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Annex to the

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing the European Globalisation adjustment Fund

IMPACT ASSESSMENT

{COM(2006) 91 final}

Executive summary

The opening-up of economies to international competition brings new opportunities in terms of economic dynamism, competitiveness and the creation of high-quality jobs. However, job losses in less competitive sectors are an inevitable impact of trade opening and globalisation.

Trade opening leads to an unequal redistribution of gains and losses: there is a significant asymmetry between the overall benefits of openness, which are diffuse and often take some time to materialise, and its adverse effects, which are more visible, immediate and concentrated in specific individuals and areas.

The link between opening up the economy and providing assistance in adjusting to its effects is explicit in the US, which has always considered international trade negotiations and the introduction of measures to accompany the effects of opening up the economy to be two sides of the same trade policy.

There is a broad consensus within the Union on the need to address the adverse effects of major structural changes in world trade patterns, notably for those citizens whose employment is significantly challenged by increased competition and opening markets. In this context, the objective of the proposal is to enable the EU to support workers made redundant as a result of trade-related adjustment changes. Acting as a sign of the EU solidarity, Community support will complement the efforts of the Member States, at national, regional and local levels.

To achieve this objective: two options have been examined: first, maintaining status quo and second, the setting-up of a new Community financial instrument. The former option would imply that support to trade-dislocated workers should be provided by existing Community instruments, namely through the Structural Funds. The latter would result in the setting-up of a dedicated instrument to assist workers made redundant as a result of trade-related adjustments that have a European dimension (by virtue of their scale and impact).

These two alternatives have been analysed and evaluated in the light of the overall objective pursued and of their expected economic and social impacts. The analysis has led to the conclusion that the option of setting up a specific, dedicated Fund at EU level to assist trade-related redundant workers in those cases where such redundancies lead to a significant unfavourable impact in a given region is the preferable option. Assistance from the EGF will only intervene in complement to the activities carried out by the Member States at the appropriate territorial level.

1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

The establishment of a European Globalisation Adjustment Fund (hereafter “the EGF”) was proposed by President Barroso in a letter to the European Council and the European

Parliament in advance of the Hampton Court Informal Heads of State or Government meeting of 27 October 2005.

In December 2005, the European Council agreed on the establishment of the EGF, and asked the Commission to present a concrete proposal.

In the establishment of this assessment, extensive use has been made of recent research and analysis carried out by the Commission, notably DG Employment and Social Affairs, DG Trade, DG Enterprise and Bureau of European Policy Advisors (BEPA), the EU Economy 2005 Review¹ which have worked on the effects on employment of globalisation in general, delocalisation and outsourcing. In particular information has been drawn from the “EU *Competitiveness and Industrial location*” report of BEPA, October 2005², and from “*Employment in Europe 2004*”, chapter V *Globalisation and labour markets: a EU perspective*, DG EMPL, 2004.

The OECD’s most recent analytical work on trade and structural adjustment, in particular *Trade and Structural Adjustment*, Report (2005); *The impact of structural policies on trade-related adjustments and the shift to services*, Working paper, April 2005; *Employment Outlook*, 2005 have been used as references.

In addition, qualitative and quantitative information has been drawn from the US experience on trade adjustment assistance (see point 2.3. below) and in particular the following policy papers: *Measuring the costs of trade-related job loss*, Lori G. Kletzer Institute for International Economics, July 2001, “*Imports, Exports, and American Jobs: Understanding the Links and What They Mean for U.S. Workers*,” Center for National Policy, Trade Policy: Forging a New Consensus, July 2003, *Reforming trade adjustment assistance: keeping a 40-year promise*. H. Rosen, Institute for international Economics, February 2002.

Given the time constraints, this proposal has not been the subject of a dedicated, specific consultation process. However, the challenge of globalization, in the broader context of economic restructuring and employment, is the subject of an on-going dialogue between the Commission and the social partners. The second-phase consultation of social partners on corporate restructuring and European works councils under Article 138(3) of the Treaty was launched on 31 March 2005⁴. The Commission is following the work of the social partners and will look at the progress made at the 2006 Tripartite Social Summit.

¹ http://europa.eu.int/comm/economy_finance/publications/european_economy/2005/ee605/ee605en.pdf

² http://europa.eu.int/comm/dgs/policy_advisers/experts_groups/gepa/docs/eu_competitiveness_and_industrial_location.pdf

³ http://europa.eu.int/comm/employment_social/news/2004/sep/eie2004_en.html

⁴ Commission communication on restructuring and employment, COM (2005)120 final, 31.3.2005.

2. PROBLEM DEFINITION

2.1. The challenge of adjusting to structural changes in world trade patterns

The opening-up of markets to international competition represents new opportunities in terms of economic dynamism, competitiveness, and the creation of high-quality jobs. In the past four decades, international trade in goods and services has increased dramatically, and some developing countries have increased their participation in world-wide trade, notably China, India and Brazil⁵.

All EU Member States, with different intensities, have experienced a strong shift to services over the past decade. While manufacturing employment has declined in most Member States in absolute and relative terms, this has been more than compensated by a strong growth in employment in services. However, persistent levels of unemployment and weak employment creation in several EU countries show that adjustment has been insufficient.

While the opening-up of markets produces overall benefits for growth and employment⁶, it also involves costly transformations. New employment opportunities in higher-quality and more productive sectors are frequently accompanied by job losses in less competitive sectors, especially in manufacturing: relocation in this sector has led to heavily localised job losses concentrated on specific types of workers⁷.

The challenge for the Union is to ensure that the adjustment process, as part of a broader adaptation to structural changes resulting from globalisation, works as smoothly as possible. Meeting this challenge thus depends on the capacity of the Member States and the Union to positively manage change while limiting the adjustment costs for individuals, territories and society.

When trends in employment, job loss and trade flows are brought together, some basic patterns emerge. Research confirms the sensitivity of employment and job loss to fluctuations in import price and import share. There is an association between employment decline, import share gain, export loss and weak domestic demand for the handful of industries that are traditionally import-competing⁸. Empirical studies equally show that the economic magnitude of these costs, while difficult to assess, generally remains limited compared to the potential gains of trade openness (in most cases, the ratio of costs to benefits is around one to twenty). However, the overall impact of these costs can be much greater (*an illustration of these points is given in annexes 1 to 5*).

- Costs are generally **concentrated in particularly disadvantaged sectors**, and therefore their impact is greater than if they were uniformly distributed across the

⁵ Employment in Europe 2004, Globalisation and labour markets: a EU perspective

⁶ For an overview of globalisation trends, drivers and outlook, see for ex. Economic Policy Committee: "Responding to the Challenges of Globalisation", ECFIN/EPC (2005) REP/54448 final, 22.11.2005.

⁷ Employment in Europe 2004, Globalisation and labour markets: a EU perspective

⁸ "Imports, Exports, and American Jobs: Understanding the Links and What They Mean for U.S. Workers," Centre for National Policy, Trade Policy: Forging a New Consensus, July 2003,

whole population. Furthermore, international trade results in job losses in manufacturing more often than in other sectors; and among manufacturing industries, displacement rates tend to be higher in sectors where international competition is most intense, such as textiles, clothing or automobiles. Data for Canada, the US and 14 EU Member States indicate that annual displacement rates (i.e. the number of workers experiencing permanent layoffs during a year as a share of average employment) are significantly higher in manufacturing than in the services sector;

- The nature of these costs implies they are **not directly offset by gains** from trade openness (price decreases for consumers, gains in variety and efficiency, diffusion of technologies, economies of scale...). Furthermore, costs and benefits materialise on a **different time scale**: costs tend to be more significant in the first years following openness (the effects of increased foreign competition are felt rapidly in less competitive sectors), while most gains (notably efficiency gains resulting from an improved allocation of factors of production) require more time to take full effect.
- Costs and benefits are also typically **dissociated in space**: since the ability of sectors to derive benefits from trade openness depends on their international competitiveness, the overall picture is marked by contrast. The spatial concentration of industrial and services activities (in particular the production of exchanged goods), together with the correlative specialisation of regions, convert these sector disparities into territorial disparities;
- Some regions suffer from the adjustments induced by trade opening in certain sectors, while others benefit from the expansion of sectors based in their area. Shocks quite often have a **strong regional or local impact** when a particular industry or sector is affected. The existence in Europe of high average unemployment rates and persistently high regional unemployment rates concentrated in certain regions⁹, reduces the scope to effectively address trade-related adjustment. The territorial dimension is thus critical: in declining regions, job losses constitute a clear cost; and benefits derived from comparative advantages are only apparent in dynamic regions;
- **Costs borne by trade-dislocated workers tend to be higher** than those borne by other job losers. Recent studies compare the adjustment costs borne by trade-displaced workers with those borne by other job losers, using the industry involved to determine whether a layoff is related to international competition. Re-employment rates following displacement in the EU are lower than in the US, averaging 57% overall and just 52% in high-international-competition industries within manufacturing¹⁰. Replacement rates relative to potential earnings in new employment can be especially low for older job losers. The wage loss seems to be particularly pronounced for high-tenured blue-collar workers, further adding to the problems of re-integrating displaced manufacturing workers.

