Opinion of the European Economic and Social Committee on the Proposal for a Regulation of the European Parliament and of the Council establishing the European Globalisation adjustment Fund

COM(2006) 91 final — 2006/0033 (COD)

(2006/C 318/05)

On 27 March 2006 the Council decided to consult the European Economic and Social Committee, under Article 159 § 3 of the Treaty establishing the European Community, on the abovementioned proposal.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 31 August 2006. The rapporteur was Mr van Iersel and the co-rapporteur was Mr Gibellieri.

At its 429th plenary session, held on 13 and 14 September 2006 (meeting of 13 September), the European Economic and Social Committee adopted the following opinion by 170 votes to ten with fifteen abstentions.

1. **Executive summary**

1.1 The EESC welcomes the proposal from the European Commission concerning the setting up of a European Globalisation Fund (hereafter EGF). The EESC agrees with the objective of intervening via the EGF in cases where immediate and extensive social problems for workers arise as a consequence of serious and unforeseeable economic disruptions.

1.2 The EESC agrees that the Member States themselves have primary responsibility and that the EGF should intervene only at the request of a Member State and after a corresponding decision of the budgetary authority. The rules have to be clear.

1.3 During times of severe disruption, anticipatory policy, dynamic entrepreneurship, regional responsibility and timely measures and cooperation by the relevant stakeholders — business, the social partners, government, regional authorities and others — are key. The EGF as an instrument of EU solidarity has a complementary function. To be credible the expectations must not be raised too high.

1.4 The specific actions, financed by the EGF, must fit into the overall planning of all stakeholders concerned. The EGF should not intervene in areas where the Member States have exclusive competence. It should be made clear that the Fund is targeting specific employment opportunities for people in urgent economic circumstances.

1.5 The EESC calls on the Commission to ensure active involvement of the social partners in processes aimed at creating employment for workers made redundant. Achieving the objective of *'quick reintegration'* of redundant employees into the labour market is usually a tough job. Evidence shows that such processes take a lot of time.

1.6 Strict coordination between the various existing instruments, particularly between the EGF and the Structural Funds, should be guaranteed in order to increase effectiveness and coherence.

2. **The Commission's proposal**

2.1 In March 2006 the Commission submitted a proposal for a European Globalisation adjustment Fund ([1]). It is aimed at providing specific, one-off support to facilitate the re-integration into employment of workers in areas or sectors suffering the shock of serious economic disruption.

2.2 Serious economic disruption can imply economic delocalisation to third countries, a massive increase of imports or a progressive decline of the EU market share in a given sector. The major criterion for the EGF is more than 1 000 redundancies in a company or in a group of companies in regions with a higher than average rate of unemployment.

2.3 Eligible actions under the EGF should create conditions for a quick re-integration of people who have lost their jobs into the labour market. The assistance is supplementary to national provisions and targeted regional programmes. Measures to be included are: retraining, relocation assistance, assistance for business start-ups and supplementary income benefits.

([1]) Proposal for a Regulation establishing the European Globalisation adjustment Fund, March 2006, COM(2006) 91 final, 2006/0033 (COD).

2.4 The EGF will intervene only at the request of a Member State. The amount paid by the EU may not exceed 50 % of the total estimated cost of the complete set of measures envisaged by the Member State.

2.5 There is no specific financial provision for the Fund in the Financial Perspectives. It will be financed through underspends and decommitted funds. Each deployment will be decided by the budgetary authority, which means that full responsibility lies with the Council and the EP.

2.6 A detailed budget procedure is foreseen. The Member States shall take responsibility for the management of actions supported by the EGF. The Commission shall have a supervisory role. In cases where the amount is under-spent reimbursement shall take place.

2.7 The Commission shall carry out an ongoing evaluation on the results, criteria and effectiveness of the regulation as well as an ex-post evaluation. From 2008 on, the Commission will present an annual report on the implementation of the Fund, including evaluations.

3. Background to the EGF

3.1 The proposal, aimed at demonstrating the EU's solidarity with workers made redundant as a result of sudden changes in world trade patterns, is based on the conclusions of the European Council of December 2005. As a compromise, it is part of the deal on the Financial Perspectives. An impact assessment has been carried out ([2]) containing relevant information about the content and scope of the EGF.

3.2 The EGF is separate from the Structural Funds and will serve as one of the EU instruments needed to further the adaptation and competitiveness of the European economy ([3]).

3.3 The Structural Funds aim at long-term anticipative actions based on a multiannual approach, whereas the EGF is not envisaged for restructuring purposes. It aims specifically to address individuals in regions affected by serious shocks in world trade patterns. Such infrequent but critical situations may require one-off, time-limited individualised support. Some objectives of the EGF are not covered by the Structural Funds.

