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Proposal for a

**DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**on the mobilisation of the European Globalisation Adjustment Fund in accordance with point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (application EGF/2011/005 PT/Norte-Centro Automotive from Portugal)**

## EXPLANATORY MEMORANDUM

Point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management<sup>1</sup> allows for the mobilisation of the European Globalisation Adjustment Fund (EGF) through a flexibility mechanism, within the annual ceiling of EUR 500 million over and above the relevant headings of the financial framework.

The rules applicable to the contributions from the EGF are laid down in Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund<sup>2</sup>.

On 6 June 2011, Portugal submitted application EGF/2011/005 PT/Norte-Centro Automotive for a financial contribution from the EGF, following redundancies in three enterprises operating in the NACE Revision 2 Division 29 ('Manufacture of motor vehicles, trailers and semi-trailers')<sup>3</sup> in the NUTS II regions of Norte (PT11) and Centro (PT16) in Portugal.

After a thorough examination of this application, the Commission has concluded in accordance with Article 10 of Regulation (EC) No 1927/2006 that the conditions for a financial contribution under this Regulation are met.

### SUMMARY OF THE APPLICATION AND ANALYSIS

<b>Key data:</b>	
EGF Reference no.	EGF/2011/005
Member State	Portugal
Article 2	(b)
Enterprises concerned	3
NUTS II regions	Norte (PT11) Centro (PT16)
NACE Revision 2 Division	29 ('Manufacture of motor vehicles, trailers and semi-trailers')
Reference period	1.7.2010 – 1.4.2011
Starting date for the personalised services	1.7.2010
Application date	6.6.2011
Redundancies during the reference period	726
Redundant workers targeted for support	726
Expenditure for personalised services (EUR)	2 241 100
Expenditure for implementing EGF <sup>4</sup> (EUR)	95 000
Expenditure for implementing EGF (%)	4,07
Total budget (EUR)	2 336 100
EGF contribution (65 %) (EUR)	1 518 465

<sup>1</sup> OJ C 139, 14.6.2006, p. 1.

<sup>2</sup> OJ L 406, 30.12.2006, p. 1.

<sup>3</sup> 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 L 393, 30.12.2006, p. 1).

<sup>4</sup> In accordance with the third paragraph of Article 3 of Regulation (EC) No 1927/2006.

1. The application was presented to the Commission on 6 June 2011 and supplemented by additional information up to 18 July 2011.
2. The application meets the conditions for deploying the EGF as set out in Article 2(b) of Regulation (EC) No 1927/2006, and was submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.

**Link between the redundancies and major structural changes in world trade patterns due to globalisation or the global financial and economic crisis**

3. In order to establish the link between the redundancies and the global financial and economic crisis, Portugal argues that this crisis has put the automotive sector worldwide under particular pressure. The Commission has already recognised that, as some 60-80 % (depending on the Member State) of new cars in Europe are purchased with the aid of credit, the financial crisis at the origin of the downturn hit the automotive industry particularly severely. According to the European Automobile Manufacturers Association (ACEA), demand for new motor vehicles in the European Union decreased in 2009 by 5,6 % compared to 2008 and by 13,3 % compared to the pre-crisis year 2007. The EU thus followed the trend noted at worldwide level where demand for new motor vehicles dropped by 5,6 % in 2009 compared to 2008. Faced with this drop in demand, manufacturers of motor vehicles reduced their production even more drastically. In 2009 the production of motor vehicles in the EU decreased by 17 % compared to 2008 and by 23 % compared to 2007. This downward trend continued in 2010. The production of motor vehicles in the EU in the first three quarters of 2010 was 14 % below that of the same period in 2008.
4. The fall in demand for electrical equipment for cars, which followed the decline in car manufacturing, combined with the impossibility of further reducing production costs and/or access to credit, resulted in the closure of Krombert & Schubert Portugal, Lda and the Lear production plant in Guarda. The closure of Leoni Wiring Systems Viana, Lda was due to the combination of a difficult economic situation due to the crisis and the relocation of the production plant to Morocco.
5. The arguments presented in previous cases<sup>5</sup> concerning the automotive industry and in which the redundancies were a direct result of the crisis remain valid.

**Demonstration of the number of redundancies and compliance with the criteria of Article 2(b)**

6. Portugal submitted this application under the intervention criteria of Article 2(b) of Regulation (EC) No 1927/2006, which requires at least 500 redundancies over a nine-month period in enterprises operating in the same NACE Revision 2 Division in one region or two contiguous regions at NUTS II level in a Member State.