⁹ Recent figures from Eurostat (October 2005) indicate that regional unemployment in the EU25 ranges from 2.4% to 32.8%.

¹⁰ Employment Report, OECD 2005

- The table hereafter compares the annual displacement rates in the US with parallel estimates for the EU and Canada. The differences in displacement rates across industry groupings provide an indication of the importance of international trade in generating permanent layoffs: in all three areas, displacement rates are higher in manufacturing than in services.

Table 1: Manufacturing workers are displaced more often than service workers, but evidence for a direct link between trade and job loss rates is mixed.

Average annual displacement rates (percentage of total employment)

<i>Industry</i>	<i>Canada 1983-1999</i>	<i>EU countries 1994-2001</i>	<i>US 1979-1999</i>
Manufacturing	6.5	3.7	4.6
<i>High-international-competition</i>	8.3	3.7	5.9
<i>Medium-international-competition</i>	5.9	4.5	6.2
<i>Low-international-competition</i>	5.9	3.5	4.3
Services and utilities	4.5	3.2	1.7
Total employment	6.7	2.8	2.2

Source: Employment outlook, OECD 2005

- Costs are mainly **concentrated on less-skilled and more vulnerable workers, in particular women**. Compared with other job losers, displaced manufacturing workers in both EU and the United States tend to be older and less educated, and to have held the lost job for longer. All these characteristics are associated with above-average re-employment difficulties, and with larger earnings losses following re-employment. Trade-displaced workers are also more likely to have vocational skills specific to declining occupations and industries¹¹. Moreover trade-related adjustment is likely to have a more significant impact on women, as a result of the high female representation in employment in trade-affected sectors. The most striking difference in the US between import competing displaced workers and other displaced manufacturing workers is the degree to which it is women workers who were displaced from import-competing industries: women accounted for 45% of import-sensitive displaced workers compared to 37% of overall manufacturing workers displaced¹².

¹¹ Employment Outlook , OECD 2005

¹²Imports, exports and American jobs: understanding the link and what they mean for American workers, July 2003

- **Mobility** from one sector or one region to another is limited. New jobs that are created are not necessarily taken up by the people who have been made redundant because the location and skills required are different.

The adverse effects of major structural changes in world trade patterns hit developed and developing countries alike. Developing countries also experience job losses in less competitive sectors and low income countries rarely benefit from offshoring. Instead it is often middle income countries that experience a net inflow of jobs and several OECD countries have also experienced a net inflow of service jobs from offshoring in recent years.

In sum, trade opening often leads to an unequal redistribution that should be corrected. This correction is needed not only to ensure social justice, but also for political and economic reasons. In political terms, there is a mismatch that directly fuels rejection of the opening up of the economy. This mismatch stems from the costs - that are limited overall but are visible, tangible and concentrated - and the benefits of the opening-up process, which are often in a different place and at a different time. It is also an economic necessity, since adjustment measures can reduce the costs of change and facilitate transition.

Moreover, for equity reasons, the intensification of public concerns about structural adjustment and trade opening demands that greater attention is given to the costs that such liberalisation process may entail. As underlined recently by several studies and international institutions, such asymmetry - if not properly acknowledged and addressed - may lead to a biased perception of globalisation and, as a result, erode public support for trade liberalisation and market opening.

The US experience: Globalisation and the perceptions of American workers

"First, a wide range of public opinion surveys indicates that US citizens recognise both the cost and benefits of integration with the world economy, but they tend to weight more the costs than the benefits. Second, these policy preferences cut more strongly across labour-market skills. Less-skilled workers are much more likely to oppose freer trade than their more skilled counterparts. Third, this skills-preferences gap may reflect very different wage growth levels across skills groups in the US labour market: less skilled workers – a group which constitutes the majority of the US labour force- have had close to zero or even negative real wage growth relative to more skilled workers. While concerns on the impact of globalisation on the environment, human rights and other issues are an important part of the politics of globalisation, it is the link between policy liberalisation, workers interests and individual opinions that forms the foundation for the backlash against liberalisation in the United States". *Source: Globalisation and the perceptions of American workers-K. Scheve and M.J. Slaughter, March 2001.*

2.2. The Strategy for Growth and Jobs: the EU response to structural adjustment

Although many of the instruments are at the national level, there are nevertheless a number of areas where the Community has instruments at its disposal to facilitate and coordinate Member State policies and responses.

The Union's overall policy response to the challenge of globalisation, and in particular to trade-related adjustment lies in its *Strategy for Growth and Jobs*, intended to promote competitiveness and employment creation while maintaining solidarity. The Strategy was launched in 2000 and renewed in Spring 2005 by Heads of States and Government. On the basis of common EU guidelines for growth and jobs, which encompass macro-economic, micro-economic and employment policies, each Member State presented its strategy to promote growth and jobs in the form of a national reform programme in Autumn 2005. The Commission recently adopted its first annual progress report on the programmes¹³, in preparation for the 2006 Spring European Council.

Within this framework, the revamped *European Employment Strategy* has stressed the importance of attracting and retaining people in employment, improving the adaptability of workers and enterprises, and increasing investment in human capital through better education and skills¹⁴.

Furthermore, European-level Social Partners adopted a series of “*Orientations for reference in managing change and its social consequences*”¹⁵ and the Commission has played an active role in supporting policy debate and exchange of experiences¹⁶, including through the setting up of a European Forum on Restructuring and employment¹⁷.

Financially, the thrust of the Community's response to globalisation and trade adjustment takes the form of anticipation and management of structural changes, through the Structural Funds multi-annual long-term programming. The Structural Funds for the period 2007-2013 will be geared to support Member States' efforts to promote growth and employment and address in an anticipatory way the changes in national and regional economies and labour market resulting from globalisation and economic dislocation.

2.3. The US Trade Adjustment Assistance Programme (TAA)

The link between opening up the economy and providing assistance in adjusting to its effects is explicit in the US, which has always considered international trade negotiations and the introduction of measures to accompany the effects of opening up the economy to be two sides of the same trade liberalisation policy. The US is so far unique within the

¹³ http://europa.eu.int/growthandjobs/annual-report_en.htm

¹⁴ See Council Decision of 12.07.2005 on the Guidelines for the employment policies of the Member States.

¹⁵ Orientations for reference in managing change and its social consequences + Annex: case studies 16/10/2003

¹⁶ BEPA study on “EU competitiveness and industrial location” of October 2005

¹⁷ COM(2005)120 “Restructuring and employment - Anticipating and accompanying restructuring : the role of the European Union” ([COM\(2005\) 120 final, 31/03/2005](#))

OECD in having operated a dedicated programme for trade-displaced workers: the Trade Adjustment Assistance Programme (TAA), established in 1962.

The TAA programme is national in scope, and is in principle available to all workers losing their jobs due to imports. While its eligibility criteria and benefits have varied through the years, the TAA does not aim to provide support to all workers that are negatively affected by trade. For example, a redundant worker who loses a job as a result of a production shift to Mexico may be eligible for the benefits, whereas a worker whose employers delocalise the plant to China may not be.

The TAA offers a more generous set of unemployment benefits and active labour market policies to workers certified as trade-displaced, than are available to other displaced workers. However, the mix of services offered by the TAA – especially the relative emphasis placed on supplementary unemployment benefits versus training – has fluctuated quite markedly since the programme was enacted. In fact, the history of the TAA illustrates the difficulty of objectively identifying trade-displaced workers:

The US Trade Adjustment Assistance (TAA): a programme in constant evolution

The TAA programme was created in 1962 by the US Trade Expansion Act, which implemented an early round of multilateral tariff reductions under the GATT system (e.g. tariffs on imports from the European Community were cut by 50%). The programme aimed to help workers in sectors in decline as a result of trade liberalisation, facilitating their transition to growth sectors through the provision of income support and re-employment services. The programme also offered assistance to firms in need of restructuring. Since 1962, over 3 million workers have been certified eligible for TAA, out of which about 2 million workers have received assistance.

