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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 2.10.2008
COM(2008) 609 final

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the mobilisation of the European Globalisation Adjustment Fund

(presented by the Commission)

EXPLANATORY MEMORANDUM

The Interinstitutional Agreement of 17 May 2006[1] allows for the mobilisation of the European Globalisation Adjustment Fund through a flexibility mechanism, within the annual ceiling of EUR 500 million over and above the relevant headings of the financial framework. Eligibility rules applicable to the contributions from the Fund are laid down in Regulation (EC) No 1927/2006[2] of the European Parliament and the Council.

The Commission services have carried out a thorough examination of the four applications submitted by Italy in accordance with Regulation (EC) 1927/2006 and in particular with Articles 2, 3, 4, 5 and 6 thereof.

The most important elements of the assessments can be summarised as follows:

Cases EGF/2007/05/IT/Sardegna, EGF/2007/06/IT/Piedmont, EGF/2007/07/IT/ Lombardy and EGF/2008/01/IT/Tuscany

1. The applications were presented by the Italian authorities to the Commission on the following dates: Sardinia 9 August 2007, Piedmont on 10 August 2007, Lombardy 17 August 2007 and Tuscany 12 February 2008. All four applications were based upon the specific intervention criteria of Article 2(b) of Regulation (EC) No 1927/2006 of the European Parliament and of the Council and were submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.

2. Italy submitted all four applications under the intervention criterion of Article 2(b) of Regulation (EC) No 1927/2006, which requires at least 1,000 redundancies over a 9-month period in a NACE (statistical classification of economic activities) rev 2 sector[3] in one region or two contiguous regions (NACE rev 2 Division 13 "Manufacture of textiles" in companies in the Regions of Sardinia, Piedmont, Lombardy and Tuscany).

3. The four applications demonstrate the following number of definitive redundancies:

   - Sardinia: **1,044** redundancies during the nine-month period of reference 27 October 2006 to 26 July 2007 in NACE 2 Sector 13[4] (manufacture of textiles), in the NUTS II ITG2-Sardegna Region.

   - Piedmont: **1,537** redundancies during the nine-month period of reference 1 September 2006 to 31 May 2007 in NACE 2 Sector 13 (manufacture of textiles), in the NUTS II ITC4-Piemonte Region.

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1 OJ C 139, 14.6.2006, p. 1

2 OJ L 406, 30.12.2006, p. 1 as corrected in OJ L 48, 22.2.2008, p.82

3 Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains OJ C 393, 30.12.2006, p. 1

4 The Italian authorities have confirmed that their national classification of sectors uses the ATECO-ISTAT 2002 categorisation, which is based on NACE rev. 1.1 (the NACE legislation in force until 1 January 2008). All the companies included in their lists (in all three applications) are in the "second level ATECO (and NACE) sector 17 – 'Manufacture of textiles'". This corresponds to NACE sector 13 in the new NACE rev.2 categories.

- Lombardy: **1,816** redundancies during the nine-month period of reference 1 September 2006 to 31 May 2007 in NACE 2 Sector 13 (manufacture of textiles), in the NUTS II ITC4-Lombardia Region.

- Tuscany: **1,558** redundancies during the nine-month period of reference 1 March 2007 to 30 November 2007 in NACE 2 Sector 13 (manufacture of textiles), in the NUTS II ITE15-Toscana Region.

4. Analysis of the link between the redundancies and the major structural changes in world trade patterns is based on the following information. The applications describe the redundancies in the four regions against a background of radical change in the distribution of textile production. Third countries, (specifically China and India) increasingly dominate the world trade in textiles and clothing, and countries such as Turkey and Bangladesh continue to increase their share of world production. Large-scale restructuring in the European textiles and clothing industries from the 1990s onwards had already led to an increase in productivity and a reorientation of production towards high quality products, combined with a reduction of the workforce by approximately one-third between 1990 and 2004[5].

5. Alongside the global changes in the market, textile producers in the Community have faced specific and increased competition following the end of the Multifibre Arrangement (MFA); the MFA imposed quotas on the amount of clothing and textiles that developing countries could export to developed countries. The end of the MFA (and the Agreement on Textiles and Clothing (ATC) which followed it) in 2005, opened Community textile and clothing markets to free competition from the developing world. Between 2004 and 2006, the volume of clothes imported into the Community showed an annual increase of about 10%. This is primarily related to much higher imports from China, following the expiry of the MFA.

