

# European Globalisation Fund – a New EU Support Instrument Regarding the Adjustment of Employees to Globalisation Processes

## Abstract

Article present a new intervention instrument of European Commission (EC) - European Globalisation Adjustment Fund (EGF). Dynamically developing process of internalization is one of the determinants in present economy. The EU member states are able to use instruments of supports their responsive sectors of economies in this process. Analysis of EGF resources absorption clearly confirms domination of textile industry, although – in relation to the whole available budget of the Fund – a remark has to be made that activity of EU member states in the domain of use of this instrument is very low.

**Key words:** European Union, globalization, European Globalisation Fund, application, social partner.

## Introduction

The European Globalisation Fund (EGF, more appropriately *European Globalisation Adjustment Fund*) was established in December 2006 by the decision of the Commission (EC). It was in answer to signals sent from EU member states, social partner organisations and their representatives at the EU level.

The EGF scope of activities was implemented in the structural funds range of expenditures in the programming period 2007-2013. Reform of the funds, particularly of the scope of activities supported by the European Social Fund, allowed the Commission to establish a new intervention instrument.

The EGF instrument was established by Regulation (EC) No. 1927/2006 of the European Parliament and of the Council;

*“Notwithstanding the positive effects of globalisation on growth, jobs (...) EC recognises that it may also have negative consequences for the most affected sectors...”*

EGF assumes support for sectors of the economy affected by the process of globalisation, provided that at least one of the following three conditions is met:

1. 1000 redundancies are carried out in a specific company, including redundancies amongst suppliers' or subcontractors' employees in a EU member state,
2. redundancies are carried out in the small and medium enterprise sector (provided that the conditions of one branch, according to the NACE

2 classification, is met), affecting at least 1000 employees for not more than 9 months within a single NUTS II region (NUTS II – EU member state area populated by 800 thousand to 3 million people),

3. in individual cases, in small markets or under exceptional conditions, EGF support may be granted without prior meeting of the criteria mentioned above .

EGF support is granted above all to activities aimed at employees made redundant in sectors of the economy affected by the process of globalisation. Emphasis is put on supporting the search for a new job, re-qualification, training related to new technologies, certification of skills and abilities acquired in the period of employment, promotion and the development of self-employment forms, as well as financing motivational and educational bonuses and support for voluntary resignation schemes.

The most distinctive feature of the EGF in comparison to EC policy instruments is that member states are solely allowed to apply for EGF support. Enterprises – governed by the rules of state aid – are excluded from presenting applications. The EGF does not allow, however, sector and trade unions, employer organisations

or partnerships of such entities to apply for support.

EU member states are responsible for balancing applications for support for specific activities in a labour market threatened by unemployment. Moreover, the rule of additionality is in force – each member state is obliged to present its own financial input in activities predicted to require support from the EGF.

The use of EGF funds in the first two years has been relatively low. **Table 1** presents the figures.

Among the sectors, in relation to which applications were made, the textile industry has been the most active one (8 applications issued), with the automotive industry in 2<sup>nd</sup> place with 5 applications and the mobile telephone sector in 3<sup>rd</sup> with 3 applications.

The 16 applications issued concerned 3 sectors in total and 19 562 employees from the EU member states. 12 of these applications have already been fully financed, whereas in the case of the other 4 the process of financing has been initiated. The fact that the majority of applications concerned the textile industry seems to confirm the significant impact of globalisation on this trade in the EU 1).

**Table 1.** EGF expenditures since the launch of the fund. **Source:** Data based on information presented by a representative of EC DG IVB for Employment, Social Affairs and Equal Opportunities during a session of the Leather and Tanning Industry Committee on February 26<sup>th</sup>, 2009 and [http://ec.europa.eu/employment\\_social/egf](http://ec.europa.eu/employment_social/egf).

Year	Scheduled amount in €	Used amount in €
2007	500 000 000	53 021 725
2008	500 000 000	19 626 022
2009 ( January, February)	500 000 000	9 620 150

## The textile, clothing and leather industries – EGF intervention opportunities

Analysis of EGF resource absorption clearly confirms the domination of the textile industry, although – in relation to the whole available budget of the Fund – it is necessary to state that the activity of EU member states in the domain of using this instrument is very low.

**Table 2** presents the amount of support for the textile industry over the last two years. It is worth noting that neither the tanning nor the leather industry have been supported by the EGF in any of the EU member states.

**Table 2.** Expenditures in the textile industry. **Source;** [http://ec.europa.eu/employment\\_social/egf](http://ec.europa.eu/employment_social/egf).

2007	31 985 082 €
2008	7 459 944 €
2009 (January-February)	832 800 €

What are the reasons for such a low efficiency of EGF resource absorption in sectors so badly affected by the effects of globalisation like the textile, tanning or leather industries?