Historically, the generosity of the TAA programmes has closely tracked the different trade negotiation rounds, the approval of the North American Free Trade Agreement (NAFTA) and, more recently, the renewal of the President's trade-promotion authority to pursue WTO negotiations. Thus, the generosity and composition of the TAA assistance have fluctuated markedly during the more than 40-year history of the programme. The Trade Act of 1974, in advance of the Tokyo Round of GATT negotiations, relaxed the stringent eligibility requirements, which kept the number of beneficiaries low during the 1960s and early 1970s. Then the Omnibus Budget Reconciliation Act of 1981 sharply reduced programme spending during the 1980s, while shifting the spending priority from income support to training. In 1993, the push to enact the NAFTA in the US Congress prompted the creation of a new, somewhat more generous sister programme, the NAFTA Transitional Adjustment Assistance or NAFTA-TAA. In 2002, the Trade Adjustment Assistance Reform Act merged NAFTA-TAA into the TAA, which generally adopted the more generous provisions previously limited to workers affected by trade with Canada and Mexico.

The evolution of the TAA underlines the difficulty of objectively identifying trade-displaced workers and, more generally, of linking redundancies to globalisation. Overly stringent TAA criteria resulted in no workers at all being certified in the first seven years of its existence, and relatively few in the following five. Then, relaxed criteria resulted in a swelling of programme spending to a high of USD 1.6 billion in 1980, when they were once again tightened, partly in response to evaluations suggesting that TAA had become to a considerable degree an overly generous unemployment insurance system for auto workers on temporary layoff. The NAFTA-

TAA expanded eligibility criteria to include workers from upstream suppliers or downstream finishers, as well as those from plants that relocated to Canada or Mexico.

The TAA Reform Act of 2002 also moved towards providing greater income support. For example, the maximum duration of benefit eligibility was extended to 78 weeks, up from 52, and workers participating in remedial education may continue to receive benefits for an additional 26 weeks. The revamped programme also makes it easier to waive the training requirement for receiving income benefits. The TAA now includes a refundable tax credit for health insurance (the Health Care Tax Credit), and an experimental wage insurance programme for trade-displaced workers aged 50 and older (the Alternative Trade Adjustment Assistance programme).

Source: Employment Outlook, OECD (2005)

2.4. The rationale for taking action at EU level

The Community may take steps, in accordance with the principle of subsidiarity laid down in the Treaty, to promote the objective of solidarity across and between Member States. In accordance with the principle of proportionality, the Community should not go beyond what is necessary in order to achieve its objectives.

Community action will express the Union's solidarity towards those severely and personally affected by trade-adjustment redundancies. In this way, the Community contribution, to the extent that it supports and complements national, regional and local efforts to assist workers made redundant, will provide a stimulus to respond appropriately and effectively to the adverse impact of market opening.

The Union is competent to act in this field: Article 159 of the Treaty allows the Council, acting in accordance with the procedure referred to in Article 251 and after consulting the Economic and Social Committee and the Committee of the Regions, to adopt specific actions which prove to be necessary outside the Structural Funds with a view to achieving the objective of economic and social cohesion provided for in Article 158 of the Treaty. In this way, this proposal will complement the solidarity response provided by the Structural Funds, the Cohesion Fund and the European Union Solidarity Fund.

3. OBJECTIVES

3.1. General policy and operational objectives

There is a broad consensus within the Union on the need to address the adverse effects of major structural changes in world trade patterns, notably for those citizens whose employment is significantly challenged by increased competition and opening markets. The adjustments costs of trade opening should be acknowledged and effectively addressed through appropriate policy and financial mechanisms.

The objective is to enable the EU to support workers made redundant as a result of trade-related adjustment changes. Community support will be aimed at complementing the

efforts of the relevant Member State, at national, regional and local levels, with a view to quick re-integration into the labour market of the workers concerned.

The assistance of the Union should be targeted at actions which take the form of personalised support services tailored to meet the specific needs of the workers affected. The operational objectives to be achieved by the EGF contribution is to fill one or more of the following gaps, with a view to facilitating fast re-integration into employment of the trade-dislocated workers:

- *Information gaps* could be filled through: job-search assistance, occupational guidance, outplacement assistance and entrepreneurship promotion;
- *Qualification gaps*, through: tailor-made training and re-training, outplacement assistance, and entrepreneurship promotion;
- *Location gaps*, through: job search allowances, re-location allowances;
- *Workers' personal financial gaps*, through: job search allowances, re-location allowances, income support allowances to individuals participating in training activities; wage complementary allowances for workers aged 50 or more, and aid for self-employment.

3.2. Consistency with EU policies

Community support will clearly underpin the objectives of the Lisbon strategy, and in particular of the European Employment Strategy, with the overarching objectives of achieving full employment and reducing unemployment and inactivity, improving quality and productivity at work, improving the attractiveness of jobs, and strengthening social and territorial cohesion.

Initiatives announced in the Communication on Restructuring and Employment:

On 31 March 2005, the European Commission adopted a Communication setting out measures to be developed or strengthened with the aim of ensuring 'improved anticipation and management of restructuring' within the EU.

Refocus the European Employment Strategy

The Commission proposed to refocus the **European Employment Strategy** around three priorities of direct relevance to restructuring: (i) boosting the labour market participation, (ii) improving the adaptability of workers and companies; and (iii) investing more in 'human capital'. The new Employment Guidelines adopted on 12 July 2005, as part of the Integrated Guidelines fully develop the priorities referred to in the Communication. The package of proposals put forward by the Commission includes

Enhanced coordination between key strands of EU policy

The Commission argued that **enhanced coordination** is necessary across the range of existing EU policies that are relevant to restructuring, such as industrial, competition, trade and employment policy. The Restructuring Task Force created immediately after the adoption of the Communication has been instrumental in this and reinforced dialogue and exchanges between different Commission services.

New and refocused Community financial support

The Communication suggested that EU financial instruments should focus more on restructuring-related developments. Once there is an overall agreement on the 2007-2013 financial perspectives, the Structural Funds, particularly those allocated to the "Competitiveness and Employment" objective (previously "Objective 2") should be more focussed on the support to adaptation to change and restructuring.

As a first step in launching the discussion on the priorities for the new generation of cohesion policy programmes, the Commission published on 6 July 2005 a draft of the **Community Strategic Guidelines** entitled "Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013". The Guidelines set out Community priorities for new programmes in the light of the Lisbon Agenda, which will be supported by the European Regional Development Funds (ERDF), the European Social Fund (ESF) and the Cohesion Fund. The Communication calls for better anticipation and positive management of economic restructuring, including the creation of monitoring systems with the involvement of social partners, enterprises and local communities.

4. POLICY OPTIONS

4.1. No policy change: using existing instruments

Maintaining status quo would imply that no specific financial instrument will be set up at Community level to help workers made redundant as a result of significant changes in world trade patterns. As a result, support to trade-dislocated workers should be provided by existing Community instruments, namely through the Structural Funds, and in particular the European Social Fund, which supports general active labour market programmes available to all displaced workers and to all unemployed persons under common rules.

In the 2007-2013 programming period, the Structural Funds – and the ESF in particular – will increasingly finance policies and strategies to anticipate and manage change, including adaptation to globalisation. The Structural Funds will be geared towards long-term, anticipative action based on a multi-annual strategic approach. However, long-term anticipative action, as indispensable as it may be, is not always sufficient to allow workers to find a new job quickly. This is predominantly true in the case of severe shocks, measured either by their suddenness, by their unforeseen nature, by their massive effects in terms of number of job losses, or by their impact in already depressed regions or sectors with scarce employment alternatives. In those infrequent but critical situations, one-off, time-limited individualised support (such as active labour market measures and

special work-related and in-work temporary income benefits) is required, in order to help individual workers increase their chances of rejoining the labour market quickly.

4.2. A new Fund: the European Globalisation Adjustment Fund (EGF)

The notion that trade costs jobs, together with the notion that trade-related displacement is particularly costly, creates a compelling case for targeted adjustment assistance. While Member States are responsible in the first instance for tackling the negative consequences of trade adjustment, the EU should have a dedicated instrument to assist workers made redundant as a result of trade-related adjustments that have a European dimension (by virtue of their scale and impact).