   The Italian redundancies follow the general trend in the clothing and accessories industry in the Community towards a delocalisation of their production to lower cost non-EU countries, already demonstrated in a previous application for Malta[6]. In their applications, the Italian authorities have provided statistical evidence that the redundancies are a direct result of the evolving situation in the global textiles industry.

6. The Italian authorities have used the same justification for all four applications, i.e. that while the end of the MFA and the ATC was not unforeseen, the economic impact this had on the textile industry in Italy generally, and specifically in the four regions was far harsher than could have been predicted. The Italian authorities predicted that the end of the MFA would, overall, have a low impact on production and employment. This has not been the case. As a result of the impact of the end of the MFA and the consequent reduction in demand for Italian textiles, many of the companies where redundancies occurred, invested in a series of technological upgrades in the production process in an attempt to reduce costs and diversify their

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5 European Monitoring Centre on Change (EMCC). Sectors Futures – *Textile and Leather in Europe: the end of an era or a new beginning?* (2004) http://www.eurofound.europa.eu/emcc/content/source/tn04004a.htm

6 SEC(2008)1657

product range. These have, however, failed to counter a steep reduction in orders and increased competition from third country textile manufacturers.

7. The local and regional impact is set out as follows in the four applications :

- Sardinia : The Province of Nuoro, where the redundancies occurred, is the main hub of textile production in Sardinia. It has a high rate of unemployment (10.8 % in 2006, compared to the national average in the same year of 6.8 %), with highest rates amongst both the youngest and the oldest age categories. In 2005, the employment rate in Nuoro was 51.6 %, against the national rate of 57.5 %. The Italian authorities stated that the impact of these redundancies is strongly felt in an already fragile and isolated workforce.

- Piedmont's economic competitiveness is based on the construction and service industries, rather than textiles. However, half of the workforce in the Province of Biellese (Piedmont's traditional textile manufacturing "basin" and the geographical area where about 35 % of the applications redundancies occurred) is involved in manufacturing, of which a third work in the manufacture of textiles. The impact of the redundancies in Piedmont has been reflected in the increase in requests from assistance from the Extraordinary Wage Guarantee Fund (CIGS).

- Lombardy : The Italian authorities have presented a contrasting picture between the general competitiveness of non-textile sectors in the Region, against a downward trend in the competitiveness of textiles manufacturers. The greatest concentration of textile companies is in Milano, Brescia, Varese, Bergamo and Como and these have already been in decline for a number of years. The Italian authorities use INAIL[7] data to illustrate the worsening situation in the textile sector in these areas : the number of people employed in the sector in Lombardy dropped from 22,426 in 2000 to 17,267 in 2004, a reduction of some 23 % in four years.

- Tuscany : The number of textile firms in the province of Prato, fell by nearly 20 % between 2002 (5,508) and 2006 (4,429). The numbers of workers in Prato textile companies fell too during the same period, by 25 % (28,600 in 2002, compared to 21,436 in 2006). Latest regional statistics show that while generally, regional employment trends are stable, the number of textile workers is falling (-5.7 % in the third quarter of 2007, compared to the previous year).

In conclusion, in these circumstances, the redundancies can be seen as having a significantly negative effect on the local economy in the four concerned regions.

8. As regards the fulfilment of the criteria set out in Article 6 of Regulation (EC) No 1927/2006 the application provided the following elements: Italy has confirmed that the financial contribution from the EGF does not replace measures which are the responsibility of companies by virtue of national law or collective agreements and has given assurances that the actions provide support for individual workers and are not to be used for restructuring companies or sectors. The Italian authorities

[7] INAIL: Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro (Italian Workers' Compensation Authority)

confirmed that the eligible actions do not receive assistance from other Community financial instruments.