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<sup>5</sup> EGF/2010/002 Cataluña Automoción, COM(2010)453 final, EGF/2010/004 Wielkopolskie, COM(2010)616 final, EGF/2010/031 GM Belgium COM(2011)212 final, and EGF/2011/003 Arnsberg and Düsseldorf COM(2011)447 final.

7. The application cites 726 redundancies in three enterprises operating in the NACE Revision 2 Division 29 ('Manufacture of motor vehicles, trailers and semi-trailers')<sup>6</sup> in the NUTS II regions of Norte (PT11) and Centro (PT16) during the nine-month reference period from 1 July 2010 to 1 April 2011. All of these redundancies were calculated in accordance with the second indent of the second paragraph of Article 2 of Regulation (EC) No 1927/2006.

### **Explanation of the unforeseen nature of those redundancies**

8. The Portuguese authorities argue that the suppliers had been put under pressure for some time by the motor vehicle manufacturers to reduce their margins. The sudden and drastic crisis related reduction in demand for motor vehicles in 2009, which could not have been foreseen, resulted in a significant reduction in production capacity utilisation. European manufacturers of automotive components, in order to reduce production costs, chose to optimise the production capacity of some of its plants, closing others.

### **Identification of the dismissing enterprises and workers targeted for assistance**

9. The application relates to 726 redundancies in the following three enterprises:

<b>Enterprises and number of dismissals</b>	
Leoni Wiring Systems Viana, Lda	332
Kromberg & Schubert Portugal, Lda	120
Delphi Automotive Systems – Portugal, S.A.	274
<b>Total Enterprises: 3</b>	<b>Total Dismissals: 726</b>

10. All 726 redundancies will be targeted for assistance. However the Portuguese authorities -based in previous experiences managing EGF contributions- estimate that about 500 workers will opt for EGF support.
11. The break-down of the targeted workers is as follows:

<b>Category</b>	<b>Number</b>	<b>Percent</b>
Men	248	34,16
Women	478	65,84
EU citizens	726	100,00
Non EU citizens	0	0,00
15-24 years old	3	0,41
25-54 years old <sup>7</sup>	709	97,66
55-64 years old	14	1,93
> 64 years old	0	0,00

<sup>6</sup> 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 L 393, 30.12.2006, p. 1).

<sup>7</sup> 22,6 % (25 to 34 years old), 55 % (35 to 44 years old) and 20,1 % (45 to 54 years old).

12. Three of the workers have a longstanding health problem or disability.
13. In terms of occupational categories, the break-down is as follows:

<b>Category</b>	<b>Number</b>	<b>Percent</b>
Managers	15	2,07
Professionals	14	1,93
Technicians and associated professionals	99	13,64
Clerks	57	7,85
Service workers	1	0,13
Craft and related trade workers	9	1,24
Plant and machine operators	474	65,29
Elementary occupations	57	7,85

14. In terms of educational level, the break-down is as follows:

<b>Educational level</b>	<b>Number</b>	<b>Percent</b>
Basic education <sup>8</sup>	469	64,60
Secondary education	221	30,44
Tertiary education	36	4,96

15. In accordance with Article 7 of Regulation (EC) No 1927/2006, Portugal has confirmed that a policy of equality between women and men as well as non-discrimination has been applied, and will continue to apply, during the various stages of the implementation of and, in particular, in access to the EGF.

### **Description of the territory concerned and its authorities and stakeholders**

16. The Norte region is the most densely populated of the country, as well as being the region with the lowest per capita income and the highest rate of unemployment. The education and qualification levels of the population are low. The region depends heavily upon industry, and finds its greatest strength in traditional industries such as textiles, clothing, footwear and cork, where it has been successful in export markets. Agriculture is strong in milk and wine (particularly Port Wine) and forestry is a sector with potential for the future.
17. The Centro region is more thinly populated, with an ageing population (ageing index of 153 % in 2009, outpacing the national average of 118 %). The region's industrial base is composed of a variety of traditional productive structures depending on cheap labour and lacking competitiveness. This, combined with the low level of education and qualification of the population (about 46 % of the workforce has six or fewer years of schooling) may explain the low regional productivity. Unemployment is low, mainly because of migration by the active population to urban areas or abroad.
18. The main authorities concerned are the Instituto do Emprego e Formação Profissional (IEFP, I.P.), a public administration institution with decentralised job centres and vocational training centres; trade unions: STIMM, SINDEL and SIMA;

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<sup>8</sup> In Portugal, basic education/compulsory schooling is nowadays nine years. However, the number of compulsory years of formal education is determined in accordance with date of birth (born until 31 December 1966 = four years; born between 1 January 1967 and 31 December 1980 = six years and born after 1 January 1981 = nine years).

and Associação de Fabricantes para a Industria Automóvel-AFIA (the Portuguese Association of Manufacturers for the Automotive Industry). Other relevant stakeholders are vocational joint training centers (centers whose management is shared between IEPF, I.P and sector partners -- employer organisations and/or trade unions -- such as CINEL, CEPRA, INOVINTER and CEFOSAP).