The Community could contribute to temporarily cushion the income impact on workers while stimulating and facilitating re-employment. Unemployment benefits are designed to insure workers against job-loss related income falls. However, more can be done to further cushion the income impact, such as through restructuring assistance (cf. the US Trade Adjustment Fund). In the context of such support, it is essential that it is designed so that incentives remain to take up work when an opportunity presents itself¹⁸.

In this light, in addition to the long-term policies developed at Union as well as national levels, and complementary to them, the EGF would provide support to workers made redundant following trade-related events which severely impact a given area, to help them re-enter the labour market as quickly as possible.

The new EGF cannot and should not aim to help all workers made redundant as a result of trade adjustment. The use of the EGF should rest on a case by case analysis that takes into account the two sequential criteria proposed: first the need to demonstrate the link between the redundancies and changing world trade patterns, and second, the need to demonstrate the impact of the enterprise or the sector-based redundancies on the local or regional economy.

While acknowledging the difficulty of demonstrating a mechanical link between specific redundancies and changing trade patterns, the applicant Member State should be able to provide evidence and justification of a serious economic disruption, brought about by at least one of three elements: *an economic delocalisation to third countries* - shown by a significant shift of productive capacity outside the EU (trade policy being EU-wide, delocalisation between Member States would not fulfil this criteria); a *massive increase of imports* – due to e.g. a reduction or elimination of tariffs, removal of market supports, etc.; or a *progressive decline of the EU market share in a given sector* – shown by export statistics (at NACE 2 level) over a 5-year period.

Trade-related redundancies bring about greater adjustment costs in specific areas, such as localities highly dependent on declining sectors and occupations, or specialised in sectors particularly exposed to international competition. Given the limited amounts of money

¹⁸ EU Competitiveness and Industrial Location, BEPA, October 2005

available, the EGF should focus its intervention on adversely affected areas, either when a sudden closure of a large enterprise takes place in a locality which already has a difficult employment situation or when a significant number of smaller enterprises in the same sector are forced to close, particularly in regions which are sector-dependant.

The objective of the proposal i.e. the creation of a Community Fund, can only be achieved through a Community Regulation. Therefore, no other option, notably non-regulatory, can be considered.

As regards the implementation of the EGF, different options could have been envisaged. However, the European Council conclusions clearly stated that no specific financial provision for the Fund will be made in the Financial Perspectives. Furthermore, the Fund should be financed through under-spends against the budget ceilings and from funds which are de-committed. Moreover, each deployment of the Fund, as well as the amount of assistance deemed necessary for each case, will be decided by the budgetary authority, through an amending budget. For this reason, no alternative options have been considered for the implementation of the Fund, which will be delivered following the procedures and mechanisms set up to implement the European Union Solidarity Fund.¹⁹

It should be acknowledged that this financing arrangement may lead to a certain degree of uncertainty as regards the available funding on annual basis. Moreover, the limited amounts available could result in a situation where demands for intervention would largely exceed the available funds.

5. ANALYSIS OF IMPACT

5.1. Expected impact on specific social groups

5.1.1. Expected impacts of the setting-up of a specific Fund

The setting-up of a new Fund at EU level would have a clear, direct and positive impact in facilitating the labour market integration of trade-dislocated workers. The beneficiaries would be those directly employed in the enterprises where the redundancies have been announced and occurred, but also those working upstream or downstream in the productive chain provided that there is a clear, demonstrable link.

Such assistance would be particularly beneficial given that, according to recent research, both in the EU and the US adjustment costs for trade-displaced workers appear to be high and exceed those borne by other jobs losers²⁰. Moreover, the assistance provided by the Fund would help compensate potential earning losses.

It should be noted that, by definition, it is extremely difficult to forecast the likely number of redundant workers that could be eligible for assistance from the Fund.

¹⁹Proposal for a Regulation establishing the European Union Solidarity Fund COM (2005) 108 final

²⁰OECD Policy brief: "Helping workers to navigate in 'globalised' labour markets", June 2005

However, the underlying assumption on the impact of the establishment of the Fund is that approximately **35,000-50,000 dislocated workers per year could benefit from support from the Fund across the EU**. This assumption is based on:

- the maximum amount of annual expenditure provided (up to € 500 million);
- the need to concentrate efforts on redundancies which have a significant impact in a given territorial area;
- an allocation of € 10,000 up to a maximum of € 20,000 per worker (experience of Member States shows that this is the amount required to deliver the envisaged assistance);
- the complementary nature of the Fund in relation to other Community instruments, notably the Structural Funds, and to other national schemes;
- the fact that the Fund's interventions would be additional to the obligations of companies towards their workers made redundant;
- the fact that not all workers made redundant require the same level of assistance, and some require no assistance at all (e.g. if they quickly find new employment);
- the probability that events which could be covered by the Regulation would not give rise to a request for funding, because the cost of the required actions is assumed by companies themselves or by national or local public authorities;
- the need to ensure equal treatment in interventions between Member States and regions.

Given the difficulty of predicting with precision the impact of the Fund's intervention criteria, the Regulation should foresee a review clause to allow, if needed, for adaptation of the criteria on the basis of the experience of the first full year of activity of the new Fund.

Analysis of data reported by the European Restructuring Monitor (ERM)

In order to ascertain the possible impact on the ground of the intervention criteria of the Regulation, the available EU employment and unemployment statistics at different levels were taken into account, along with an extensive analysis of the data reported by the European Restructuring Monitor (ERM) of the European Monitoring Centre on Change. In 2005, the ERM reported 1.729 restructuring events, covering 575.221 redundancies and 384.044 job creations. (1)

It is important to note that, while the ERM provides a broad picture of the scale of the restructuring phenomenon in Europe (in companies of 100 employees or more), it does not analyse the link between the recorded restructuring cases and globalisation or changing world trade patterns. Most of the events reported by the ERM either have no link with globalisation, or concern companies smaller than those potentially covered by the Globalisation Fund. It is also important to note that the figures reported by the ERM relate to the announcement of

redundancies: in many situations, the actual number of redundancies is significantly lower (due to the use of retirement or early-retirement schemes, internal or external redeployment, or the result of negotiations between the social partners).

Therefore, the ERM data serve only as a partial and tentative illustration of the possible future coverage of the Fund. Having said that, a qualitative analysis of the 1.729 ERM reported cases of 2005 suggests that there would have been approximately 50 cases in the EU involving 1000 redundancies or more with a link to major structural changes in world trade patterns, covering 47.037 workers. Note that, in general, for each direct redundancy there are 2 indirect job losses.

An analysis of redundancies reported by the ERM for geographically concentrated sectors in the EU in 2005 was carried out, indicating that a threshold of 1.000 redundancies in one or more companies would be the most appropriate level. In the Textiles and Leather sector, for example, the ERM reported 73 redundancy cases; out of these, only one EU Member State had one or more cases adding up to more than 2000 redundancies; six others had cases adding up to 1000. Below 500 redundancies, the number of cases increases substantially.

Regional dependence on a single sector has also been tested against ERM cases at different levels: i.e. where sectoral employment represents 0.5%, 1%, 2% of total regional employment. As an indication of regional speciality, 30 manufacturing sectors were cross-tabulated with the Union's 250 NUTS II level regions, in order to determine 'sector X region density'. At the 2% level, diffusion of economic activities, particularly manufacturing, would mean that many regions would be excluded. At the 1% level, no region of the Union would be completely excluded a priori (on average, regions would have 9 sectors above 1%). At a lower level of 0.5% level, dependency becomes less meaningful economically, and the number of sectors reaching the threshold would be high.

Out of 1472 case studies posted as of 30/04/2004, outsourcing and relocation cases together represent 7,38% of all restructuring cases, which corresponds to 7,3% of the total job reduction. Among the 13 outsourcing cases collected from 2002 and 2004, 9 companies outsourced outside the Union, mainly in India.

(1) The European restructuring monitor gathers data through the press. However, newspapers tend to report on restructuring announcements but rarely follow upon on actual measures that are taken.

Source: ERM, DG EMPL

5.1.2 Expected impact of the status quo option

In contrast, maintaining the *status quo* would deprive the Union of an instrument of solidarity benefiting those individuals who personally suffer the adverse effects of trade opening and liberalisation. This solidarity effort at EU level is essential to correct the asymmetry between the adverse effects of trade openness (visible, immediate and concentrated in specific individual or areas), and its overall benefits (intangible, diffuse, and which usually take time to materialise).

Maintaining current *status quo* would thus result in growing scepticism among the affected workers and more generally EU citizens on globalisation, trade liberalisation and its impact on EU labour markets.