3.4 To a certain extent the US Trade Adjustment Assistance (TAA) programme of 1962 has served as an example. The TAA aims to correct the asymmetry between the adverse effects of trade opening and international liberalisation for specific individual cases or regions and their overall benefits. A comparison between the TAA and the EGF, though, is not easy because of the difference in culture between the US and the EU and the different criteria involved.

3.5 The EGF should function in accordance with the best practice identified by OECD, which specifies the need for a clear identification of groups of trade-displaced workers and the provision of assistance for limited periods of time in line with the principles of cost-effectiveness, transparency and accountability.

3.6 The EGF aims to contribute to the development of a '*flexicurity*' approach in the Union, a balance between flexibility and employment security and will complement the multi-annual strategic priorities and policies of the Structural Funds.

4. General comments

4.1 The Regulation initially refers to the overall positive effect of globalisation on growth and jobs in the EU. But the EESC notes that, at the same time, visible and adverse effects at sectoral and regional level are quite possible. The EGF will be a specific instrument in view to enhancing reemployment opportunities towards workers affected by serious economic disruption. It is a pity that the impact assessment ([4]) has not carried out an analysis of concrete cases.

4.2 Given that the fourth recital of the Regulation requires that activities of the EGF be '*coherent and compatible with the other Community policies and comply with its acquis*', the proposals should be closely examined by a range of Commission policymakers, in particular DG Competition, in order to avoid any unjustified allocation of state subsidies.

4.3 The EGF represents a concrete step by the European Union towards tackling the consequences of serious shocks in external trade and the global market. For the future, a similar instrument might be considered to mitigate the negative consequences of the internal trade and EU single market (e.g. delocalisation within the EU, taxation policy).

4.4 *Intervention criteria*

4.4.1 Strict intervention criteria are required. However, the criterion mentioned in Article 1: '*support for workers made redundant because of changes in world trade patterns leading to a significant adverse impact on the regional or local economy*', is rather vague. The Member States have primary responsibility for submitting applications for Fund contributions. The Commission should guarantee an equal application of the criteria in all cases and to all Member States.

([2]) Impact assessment regarding above-mentioned regulation, SEC(2006) 274/2.
([3]) EU Competitiveness and Industrial Location, Bureau of European Policy Advisors to the Commission, BEPA (2005), 26 October 2005.
([4]) SEC(2006) 274.

4.4.2 The burden of proof regarding applications lies with the Member States. Application will be examined and close monitored by the Commission, involving the use of guidelines and financial support will be allocated by the budgetary authority on a case-by-case basis. This will involve a process of learning by doing and by practical experience, for the Commission, for the Member States and for the budgetary authority alike. Ambiguities must be avoided: the same rules and approach must be valid and applied across the Union.

4.4.3 As regards the minimum level of redundancies in specific regions, the intervention criteria laid down in Article 2 are clearly defined. The criterion '*1 000 employees*' is not limited to one company, but it includes downstream and upstream producers.

4.4.4 Usually the rationale for reducing the number of employees will be based on a range of factors, such as modernisation, rationalisation, change of production methods, and, indeed, international trade patterns. Rarely will one specific factor prevail totally.

4.4.5 The American TAA has been taken as an example. But, again, in the Commission's description of the functioning of the TAA the link between changing trade patterns and governmental actions aimed at softening their effect on redundancies is rather vague. Moreover, the criteria and the history of application of the TAA are quite different from what is envisaged in the EU.

4.4.6 GF funding will be sought in the event of economic shocks and unforeseeable circumstances. However trends of change are usually already visible before the real impact of this change is felt. Good business management involves taking preemptive actions in good time.

4.4.7 This means that any planned national and EU support measures will have to take into consideration the way in which companies and the social partners themselves have anticipated change. For instance, how relevant are support measures, if business and social partners have neglected to identify in good time developments which might threaten markets and/or employment?

4.5 *The definition of eligible actions*

4.5.1 The difference between the Structural Funds and the EGF is threefold: a) difference in scale: EUR 44 billion versus EUR 500 million per year, for the future programming period 2007-2013; b) difference in approach: long-term and anticipative on broad issues of modernisation versus short-term and targeted on a quick re-integration of workers in the labour market; and c) because of their volume and scope the Structural Funds tend to be bureaucratic, whereas for the EGF a non-bureaucratic approach is aimed at.

4.5.2 A strict distinction between the Structural Funds and the EGF must be ensured. The EGF is by definition short-term and time-limited and is focussed on specific cases. In the longer run additional commitments of Structural Funds can be foreseen in the framework of a broader regional context. In cases where actions are complementary the different philosophy and structure of each Funds must be respected.

4.5.3 It will not be easy to create conditions for a '*quick*' reintegration of redundant employees into the labour market, if the context and circumstances are not favourable, such as in the case of regions primarily dominated by one industrial activity, backward regions, or where there is a lack of education and retraining facilities on the ground, etc. Special attention should be addressed to middle and senior management in order to avoid any brain drains. In these particular cases a combination of EGF and Structural Funds is probably needed, as well as the best possible use of the EURES network to promote opportunities for mobility across Europe. A lack of effective coordination might pose problems. In this respect the provision of Art. 5(3) requires special attention.