In conclusion, for the reasons set out above, it is proposed to accept applications **EGF/2007/05/IT/Sardegna, EGF/2007/06/IT/Piedmont, EGF/2007/07/IT/ Lombardy and EGF/2008/01/IT/Tuscany** submitted by Italy relating to the textiles sector, as evidence has been provided that these redundancies result from major structural changes in world trade patterns which have led to serious economic disruption, which affects the local economy. Coordinated packages of eligible personalised services for a total amount of EUR 70 316 150 have been proposed for the four regions of which the requested contribution of the EGF is EUR **35 158 075**.

Financing

The total annual budget available for the European Globalisation Adjustment Fund is EUR 500 million. An amount of EUR 3 106 882 has already been mobilised for two applications and a further two cases for a total amount of EUR 10 770 772 have been proposed, giving an aggregated amount of EUR 13 877 654 leaving an amount of EUR 486 122 346 available.

The Commission's proposed allocation under the Fund is based on the information made available by the applicants.

On the basis of the four applications for support from the Fund submitted by Italy in which the textile sector was affected, total estimates of the coordinated packages of personalised services to be funded are as follows:

	Personalised services to be funded (in EUR)
Italy /Sardegna 2007/005	**10 971 000**
Italy/Piemonte 2007/006	**7 798 750**
Italy /Lombardia 2007/007	**12 534 125**
Italy/Toscana 2008/001	**3 854 200**
Total	**35 158 075**

In the light of the examination of these four applications[8], and considering the maximum possible amount of a grant from the Fund determined in accordance with Article 10 of Regulation (EC) N° 1927/2006 as well as the scope for reallocating appropriations, the Commission proposes to deploy the European Union Globalisation Adjustment Fund for a total amount of **EUR 35 158 075**, to be allocated under heading 1a of the financial framework.

[8] Communications to the Commission on four applications to mobilise the European Globalisation Adjustment Fund introduced by Italy (SEC(2008) 2414) setting out the analysis of the Commission of these requests.

This amount of support will leave more than 25 % of the maximum annual amount earmarked for the European Globalisation Adjustment Fund available for allocation during the last four months of the year 2008, as required by Article 12 (6) of Regulation (EC) N° 1927/2006.

By presenting this proposal to deploy the Fund, the Commission initiates the simplified trialogue procedure, as required by Point 28 of the Inter-institutional Agreement of 17 May 2006, in view of securing the agreement of the two arms of the budgetary authority on the need to use the Fund and the amount required. The Commission invites the first of the two arms of the Budgetary Authority that reaches agreement on the draft mobilisation proposal, at appropriate political level, to inform the other arm and the Commission of its intentions.

In case of disagreement by either of the two arms of the budgetary authority, a formal trialogue meeting will be convened.

The Commission will also present a transfer request in order to enter in the 2008 budget specific commitment and payment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
on the mobilisation of the European Globalisation Adjustment Fund

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to the Inter-institutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management[9], and in particular point 28 thereof,

Having regard to Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 establishing the European Globalisation Adjustment Fund[10], and in particular Article 12(3) thereof,

Having regard to the proposal from the Commission[11],

Whereas:

(1) The European Globalisation Adjustment Fund (the "Fund") was established to provide additional support to redundant workers who suffer from the consequences of major structural changes in world trade patterns and to assist them with their reintegration into the labour market.

(2) The Interinstitutional Agreement of 17 May 2006 allows the mobilisation of the Fund within the annual ceiling of EUR 500 million.

(3) Italy submitted four applications to deploy the Fund, in respect of redundancies in the textile sector, on 9 August 2007 for Sardinia, on 10 August 2007 for Piedmont, on 17 August 2007 for Lombardy and on 12 February 2008 for Tuscany. These applications comply with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006.

(4) The Fund should, therefore, be mobilised in order to provide a financial contribution for the applications,

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9 OJ C 139, 14.6.2006, p. 1.
10 OJ L 406, 30.12.2006, p. 1.
11 OJ C […], […], p. […]

HAVE DECIDED AS FOLLOWS:

Article 1

For the general budget of the European Union for the financial year 2008, the European Globalisation Adjustment Fund shall be mobilised to provide the sum of **EUR 35 158 075** in commitment and payment appropriations.

Article 2

This Decision shall be published in the *Official Journal of the European Union*.

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*