5.1.3 The impact of the US TAA on trade-dislocated workers

The evaluations carried out on the TAA have shown that approximately 2 million workers have received assistance under TAA over the last 25 years (1975-2000). More than half of these workers were laid off from the auto, textiles and apparel and steel industries. However the number of workers receiving assistance pales in comparison to the total numbers of trade-related dislocations. In 1999, approximately 250.000 workers lost their jobs from industries facing heavy import competition. Of those, only 30,000 workers or less than 10% received assistance under TAA²¹. The annual cost of the programme, following the reforms introduced in the TAA Reform Act of 2002 is approximately 1.2 billion \$ per year.

5.2. Expected economic, employment and social impact

5.2.1. Assistance from the Fund would facilitate and accelerate transitions

Expected impact of the setting-up of a specific Fund

A dedicated fund will improve the prospects of the process of adjustment working smoothly. Those who are negatively affected by it would not just be compensated, but assisted in remaining active participants in the more global economy. This would not only improve efficiency. It would also lead to more equitable outcomes, which would reduce opposition to economic openness²².

Assistance from the Fund, targeted to quick re-integration into the labour market is expected to facilitate and accelerate transition, by reducing unemployment periods and under-use of human capital. In the absence of a dedicated Fund, workers may not receive individualised support, and as a result their re-integration into the labour market could take longer.

Recent EU and international experience²³ suggests that workers displaced from jobs in declining import-competing sectors are likely to possess obsolete skills for which little demand exists in expanding industries. For them, job-search assistance needs to be complemented by training, or targeted in-work temporary subsidies, more than the average unemployed job seeker would require.

Moreover, supplementary time-limited benefit programmes (such as the US wage insurance system), as part of the personalised package offered to displaced workers, can provide a stimulus to reintegrate into employment: its provides a clear incentive for workers to search more broadly for a job, as entry-level position become more attractive when the earning losses are reduced²⁴.

²¹ Reforming trade adjustment assistance: keeping a 40-year promise, February 2002

²² EU Competitiveness and Industrial Location, BEPA, October 2005

²³ Trade and Structural Adjustment OECD 2005

²⁴ Imports, exports and American jobs, understanding the links and what they mean for the U.S. workers, Center for National Policy, July 2003

It can therefore be concluded that active labour market programmes tailored to meet individual needs (including job search assistance, counselling, training, moving allowances and other re-employment services), coupled with new proactive schemes such as wage insurance, can serve best to support re-employment of trade-related displaced workers. This may help reconcile high adjustment capacities at the level of firms and the overall market, with sustained employability and income security for members of a diverse workforce²⁵.

Which types of assistance actions are particularly important for improving the re-employment prospects of trade-displaced workers and which dislocated workers should receive which types of assistance?

A straightforward answer cannot be given. That being said, experience in the different OECD countries, including evaluation studies of different active labour market policies, provides some guidelines for policy choices, including the importance of differentiating between basic services that can be offered to all job loser seeking assistance and more intensive actions that should be carefully targeted towards each person's particular needs²⁶.

- **Guidance:** Employment services should offer individualised guidance to job losers, helping them to quickly and accurately access their employment prospects. This may be a particularly difficult process for trade-displaced workers whose job experience, job qualifications and past earnings levels are a poor match for the jobs offers available in the regional or local labour market.
- **Job search assistance (JSA):** Evaluation studies have generally concluded that job-search assistance is the most cost-effective ALMP activity. The added value of JSA may be particularly high for workers displaced after many years of employment within the same firm.

Intensive measures may be appropriate for workers for whom there is no likely opportunity to return to a similar job in their local labour market:

- **Retraining:** retraining can help workers displaced from declining sector or occupation to move into jobs in expanding areas of the economy that pay wages that are at least comparable to those in the previous job. Evaluation in the US suggests that relatively short training programmes, designed to upgrade existing skills, were usually more effective than longer training for taking up new occupations, especially for older workers.
- **Relocation assistance:** A number of OECD countries offer mobility allowances for travel expenses related to interviews as well as relocation

²⁵ Helping workers to navigate in globalised labour markets, OECD Policy Brief, June 2005

²⁶ Trade-adjustment cost in OECD labour markets: three annexes, Employment Outlook 2005

costs for those who accept employment outside their area of residence. Nevertheless take-up of relocation grants tends to be low.

- Assistance for business start-up: Whilst evaluators are limited, there is some evidence that such programmes are better suited to higher educated job-seekers. This suggests that this type of action would have a lower interest and impact on trade-displaced workers facing the greatest adjustment difficulties.
- Supplementary income benefits, such as wage insurance programmes. Wage insurance programmes appears to have the potential to better reconcile the equity goal – the amount of the compensation paid should reflect the size of earning losses - and the efficiency goal of encouraging quick employment.²⁷

Wage insurance may be a useful addition to the policy tool kit

A system of wage insurance pays a displaced worker who accepts a new job at a lower wage within a specified period of time an earnings subsidy that replaces a fraction of the difference between earnings on the old and new jobs.

The idea of providing wage insurance to trade-displaced workers has been promoted as serving a threefold purpose. First, this would help provide more equitable gains from globalisation by reducing the adjustment costs faced by those who are hurt by trade and investment liberalisation. Second, wage insurance would serve as an incentive to speedy re-employment as unemployment benefits become less attractive relative to accepting a new job, potentially in growth sectors. Once on the new job, the employee would be more likely to receive the type of training necessary for advancement in the new firm or sector. Finally, by mitigating workers' anxieties about the job and earnings insecurities related to trade liberalisation, political opposition to further opening of product and service markets would also be diminished. France, Germany and the United States have recently introduced wage insurance programmes for certain displaced workers. These initiatives are too recent to allow any firm conclusions to be drawn concerning their effectiveness in practice.

Source: Employment Outlook, OECD (2005)

Support from the Fund would be fully coherent and consistent with the OECD's 'Trade and Structural Adjustment: Recommendations for Good Practice'. These recommendations were adopted in 2005 to encourage countries to adopt labour market policies which facilitate the reallocation of workers towards higher productivity employment, and thus help economies – and their citizens – reap the gains from trade. The OECD recommendations entail i.a. setting-up active labour market programmes, including job-search assistance, counselling, training, moving allowances and proactive measures in anticipation of mass layoff, including bi-partite and tri-partite co-operation with the government in accordance with national practice, realistic assessment of workers' labour market opportunities and adjustment assistance costs, and

²⁷ Trade-adjustment cost in OECD labour markets: three annexes, Employment Outlook 2005

complementary support via income-replacement benefits (*see synthesis in annex 6, particularly point 2*).

Maintaining current status quo

In contrast, the absence of a dedicated, specific Fund with distinctive eligible actions would not allow the Union to support such comprehensive package of in-work personalised activities. Special work-related and in-work temporary income benefits, such as job search allowances, re-location allowances, income support allowances to individuals participating in training activities and wage complementary allowances for workers of at least 50 years of age, are not used by the Structural Funds.

The effectiveness of the US Trade Adjustment Assistance (TAA)

Existing literature provides scarce information on the impact and effectiveness of a targeted trade-related programme. In the US, the lack of harmonised data at state level has made it difficult to carry out a thorough evaluation of the TAA programme. This was due to the fact that the states were given the responsibility for data collection and they not always have the resources or interest to monitor the programme. Based on the limited data available, there is evidence that TAA did meet the performance goals established by the Department of Labour in 1999. 75% of participants for whom the states provided data found employment. Only 56% of them obtained jobs with earnings at least 80% of their previous earnings²⁸. These data also suggest that those participants who received benefits and were enrolled in training tended to have higher post-employment earnings than those participants who did not.

Table: US displaced and re-employed workers

US displaced workers in the late 1990s	1997	1999
Unemployment rate , average for the year	4,9%	4,2%
Displaced workers	8,521,883	8,005,659
Displaced from full-time jobs	6,416,460	4,958,590
Reemployed displaced workers	5,212,776	4,958,590
Reemployed full-time	3,694,375	3,647,698
Displaced workers eligible for wage insurance	792,240	651,391
Mean annual earnings loss of qualified participants (1)	\$8,862	\$7,513

²⁸Reforming trade adjustment assistance: keeping a 40-year promise, February 2002.

(1) Due to lower earnings in new job

Source: A prescription to relieve worker anxiety, Lori G. Kletzer, Institute for International Economics, March 2001

5.2.2. Assistance from the Fund will tackle regional disparities in employment and support regional economies

Expected impacts of the setting-up of a specific Fund

Targeted support measures and re-employment services can be particularly useful when trade shocks disproportionately affect specific regions, giving rise to large scale redundancies in local labour markets with few alternative jobs in the region.

