proposed that the funding would be used to put in place a new instrument specially conceived for the EGF, a platform combining: job search assistance, providing assessment, guidance, and an examination of usefulness of training; a training and retraining package and a temporary allowance to help workers re-enter the labour market at a lower salary. It is clear in this case that much of the preparatory scoping work and discussions over appropriate personalised measures had taken place in the lead up to redundancies in Cadence Innovation, most notably within the company’s central committee in January 2007. These personalised measures began to be offered to workers prior to some of the redundancies being implemented, in early March 2007.

iii) BenQ, Germany

BenQ is a Taiwanese company, with two German based subsidiaries, operating in 3 locations in Germany. BenQ withdrew all financial support to these subsidiaries in 2006, and they became insolvent. 3303 job losses occurred within these subsidiaries between December 2006 and April 2007. The German government cited increased competition from the Asia Pacific region, particularly China as a key driver for the job losses, and noted that phone manufacturers were increasingly delocalising their production to Asia for comparative cost advantages. Workers were entered into a ‘transfer company’ from January 2007, an instrument provided for under German law to assist in preparing redundant workers for alternative employment. This transfer company can only intervene once the workers’ contract with the original company has been terminated. Two thirds of those affected were male, and 95% were aged between 25 and 54. Around half of the workers were professional, technicians or craft workers. A number of stakeholders had been closely involved in consultation and negotiations over the redundancy programme prior to the redundancies being implemented, as required under German law. These stakeholders included IG Metall, the metal workers trade union and the insolvency administrators. Negotiations took place through the Works Council and agreement was reached in January 2007. The regional employment office was also involved at a very early stage in negotiations. The personalised package agreed included: a subsistence payment whilst workers were in the transfer company; a mobility allowance to assist with geographical relocation; specific retraining to meet the needs of individual workers; and placement and counselling.

iv) Perlos, Finland.

The Finnish authorities submitted an application for EGF assistance in July 2007, following 1074 redundancies in Perlos plants between March and July 2007. Perlos, a Finnish mobile phone manufacturer closed two factories in Finland in September 2007. The company had been pursuing a delocalisation strategy, relocating its production to China and India due to cheaper labour costs and proximity to mass markets. 'Just-in-time' production techniques were said to require relocation to the immediate vicinity of large markets. In January 2007, Perlos announced that it would engage in co-operation negotiations to discontinue production in Finland, in line with national law. In March 2007 the company confirmed that 915 redundancies would be concentrated in the North Karelia plant, and these were the workers for whom EGF support was sought. By the time the redundancies were implemented, following consultation with local labour market agencies and other stakeholders, a local 'rapid response' team had been established in the North Karelia region to plan measures to create replacement jobs and provide retraining and job counselling.

In evaluating the early impact of the EGF from these cases, we raise three points in particular. First, the EGF is not widely utilised at present, despite the large number of restructuring cases that are potentially eligible for support. It may be the case that there is little awareness amongst social partners of the EGF at this early stage. Alternatively, it may be that the co-ordination of applications is problematic. Applications to the EGF are submitted by the member state. The role of other social partners in co-ordinating applications is likely to depend upon the national level redundancy measures in place. In some cases, these prescribe a role for trade unions or other employee representatives, along with local labour market agencies, in the consultation and negotiation process of redundancies. The four cases analysed here all point to the importance of this co-ordinated activity prior to redundancies. It may be that this is necessary to mobilise resources and support for an EGF application, prior to the date of displacement. The lack of national level legislation requiring meaningful consultation with social partners prior to redundancy might explain the lack of applications from the UK, despite the large number of collective redundancies involving 1000 or more workers in this country.

Secondly, the four cases point to potential complementarities between EGF funding and activities funded at a national level. The EGF s clearly focused on the post-redundancy period, yet in some of the successful EGF applications, these activities had been preceded by a range of other active labour market interventions, both in the lead up to and the period following redundancies. A good example of the potential complementarities between EGF and national level support can be seen in the BenQ case in Germany. An initial package of active labour market measures was financed by the national authorities and Siemens AG, centring on the establishment of a 'transfer company' following the insolvency on the BenQ German subsidiaries. The scope of this transfer company's activities and the focus of the personalised measures was negotiated via the works council in the firm. The EGF assistance would provide additional funding to support some of the measures undertaken in the transfer company and would provide further funds for other support measures, once the transfer company was wound up after a year. These complementarities may help to ensure that multiple 'fields' of intervention are able to be targeted through redundancy programmes (Stuart, 2007). The potential for these complementarities depends on a high base level of protection at the national level, to provide for the interventions in the pre-redundancy period.

Finally, the cases point to the relatively wide range of measures that have been funded by the EGF to date. Given the budget and goals of the EGF, and the planned assistance of 10000 euros per person, the provision of ‘standardised’ job search assistance and counselling was always more likely than genuinely personalised support measures (see Stuart 2005). The activities funded to date do suggest some standardised activities, particularly the provision of basic training, job counselling, However, more personalised activities are also evident, notably the certification of acquired experience (Peugeot), personalised retraining (Renault, BenQ, Perlos), longer-term support measures for those that remain unemployed after 1 year of redundancy (BenQ), and tailored start-up business support (BenQ, Perlos). Again, many of these personalised measures were negotiated and agreed in the pre-redundancy period via the social partners, in line with the requirements of national-level legislation.

CONCLUSION

The EGF is an important and welcome development providing an EU funding stream designed specifically to deal with rapid, rather than medium or long-term economic change. The focus of the EGF is on the post-redundancy period and the scope of activities that may be funded via the EGF goes beyond those provided within national-level redundancy legislation in many cases.

However, there are two factors that may limit the impact of the EGF. First, the ‘1000 or more redundancies’ threshold for accessing support means that the main beneficiaries will be the largest ‘old’ EU countries, even though collective redundancies are spread across Europe. Secondly, the neoliberal agenda underpinning the Lisbon Strategy may also weaken the impact of the EGF. The EGF seems to be having the greatest impact in countries where there is already a high degree of national-level support for workers in the pre and post redundancy periods (see also Stuart et al., 2007). The cases analysed in this paper provide some support for the argument that a high degree of national level redundancy regulation (particularly in relation to consultation with social partners and the establishment of a social plan in the pre-redundancy period) is important to successfully mobilising resources for an EGF application. Furthermore, the cases point to potential complementarities between EGF support and national level redundancy programmes, but these complementarities too are dependent upon a high degree of regulation of redundancy at the national level. In the absence of such support at a national level, the danger is that the EGF will be a ‘stand-alone’ initiative, focused narrowly on the post-redundancy ‘field’ of intervention.

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