It should be stressed that both the procedure of application for resources and the assessment of applications is not complicated; it consists of a few phases, which are presented in **Figure 1**.

Both the theory and practice of application for EGF support seem to be consistent. In the following paragraphs a description and assessment of the Lithuanian application of 2008 will be presented.

The application concerned support for the Alytaus district with regard to comprehensive assistance for a group of 1, 089 textile industry employees made redundant to return to the labour market. 20% of these people were former employees of the SME sector. The process of elaboration of the application was initiated in January 2008. Sector employer organisations together with trade unions officially informed the Lithuanian government about concluding an agreement regarding support for the process of restructuring the Alytaus district. It is worthwhile noting that the promotion of the project was conducted in two ways: the government prepared the application for support, whereas social partners lobbied the project and sensitised EC officials to the problems the project dealt with. The

Directorate General for Employment, Social Affairs and Equal Opportunities (DG IVB) received over 50 letters, including several scientific papers regarding the problems of the labour market in the Alytaus district. The final application was presented to the EC by Lithuania on May 8<sup>th</sup>, 2008. That month, the organisation of social partners arranged a meeting with the EU Commissioner for Employment, Social Affairs and Equal Opportunities - Vladimir Špidla.

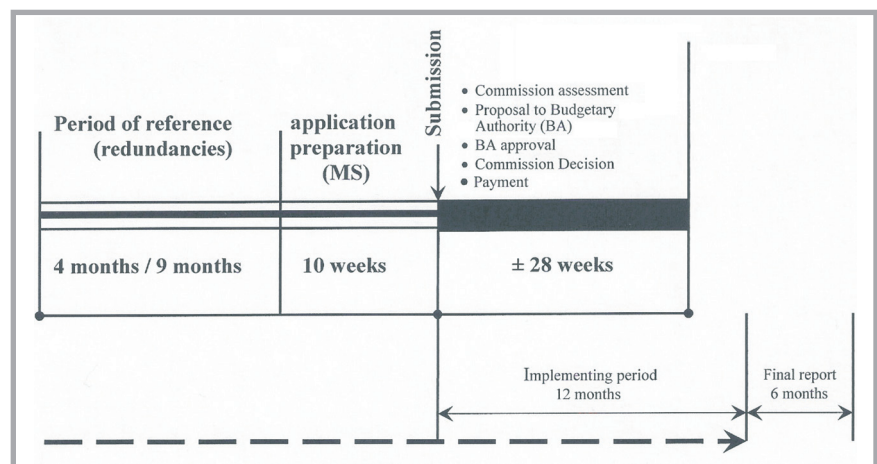
The Lithuanian proposal primarily concerned the Alytaus Tekstile company, which – in the course of restructuring – in a period of four months alone made redundant or caused the redundancy of, by termination of contracts with subcontractors, 1 089 employees.

In the application Lithuania argued that it is a country of considerably high relative textile production. The textile sector gives employment to over 26% of all employees of the production sector, and 80% of textile industry production is exported. The application also proved the coincidence of a decrease in textile exports with the process of opening the common market, which was initiated in 2005. The comparative advantage of Asian countries – as described in the application – was mainly the extremely low cost of production. In 2007 the cost of the production of 1 ton of cotton yarn at the Alytaus Tekstile mill was estimated at 160 €, whereas in China it was only 40 €<sup>2)</sup>. Eventually, the EC analysed the application in relation to access criteria on August 6<sup>th</sup>, 2008. EU level social partner organisations presented a positive opinion regarding the Lithuanian application. In accordance with procedures, the EC conducted budget consultations. The project was finally approved with an ac-

cepted budget in October 2008. The positive opinion of the EC and social partners allowed the European Parliament to state its approval of the Lithuanian proposal. This concluded the complex procedure of the application for EGF funding presented in **Figure 1**.

It should be noted that it is not the application procedure which hinders access to EGF funding, but the access criteria and information policy concerning the EGF. As far as the first obstacle is concerned, employer organisations associated with Euratex (The European Apparel and Textile Organisation) and Cotance – (Confederation of National Associations of Tanners and Dressers of the European Community), as well as employee organisations represented by ETUF (European Trade Union Federation of Textiles, Clothing and Leather) made a common address to the EC, suggesting in-depth modification of the criteria. The most important changes proposed are as follows:

1. Modification to regulations concerning application for EGF funds. Currently, it is only the EU member state which is allowed to present an application; organisations of social partners propose that this right also be granted to national associations of sector employers and employee unions.
2. Modification regarding territorial scope in relation to redundancies in the SME sector. According to the proposal, the area concerned is to be adequate for NUTS I level (inhabited by 3 to 7 million people).
4. Reduction in the minimal number of people made redundant from 1 000 to 500.
5. Extension of the maximal period of support for activation of people made redundant from 12 to 24 months of active financial support.