Regional employment imbalances often persist, particularly when there are impediments to mobility across regions. Likewise, targeted support is particularly relevant when entire sectors are affected by trade and investment liberalisation, particularly when declining sectors are located in already depressed regions. These regions tend to have high and persistent levels of employment, poor business creation performance, and fewer firms in productive, human capital-intensive sectors than the national average.

Trade-related redundancies can have an economic impact, on the one hand, through the sudden closure of a large enterprise, particularly where the locality is already in a difficult employment situation. On the other hand, important economic damage can also occur when a significant number of smaller enterprises in the same sector are forced to close, particularly in regions which are sector-dependant.

Therefore, the intervention criteria of the draft Regulation (Article 2) provides for both of the above situations, as follows:

- (a) at least 1000 redundancies in an enterprise, including workers made redundant in its suppliers or downstream producers, in a region where unemployment, measured at NUTS III level, is higher than the EU or national average,

or

- (b) at least 1000 redundancies, over a period of 6 months, in one or more enterprises in a sector, measured at NACE 2 level, which represents at least 1% of regional employment measured at NUTS II level.

The ease with which regional and local labour markets are able to adapt to adjustment changes will have an important impact on the re-employment prospects of trade-displaced workers. Research and Community experience²⁹ shows that action addressed to help workers in crisis regions could have a lasting effect if combined with activities with long-term growth prospects, such as exploiting the indigenous potential of the

²⁹See for example the ex-post evaluation of the 1994-1999 Objective 2 programmes, June 2003

region with an emphasis on creating jobs in new small and medium size businesses, encouraging innovation and the potential offered by the knowledge economy.

So the impact of the EGF support to workers made redundant will be to a certain extent determined by the region-specific situation as well as by its ability to promote activities conducive to jobs creation and greater employment prospects.

The territorial impact of the US TAA

In its first years of existence, the US TAA assistance programme did not consider the territorial dimension of the trade-related redundancies. However there is growing awareness that TAA should become a genuine re-employment programme, as opposed to a training-focussed programme, putting greater emphasis on the availability of jobs, preferably high-paying jobs, in the trade-affected areas.

This is based on the assumption that effectiveness of training is limited by the availability of jobs in that area that utilise the skills acquired in that training. To attract jobs locally, the TAA Reform Act of 2002 offers technical expertise to the affected communities to help them to develop a strategic plan and to identify and apply for relevant federal assistance, in the form of grants, loans and loan guarantees³⁰. However these reforms are just beginning, so there is no data available on their likely impact on the trade-impacted communities.

5.2.3. Targeted assistance from the Fund will be cost-effective

Expected impact of the setting-up of a specific Fund

Assistance from the EGF would be designed in a way that provides adequate benefits, while preserving – as opposed to offsetting - incentives to find a job. The OECD's Recommendations of Good Practice on Trade and Structural Adjustment³¹ highlight that, if targeted adjustment schemes are deemed necessary either for reasons of equity, economic efficiency or political economy, they should necessarily be: time-bound, with a clear exit strategy; decoupled from production; aimed at re-employing displaced workers; compatible with general safety net arrangements.; cost-effective; transparent and accountable.

In sum, in accordance with the OECD Recommendations:

- Assistance from the EGF would address clearly identified sub-groups of trade-displaced workers, for limited periods of time. A limit of 18 months would be set for the use of the assistance, reflecting the need for immediate response leading to quick re-integration into employment;
- Assistance would be provided exclusively for workers, not companies;

³⁰ Reforming trade adjustment assistance: keeping a 40-year promise, February 2002

³¹ Trade and Structural Adjustment , OECD 2005

- The objective of the EGF, clearly stated in the Regulation, would be to facilitate re-integration into the labour market;
- Assistance would complement (never substitute for) Member States' general national social protection provisions (e.g. unemployment benefits) and general employment promotion schemes (e.g. active labour market policies (ALMPs));
- The EGF would allow support for activities put in place before redundancies actually occur, thus accelerating and smoothing adjustment. Its limited size, compared to general schemes, and its one-off nature, would facilitate the tailoring of actions to the specific needs of the workers affected;
- The EGF would not address all significant redundancy cases in the EU, but concentrate on particularly problematic trade-related redundancies, thus providing a tangible EU solidarity effort and added value.

Expected impact of keeping current status quo

In the absence of a Fund, workers made redundant for trade-related reasons would only benefit from general schemes which do not take into account their specific disadvantaged situation and needs. Lack of targeted assistance would underestimate the fact that trade liberalisation is often localised and affects more severely specific regions and sectors.

6. COMPARING THE OPTIONS

Trade-related job displacement and its subsequent adjustment changes represent a serious challenge for the Union. The two alternatives set out in Section 4 (i.e. the status quo option and the setting up of a specific Community Fund) have been analysed and evaluated in the light of the overall objective on the one hand, and of the impact analysis carried out in Section 5 on the other hand.

The analysis has led to the conclusion that the option of setting up a specific, dedicated Fund at EU level to assist trade-related redundant workers in those cases where such redundancies lead to a significant unfavourable impact in a given region is the preferable option, for the following reasons:

- The EU should not be indifferent to those whose livelihood is threatened by negative impacts of trade opening. This is indeed an imperative of fairness and solidarity - intrinsic values of the Union's society - which clearly has a European dimension, since the Community is competent for external trade policy and thus for decisions that lead to increased trade liberalisation and market opening. Therefore, it is logical for the Union to bear the costs of the policies that it implements, and above all, of a trade policy which, while being globally beneficial for the European economy and for employment, is the triggering factor of certain redundancies.

- Failure to provide a solidarity response at European level would erode the confidence of the EU citizens in the role of economic integration and of the European institutions as promoters of competitiveness. It could also reduce public acceptance of the EU trade liberalisation process and, more generally, of the EU integration process. Community support through the EGF, if clearly targeted, may help underline the fact that the Community is not insensitive to the economic and social costs of market opening³².
- A dedicated financial instrument to limit the cost of adjustment for affected workers is relevant when structural changes give rise to geographically concentrated redundancies. As highlighted recently by the OECD, such targeted instruments or programmes can be motivated either by economic efficiency arguments or by political economy considerations; they may be the price to pay for getting reforms enacted, as the benefits of structural change are usually dispersed throughout the Community whereas adjustment pressures are typically concentrated on a relatively small group³³.
- The new EGF will focus on helping redundant workers find a new job, as opposed to protecting jobs or resisting change. In this way, the EGF will contribute to the development of a “*flexicurity*” approach in the Union, which seeks to provide new types of security to people by improving their chances of finding work using new skills, while at the same time promoting flexibility to meet the new challenges of globalisation.
- Assistance from the EGF will contribute to promoting economic and social Cohesion within the Union. The EGF will complement the multi-annual strategic priorities and policies supported by the Structural Funds - particularly the European Social Fund (ESF) - with once-off remedial actions targeted to trade-related redundant workers, specifically to facilitate fast, effective re-integration into employment.
- Assistance from the EGF will only intervene in complement to the activities carried out by the Member States at the appropriate territorial levels.

7. MONITORING AND EVALUATION

The Regulation should provide for monitoring and evaluation arrangements to assess the results and impact of the proposal. Assistance should be monitored in the first instance by the beneficiary Member State, which should submit a report to the Commission describing the implementation of the assistance, including information on the actions and main results achieved.

On the basis of the individual reports received, the Commission will prepare an annual report, for the first time in 2008, addressed to the budgetary authority, which should look

³² EU Competitiveness and Industrial Location, BEPA, October 2005

³³ Trade and adjustment , OECD 2005

at the implementation of the EGF (applications submitted, grant decisions adopted, actions funded). Particular attention will be given to the application of the eligibility criteria described in Section 5.1.

The Commission should carry out evaluation activities, in conformity with the provisions of the Financial Regulation. An interim evaluation will be carried out to assess the effectiveness and sustainability of the actions undertaken in relation to its initial objectives. In accordance with the provisions of the Financial Regulation, a further ex-post evaluation would be carried out by the Commission.

If deemed necessary, the Commission may review the Regulation, notably the eligibility criteria, to ensure optimal and full implementation and impact of the Fund assistance.

Annex 1. Are trade displaced workers different: comparison - 14 European countries, 1994-2001.