### **Expected impact of the redundancies as regards local, regional or national employment**

19. According to the National Institute of Statistics (INE), the unemployment level in Portugal in the third quarter of 2010 was 10,9 %, i.e. 1,1 % higher than in the same period of 2009. The unemployment rate in the Norte region increased from 11,6 % in the third quarter of 2009 to 13,2 % in the same period of 2010 and it is the highest unemployment rate in the country. The Centro region experienced a slight increase in the unemployment rate (from 7,2 % to 7,4 % in the same period as above).
20. The impact at local level of these redundancies is high due to the combination of these factors, which together pose an unusual and difficult situation for the workers and the regions concerned.
21. The two regions where these redundancies occurred have already been accepted for EGF support in a previous case, EGF/2009/001 PT/Norte-Centro.

### **Co-ordinated package of personalised services to be funded and a breakdown of its estimated costs, including its complementarity with actions funded by the Structural Funds**

22. The following types of measures are proposed, all of which combine to form a co-ordinated package of personalised services aimed at re-integrating the workers into the labour market:
  - Information profiling and guidance: The information and profiling actions consist of updating all potential beneficiaries on the available measures, encouraging the workers to actively participate in them, providing information on the labour market, as well as defining and adjusting their respective Personal Employment Plans, which should describe the measures in which the workers intend to participate. Information and profiling will be carried out by Job Centres and it is not co-financed by the EGF. Guidance will include actions on horizontal issues such as motivation to work and motivation for training and retraining, lifelong learning; personal development and self-esteem promotion; and coaching on job-search. Allowances for meals and transport will be provided within strict limits and conditions.
  - Recognition, validation and certification of competences: With the help of recognised 'Centros de Novas Oportunidades - CNO' (New Opportunities Centres), the workers will identify the knowledge and skills acquired throughout their lives in formal and informal contexts. During individual and group sessions, together with professional trainers, they will prepare a portfolio that will contain the evidence of their learning process which will lead to the validation of school certification and/or vocational certification.

- Vocational Training: The workers will receive the training most appropriate to their educational and skills levels, helping them to reintegrate rapidly into employment. There will be adult training courses leading to double certification (educational and vocational), some will be given on a modular basis (flexible training organised in short-term training units, presented in the training benchmarks of the National Qualifications Catalogue) and some will be specific training, suitable to the specific needs of the labour market. The training courses will be delivered by the Vocational Training Centres and other entities of recognised competence identified by IEFP, IP<sup>9</sup>. Allowances for training, meals, transport, personal accident insurance and accommodation will be provided within strict limits and conditions.
- Grant for training at personal initiative: This will enable workers to participate in suitable training courses, agreed as part of their personal employment plans and which are delivered by recognised training institutions. They will be given the possibility of attending, consecutively or simultaneously, more than one course. The participants of this form of training will be offered a grant of up to EUR 8 000 (covering both the expenses of the training and a training allowance) under strict conditions.
- Support for self-placement: This is a grant awarded to workers who, during the implementation period of the EGF personalised package of measures, find themselves a new full time job. The amount varies depending on the length of the contract offered, and can be increased if the new workplace is more than 100 km from the location of the worker's residence.
- Hiring incentive: For the purposes of stimulating the creation of new jobs, financial support may be allocated to employer entities which sign full-time contracts with an EGF beneficiary worker. The minimum duration of the contract has to be 12 months, and a higher incentive is paid to those taking on workers with contracts of unlimited duration.
- Entrepreneurial support: For those workers wishing to create their own businesses, training in specific knowledge and competences for the creation and management of small businesses will be organised. Attendance of the training is compulsory before the decision to support the business creation is issued, except in cases where there is confirmed pre-existing training or relevant experience. Technical support to the project includes activities to support the development of the business idea, preparation of the business plan, constitution of the company and follow-up of the project during the first year of its operations. Personal accident insurance and allowances for meals and transport will be provided within strict limits and conditions.
- Support to business creation: Upon completion of the entrepreneurship training and preparation, the workers will be helped with a non-reimbursable subsidy of EUR 20 000 for each job created, including that of the promoter, up to a