**Figure 1.** Implementation of measures by the Member State. **Source:** own study.

**Table 3.** List of applications of the textile industry implemented with support of EGF. **Source:** Own study based upon information presented by a representative of EC DG IVB for Employment, Social Affairs and Equal Opportunities during a session of the Leather and Tanning Industry Committee on February 26<sup>th</sup>, 2009 and [http://ec.europa.eu/employment\\_social/egf](http://ec.europa.eu/employment_social/egf).

Year of application	EU Member State	NUTS II Region	Amount of support in €	Application Status	No. of people affected by the support
2007	Italy	Sardinia	10 971 000	Completed	1044
	Italy	Piedmont	7 798 750	Completed	1537
	Italy	Lombardy	12 534 125	Completed	1816
	Malta	Malta	681 207	Completed	675
2008	Italy	Tuscany	3 854 200	Completed	1558
	Lithuania	Alytaus	298 994	Completed	1089
	Spain	Catalonia	3 306 750	Pending	1800
2009 (January)	Portugal	Norte Centro	832 800	Pending	1100

6. Decrease in own contribution of EU member states willing to use EGF support from 50% to 25%.

All the remarks and suggestions mentioned above were put in an official statement presented to the EC in November 2008<sup>3</sup>).

It also should be added that the current promotion of the EGF seems to be inadequate. Analysis of EU member states' websites clearly shows that information on EGF is seldom updated. A simple comparison shows that information on the EGF presented on official ministry websites of EU member states responsible for EU support and integration is updated less frequently than once a year.

## Summary

The EGF is an interesting support instrument for textile, leather and tanning institution. The biggest obstacle in the improvement of absorption of available funds is in the role of the state as an intermediary between sector organisations and the EC in application for funding.

The relatively high activity of the textile sector in efforts regarding more efficient use of the EGF has to be judged positively. It is also worth noting that none of the applications regarding the textile industry has been returned by the EC for amendment or correction (such was the case of a single Spanish application regarding the automotive industry in 2007). An overview of textile sector efforts to obtain EGF funding is presented in **Table 3**.

The list above shows two interesting trends, whose observation may be useful for future applicants.

1. The Commission appreciates system projects (example of Italy), of which five applications have been made for five regions, but with the same number of people envisaged to be provided with assistance. The three projects presented in 2007 and one presented in 2008 are identical as far as scope and forms of envisaged assistance towards employees of textile companies made redundant are concerned. Moreover, a uniform management system was established, which greatly reduced indirect costs of the support.
2. The EC is willing to finance EGF activities envisaged for a smaller number of employees, by means of criterion 3 of project selection. Such was the case of the Maltese application, which envisaged assistance for a group of 675 employees of the SME sector who were made redundant.

Critical issues presented in applications determining the possibility of obtaining support are:

- relocation of production to China and other Asian countries; increasing the share in the textiles market of Turkey and India;
- expiry on January 1<sup>st</sup>, 2005 of the Multi-Fibre Agreement (MFA) and Agreement on Textiles and Clothing (ATC), which resulted in growing competition with non-EU member states;
- proving that textile production equals more than 10% of the whole production sector of the country (as in the case of Lithuania and Malta);
- proving the fluctuation of employment in the sector over at least a 2-year perspective, e.g. based on labour offices data.

The further functioning of the EGF and the possibility of utilising the opportuni-

ties it offers in relation to assistance to the textile, leather or tanning industries is, to a large extent, dependent on the activities of EU member states, as well as on the mutual relations of social partner organisations and their abilities to maintain relations and influence governments. Final applications presented to the EGF are preceded by long lasting negotiations and arrangements between governments, employer organisations and trade unions. In a few months further negotiations between the European Commission and social partners are envisaged with respect to the introduction of amendments to EGF rules, which hopefully will include crucial facilitation of the use of this EC support instrument.

## Editorial notes

1. This issue has been highlighted for more than 5 years in reports of trade organisations, such as Euratex, *The EEC's external trades in 2006, Bulletin 2007/3*, Euratex, *An in-depth analysis of the EU Textile and Clothing External Trade 2005-2006, Bulletin 2007/4* and at the European Monitoring Centre for Change (EMCC), *Sectors Futures – Textile and Leather in Europe: the end of an era or a new beginning? (2004)*.
2. Data from Lithuanian application EGF/2008/003 - Alytaus Tekstile.
3. Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EC) No 1927/2006 on establishing the European Globalisation Adjustment Fund, COM(2008) 867/4.

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