Annex 2. Job displacement and wage losses

Annex 3. The rate of structural change

Annex 4 Job characteristics by sector

Annex 5: Globalisation of services and job losses in the service sector

Annex 6: Trade and Structural Adjustment: Recommendations for Good Practice.

Annex 1. Are trade displaced workers different: a comparison for 14 European countries 1994-2001

	<i>High international competition manufacturing</i>	<i>Medium international competition manufacturing</i>	<i>Low international competition manufacturing</i>	<i>All manufacturing</i>	<i>Services and utilities</i>	<i>All sectors</i>
A. Workers characteristics						
Age and displacement (years)						
15-24 (%)	10.4	13.1	11.6	11.8	12.2	11.4
25-54 (%)	75.1	75.8	78.1	76.4	78.0	76.9
55-64 (%)	14.5	11.2	10.3	11.9	9.8	11.7
Mean age	40.9	38.8	39.4	39.7	37.9	39.2
Share female (%)	31.7	44.9	26.2	34.8	43.2	38.2
Pre-displacement occupation						
White collar (%)	31.9	20.0	27.1	25.9	73.3	48.5
Blue collar (%)	68.1	80.0	72.9	74.1	26.7	51.5
Job tenure (years)						
Greater than 10%	32.1	30.4	27.7	30.0	18.6	21.5
Mean job tenure	7.0	6.6	6.2	6.3	4.7	5.0
Hourly earnings in old job						
Mean (€)	9.51	9.15	9.08	9.43	9.15	9.08
B. Adjustment costs						
Share reemployed 2 years	51.8	58.7	59.6	57.0	57.2	57.3

For reemployed							
Mean change in earnings		0.001	-0.038	0.028	-0.001	0.073	0.040
No earning loss		44.0	45.7	47.3	45.8	49.6	47.1
Losses above 30%		5.4	7.0	6.8	6.5	8.4	7.5

Source Employment Outlook, OECD 2005

Annex 2 Job displacement and wage losses¹

Author	Data	Findings
Farber (2003)	The US Displaced Workers Surveys (1981-2001)	<ul style="list-style-type: none"> • Re-employed workers in full-time jobs experienced an average wage loss of 8%, although with a strong cyclical pattern. • Significantly higher wage losses for workers with long job tenure. • No statistically significant difference in wage losses between educational groups.
Lefranc (2003)	The French Employment Surveys (1990-97) and the US Panel Study of Income Dynamics (1983-1992)	<ul style="list-style-type: none"> • Wage losses in the order of 10-15% in both France and the US. • While a loss of firm-specific earnings potential was the main factor in France, lower quality job matches were of most importance in the United States.
Kuhn (eds.) (2002)	Belgium, Canada, Denmark, France, Germany, Japan, UK, US	<ul style="list-style-type: none"> • Long-tenured workers: <ul style="list-style-type: none"> – An average wage loss of 19% in the US, 11% in Canada, 6% in the UK and Belgium and 1% in Denmark (only mass layoffs for Denmark). – An average wage <i>increase</i> for workers displaced in mass layoffs of 10% in France and 2% in Germany. However, workers remaining unemployed for more than a year before re-employment experienced wage losses. • Older workers experienced greater wage losses; no significant effect of education.
Kletzer (2001)	US (1980s and 1990s)	<ul style="list-style-type: none"> • Two-thirds of workers who lost jobs in manufacturing industries hit by overseas competition earned less on their next job, and a quarter experienced income losses of 30% or more. • Larger wage losses in manufacturing (12%) than in non-manufacturing (4%).

Jacobson <i>et al.</i> (1993)	Data from Pennsylvania, US (1974-96)	<ul style="list-style-type: none"> • Average long-term earning losses of 23% for long-tenured workers. • Displacements from unionized sectors (construction, metals, transport) associated with larger wage losses than displacements from non-unionized industries (business and professional services).
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1. These estimates do not take into account lower income during unemployment, income losses due to re-employment in part-time work or foregone earnings in terms of wage growth.

Source : The impact of structural policies on trade-related adjustment and the shift to services , OECD April 2005

Annex 3

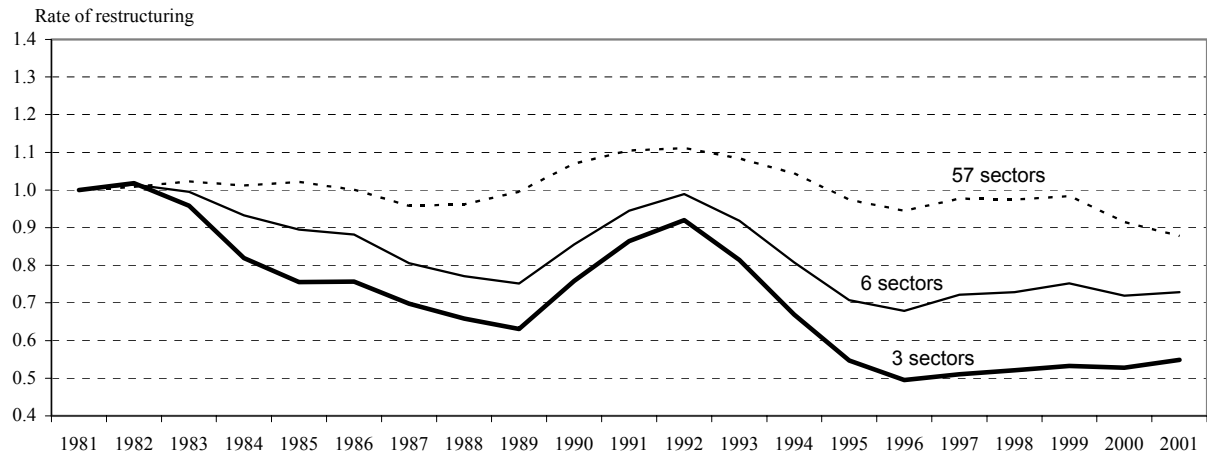
Box 1. The rate of structural change

Developments in sectoral employment shares provide one, albeit simple, measure of structural change.¹ The evolution of the adjustment process over time is sketched in the figure below, pointing to the conclusions that:

- At an aggregate level – where the economy is divided into only three sectors – a clear trend decline in the rate of structural change can be identified over the past three decades. This should not be surprising, as it largely mirrors the diminishing role of goods-producing sectors – and thereby of shifts out of these – in overall employment.
- More disaggregated indicators show less of a decline over time. This suggests that structural changes in employment patterns take place to an increasing extent between broad industries within the service sector, as shifts of employment from goods-producing sectors to services have tapered off. This pattern is likely to persist, not least because new service industries and categories of employees are becoming exposed to international competition.
- The structural-change indicators, and in particular the aggregated ones, may suggest a cyclical pattern, with peaks in net sectoral labour flows during recessions (as in the early 1990s). This suggests that the structure of the economy is not evolving smoothly, underlining that involuntary job displacements are an integral part of the process.

The rate of change in sectoral employment patterns

OECD average, three-year moving averages, index 1981=1^{1,2}



1. The rate of restructuring is calculated as: $0.5 \cdot \sum_i |N_{i,t} - N_{i,t-1}|$, where $N_{i,t}$ denotes the share of sector i in total employment at time t . An unchanged employment pattern returns an indicator value of zero. The indicator is calculated for three sectors (primary, secondary and tertiary industries), six sectors (dividing services into producer, distributive, social and personal services) and 57 sectors. See Appendix 1 for sectoral classification.

2. Simple average of 20 OECD countries. See Appendix 2 for individual country results.

Source: The OECD STAN Database for Industrial Analysis and Groningen Growth and Development Centre Database.