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<sup>9</sup> 'Instituto do Emprego e Formação Profissional-IEFP, IP' (The Institute of Employment and Vocational Training) is the national public employment service and aims to promote the creation and quality of employment and tackle unemployment through the implementation of active employment policies and training.

maximum of three. The jobs created should be filled by other EGF beneficiaries, or by unemployed persons registered in the job centres of the region, and should be full-time for a minimum duration of two years.

- Integration plan: This will provide the workers with work experience of at least 30 hours per week during a period from six to twelve months. The objective of the measure is to make sure that these workers do not lose contact with other workers, do not suffer from isolation and loss of motivation by giving them the opportunity to acquire new knowledge and skills and thus to improve their employability following the integration period. The workers will be placed with non profit-making employer entities for a limited period; this will entitle them to meals and transport allowances, insurance and a monthly subsidy instead of wages.
23. The expenditure for implementing the EGF, which is included in the application in accordance with Article 3 of Regulation (EC) No 1927/2006, covers preparatory, management and control activities as well as information and publicity.
24. The personalised services presented by the Portuguese authorities are active labour market measures within the eligible actions defined by Article 3 of Regulation (EC) No 1927/2006. The Portuguese authorities estimate the total costs of these services at EUR 2 241 100 and the expenditure for implementing the EGF at EUR 95 000 (4,24 % of the total amount). The total contribution requested from the EGF is EUR 1 518 465 (65 % of the total costs).



Actions	Estimated number of workers targeted	Estimated cost per worker targeted (EUR)	Total costs (EGF and national cofinancing) (EUR)
<b>Personalised services</b> (first paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Information, profiling and guidance <sup>10</sup> ( <i>Orientação profissional</i> )	100	165	16 500
Recognition, validation and certification of competences ( <i>RVCC</i> )	40	640	25 600
Vocational Training ( <i>Formação profissional</i> )	100	6 000	600 000
Grant for training at personal initiative ( <i>Subsidio à formação por iniciativa individual</i> )	75	4 000	300 000
Support for self-placement ( <i>Apoio à auto-colocação</i> )	100	1 100	110 000
Hiring incentive ( <i>Apoio à contratação</i> )	60	2 400	144 000
Entrepreneurial support ( <i>Apoio à criação do proprio emprego ou empresa - formação e apoio técnico ao projecto</i> )	50	2 100	105 000
Support to business creation ( <i>Apoio à criação da empresa</i> )	35	20 000	700 000
Integration plan ( <i>Planos de integração</i> )	75	3 200	240 000
<b>Sub total personalised services</b>			<b>2 241 100</b>

<sup>10</sup> The measure will be offered to all 726 redundant workers. However the information and profiling part of the measure will be carried out by Job Centres and will not be co-financed by the EGF. The 100 participants budgeted are those who will be receiving allowances for meals and transport or participating in more specialised guidance sessions.

<b>Expenditure for implementing EGF</b> (third paragraph of Article 3 of Regulation (EC) No 1927/2006)		
Preparatory activities		2 000
Management		90 000
Information and publicity		2 000
Control activities		1 000
<b>Sub total expenditure for implementing EGF</b>		<b>95 000</b>
<b>Total estimated costs</b>		<b>2 336 100</b>
<i>EGF contribution (65 % of total costs)</i>		<i>1 518 465</i>

25. Portugal confirms that the measures described above are complementary with actions funded by the Structural Funds. Portugal will also ensure a clear audit trail for EGF funded activities, and confirms that no other EU funding is sought or used for these activities.

**Date(s) on which the personalised services to the affected workers were started or are planned to start**

26. Portugal started the personalised services to the affected workers included in the co-ordinated package proposed for co-financing to the EGF on 1 July 2010. This date therefore represents the beginning of the period of eligibility for any assistance that might be awarded from the EGF.

**Procedures for consulting the social partners**

27. The EGF application was presented to the meeting of the IEFP, I.P. Board of Directors on 21 June 2011. The IEFP, I.P, which is the Managing and Paying Authority for the EGF in Portugal, is itself a tripartite body (government, employers' and workers' representatives).
28. The Portuguese authorities confirmed that the requirements laid down in national and EU legislation concerning collective redundancies have been complied with.