4.5.4 The eligible actions set out in Art. 3 must be taken together with the provisions of Arts. 5 and 6, in particular regarding the interrelationship and interaction between regional, national and EU actions. As EU actions are complementary to regional and national measures, experience gained in the past in the EU — like those in RESIDER, RECHAR and RETEX — and in other situations could be helpful, taking into account that the EGF has not been entrusted with any restructuring role.

4.5.5 In specific cases it may be useful to employ the sectoral approach used in modern industrial policy, in examining analyses and in determining the use of instruments.

4.5.6 It is of particular importance and concern to a number of Member States that income-related and labour market policies remain a national responsibility and that the Commission is prevented from interfering in national competences. Consequently, within the complete set of measures drawn up by a Member State to address a particular crisis, the EU contribution must focus explicitly on individuals and on fostering the re-entry of redundant employees into the labour market. At this point, the EESC refers to the application criteria of the former social chapter of the Coal and Steel Community which may help to avoid institutional overlap and conflicts.

4.6 The budgetary authority has a crucial role to play. We welcome the fact that the Regulation duly prescribes in detail the financial procedures to be followed.

4.7 The Regulation is drafted for specific emergency cases, which as a rule require fast and effective action. This means that in applying the rules bureaucracy must, of course, be minimised, whereas at the same time due caution is required. The objective should remain the provision of effective support in the shortest possible time frame.

4.8 In the (recent) past, in a number of cases, successful restructuring has been carried out, even in complicated cases. Although concrete cases are always unique, the broad spectrum of restructuring shows that concentrated regional efforts of all stakeholders, often supported by their governments, with a clear focus on creating conditions for new or reinforced industrial and service-related business and redeployment, have fostered success.

4.9 In most cases economic and social plans have been made in close cooperation between the national government, regional authorities and the social partners, who have generally organised round tables and involved all stakeholders in the region.

4.10 Regarding the new EGF, similar procedures need to be foreseen and implemented in order for the Fund to be a success. To that end, representatives of the Commission shall have to participate directly in such gatherings and meetings at regional and local level.

5. **Specific comments**

5.1 Although the budgetary allocation of EUR 500 million for the EGF has been established by the Commission through statistical simulations based on concrete cases, its amount should be assessed and possibly adjusted annually on the basis of the evolving situation and of the real feedback of the fund application.

5.2 Article 2 specifies serious economic disruption as the trigger for EGF intervention. The EESC calls on the Council to discuss the definitions of the phenomena mentioned in the introductory paragraph of this Article, before the Regulation comes into force. Overly broad definitions may hamper effective decision-making later on by the budgetary authority. Too narrow definitions may have the same effect. A Council discussion may help to clarify the dilemma and strike a balance. Such discussion may also be a useful input for the Commission's guidelines.

5.3 The reasons for such intervention must be clearly stated. Anticipative actions by business itself as well as by the social partners and other stakeholders should be taken into consideration. This could also be included in the Commission's guidelines.

5.4 As part of the annual evaluation, and also with a view to possible modification in accordance with Article 20, an assessment of the intervention criteria as laid down in Article 2 (number of workers involved, territorial dimension and employment indicators) should be considered in order to ensure that the intervention criteria are also flexible enough to cope with the diversity of specific regions, in particular regarding small countries with primarily small and medium-sized companies.

5.5 Article 3 sets out in (a) and (b) the actions eligible for EGF financial intervention. The EESC notes that income-related areas such as retirement rights and social benefits are an exclusive competence of the Member States. The EGF should be restricted to financing various kinds of education and training facilities and framework conditions. In specific circumstances this may include wage-support for individuals, who have a job or are job-seeking.

5.6 Article 10(1), fixes the maximum contribution by the EGF at 50 % of the total set of measures envisaged by the Member State. The EESC does not wish to query the level of this percentage. It points, however, to the fact that a relation exists between the level of financial contribution by the EGF and the number and the dimension of the cases that will be dealt with.

5.7 With regard to Article 12 the EESC proposes that paragraph 1(b) read as follows: 'evidence that the criteria laid down in Article 2 *and the requirements of Article 6*' are met.

5.8 The EESC considers that the social partners and other stakeholders in the regions have to be involved at every stage of the EGF procedure. The EESC and the Committee of the Regions should also be informed by the Commission.

5.9 From 2008 on the Commission will present annual reports on the EGF. Such ex-post evaluation may be subject to debate by the Council. Article 20 provides for a formal review of the Regulation by December 2013. The EESC recommends that the Commission also include an assessment of the EGF in its White Paper ahead of the interim discussion on the EU budget due by 2009.

Brussels, 13 September 2006.

The President
of the European Economic and Social Committee
Anne-Marie SIGMUND