**Information on actions that are mandatory by virtue of national law or pursuant to collective agreements**

29. As regards the criteria contained in Article 6 of Regulation (EC) No 1927/2006, the Portuguese authorities in their application:
- 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;

- demonstrated that the actions provide support for individual workers and are not to be used for restructuring companies or sectors;
- confirmed that the eligible actions referred to above do not receive assistance from other EU financial instruments.

### **Management and control systems**

30. Portugal has notified the Commission that the financial contribution will be managed and controlled by Instituto do Emprego e Formação Profissional, I.P. (IEFP, I.P.), the public employment service. The overall management will be carried out by the Employment Department, while the operational management will be carried out by the Norte and Centro regional Delegations of the IEFP, I.P. The overall financial management will be taken on by the Financial and Management Control Department. The approval and payment of aids will be the responsibility of the Regional Delegations of the Norte and Centro regions. The job centres and partner entities, namely the vocational joint training centres will be carrying out most of the active measures. Portugal has confirmed that the principle of separation of functions among and within the relevant entities will be respected.
31. The Instituto de Gestão do Fundo Social Europeu (IGFSE, I.P.), the European Social Fund Management Institute, will be responsible for auditing and control as regards this EGF application.

### **Financing**

32. On the basis of the application from Portugal, the proposed contribution from the EGF to the coordinated package of personalised services (including expenditure to implement EGF) is EUR 1 518 465, representing 65 % of the total cost. The Commission's proposed allocation under the Fund is based on the information made available by Portugal.
33. Considering the maximum possible amount of a financial contribution from the EGF under Article 10(1) of Regulation (EC) No 1927/2006, as well as the scope for reallocating appropriations, the Commission proposes to mobilise the EGF for the total amount referred to above, to be allocated under heading 1a of the financial framework.
34. The proposed amount of financial contribution will leave more than 25 % of the maximum annual amount earmarked for the EGF available for allocations during the last four months of the year, as required by Article 12(6) of Regulation (EC) No 1927/2006.
35. By presenting this proposal to mobilise the EGF, the Commission initiates the simplified dialogue procedure, as required by Point 28 of the Interinstitutional Agreement of 17 May 2006, with a view to securing the agreement of the two arms of the budgetary authority on the need to use the EGF 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 triologue meeting will be convened.

36. The Commission presents separately a transfer request in order to enter in the 2011 budget specific commitment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

**Source of payment appropriations**

37. A reinforcement of the payment appropriations on the EGF budget line will be requested through the Global Transfer. Appropriations from this budget line will be used to cover the amount of EUR 1 518 465 needed for the present application.

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management<sup>11</sup>, 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<sup>12</sup>, and in particular Article 12(3) thereof,

Having regard to the proposal from the European Commission<sup>13</sup>,

Whereas:

- (1) The European Globalisation Adjustment Fund (EGF) was established to provide additional support for workers made redundant as a result of major structural changes in world trade patterns due to globalisation and to assist them with their reintegration into the labour market.
- (2) The scope of the EGF was broadened for applications submitted from 1 May 2009 to include support for workers made redundant as a direct result of the global financial and economic crisis.
- (3) The Interinstitutional Agreement of 17 May 2006 allows the mobilisation of the EGF within the annual ceiling of EUR 500 million.
- (4) Portugal submitted an application to mobilise the EGF, in respect of redundancies in 3 enterprises operating in the NACE Revision 2 Division 29 ('Manufacture of motor vehicles, trailers and semi-trailers') in the NUTS II regions of Norte (PT11) and Centro

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<sup>11</sup> OJ C 139, 14.6.2006, p. 1.

<sup>12</sup> OJ L 406, 30.12.2006, p. 1.

<sup>13</sup> OJ C [...], [...], p. [...].

(PT16), on 6 June 2011 and supplemented it by additional information up to 18 July 2011. This application complies with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006. The Commission, therefore, proposes to mobilise an amount of EUR 1 518 465.

- (5) The EGF should, therefore, be mobilised in order to provide a financial contribution for the application submitted by Portugal.

HAVE ADOPTED THIS DECISION:

*Article 1*

For the general budget of the European Union for the financial year 2011, the European Globalisation Adjustment Fund (EGF) shall be mobilised to provide the sum of EUR 1 518 465 in commitment and payment appropriations.

*Article 2*

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

Done at [Brussels/Strasbourg],

*For the European Parliament*  
*The President*

*For the Council*  
*The President*