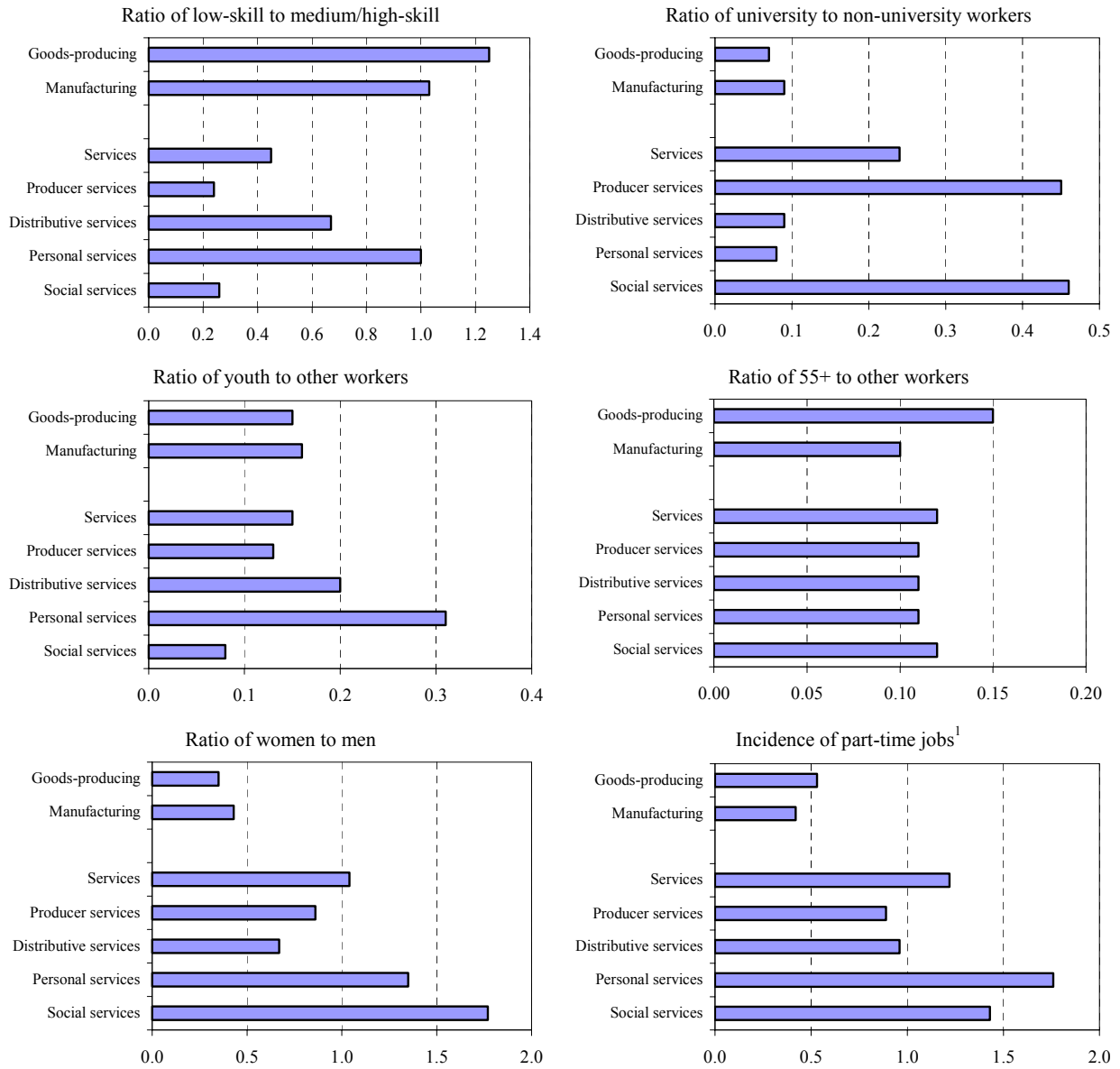
1. The rate of structural change cannot easily be measured as it involves changes within firms, as well as between firms, industries and regions. The indicators presented in this box are also subject to certain limitations. They are, for instance, sensitive to the chosen aggregation level, and pick up relative expansion and contraction of sectors over the business cycle. See European Commission (2000) and Greenaway et al. (2000) for recent examples on the use of this type of indicators.

Source : The impact of structural policies on trade-related adjustment and the shift to services , OECD April 2005

Annex 4

Job characteristics by sector

OECD average



1. Ratio of incidence of part-time employment in each sector to average incidence for all sectors.

Source: OECD Employment Outlook 2000, Chapter 3; OECD Employment Outlook 2001, Chapter 3; and Jean and Nicoletti (2002).

Source : *The impact of structural policies on trade-related adjustment and the shift to services* , OECD April 2005

Annex 5: Globalisation of services and job losses in the service sector

Even though there are no official statistics measuring the extent of offshoring, anecdotal evidence suggests that international sourcing of intermediate services has increased in recent years. This development has been triggered by technological advances and supported by deregulation and trade liberalisation, as well as increased supply of highly-skilled workers in several developing countries. In principle, the range of services that can potentially be offshored is significant. It includes services jobs using information technology, both low-skilled activities such as data entry, word processing and call centres, and highly-skilled activities, such as software development and professional business supports. OECD estimates place the total number of jobs that could potentially be affected by domestic or global outsourcing at close to 20% of employment in several member countries (van Welsum and Vickery, 2005).

Current estimates, which are subject to significant uncertainty, indicate that offshoring in coming years will accelerate in most OECD countries (see table below). The impact on domestic labour markets in terms of gross and net job losses is, however, likely to be modest, compared to aggregate economic activity:

- In the United States, for example, the frequently cited estimate of 3.3 million white-collar jobs moving overseas by 2015 translates into an average quarterly job-loss rate of 55 000 jobs (McCarthy, 2004), which is small in comparison to the more than 7 million jobs destroyed on average every quarter over the past decade as a result of the normal functioning of the economy.¹ Other OECD countries such as Germany, France and Italy are expected to see even more moderate movements of service jobs abroad than the United States.
- The creation of jobs abroad does not necessarily imply job losses at home. Evidence from large financial firms in the United States, for example, shows that a majority of workers affected by outsourcing are repositioned within the firm. Moreover, by raising productivity and profitability, offshoring of certain tasks can secure other domestic jobs, and thus further dampen the net impact on domestic employment possibilities.
- Jobs are also moving in both directions, as firms in developing countries import business services from the OECD area. Significant international sourcing of services also takes place within the OECD area. As a consequence, several OECD countries have actually experienced a net inflow of service jobs from offshoring in recent years (Amiti and Wei, 2004).

Many exposed service sectors, including the call centre industry, have continued to grow in terms of employment in most OECD countries, despite increased offshoring. In any case, offshoring should not permanently lower employment and production as resources are redeployed in other activities, while the short-run impact depends on countries' adjustment capacities.

Job losses in services due to offshoring. Selected estimates

Institution	Country/region	Estimate
Projections:		
McCarthy (2004)	United States	A total of 3.3 million white-collar jobs expected to move offshore by 2015.
Parker (2004)	16 European countries	1.2 million IT and service jobs to move to offshore locations by 2015. UK likely to be most affected, with an overall impact relatively similar to the United States, while Germany, France and Italy are expected to see moderate job movements offshore.
Deloitte Research ¹	United States, Western Europe	More than 800 000 financial-service jobs estimated to be lost in Western Europe by 2008, while roughly 2 million jobs could be lost by 2009 in the United States.
Historic estimates:		
McCarthy (2002)	United States	About 103 000 service jobs moved offshore in 2000
Goldman Sachs ¹	United States	Up to half a million layoffs can be attributed to offshoring in the period 2001-03
Global Insight (2004)	United States	A total of 104 000 IT software and service jobs lost due to offshoring as of 2003
<p>1. Estimates as referred to in media reviews. Source: As indicated in table.</p>		
<p>1. The average loss of more than 7 million jobs refer to declines in employment in existing establishments and those which are closing down.</p>		

Annex 6

Trade and Structural Adjustment: Recommendations for Good Practice **EXECUTIVE SUMMARY**

TRADE AND STRUCTURAL ADJUSTMENT: EMBRACING GLOBALISATION – OECD 2005

On the basis of the cases examined in this study and other experience gained in the OECD peer review process, governments in both developed and developing countries are recommended to:

1. Rely, wherever possible, on **generally available measures to address adjustment costs**, including through the social security and tax system, in order to help improve the benefits from openness while reducing adjustment strains.
2. Ensure that **targeted adjustment measures**, should these be considered necessary for reasons of economic efficiency or political economy, are:
 - 2.1. Time-bound, with a clear exit strategy;
 - 2.2. Decoupled from production;
 - 2.3. Aimed at re-employing displaced workers;
 - 2.4. Compatible with general safety net arrangements;
 - 2.5. Cost-effective;
 - 2.6. Transparent and accountable.
3. Foster an adjustment-enabling environment, through the promotion of **macroeconomic stability** and growth, which supports the effective functioning of labour markets and the economy in general, and which, particularly in the case of developing countries, complements the process of trade liberalisation by:
 - 3.1. Removing anti-export bias and maintaining appropriate exchange rate policies.
 - 3.2. Encouraging tax reforms to offset declines in government revenue resulting from tariff reductions.
4. Adopt sound **labour market policies** which facilitate the reallocation of workers towards higher productivity employment and so help economies – and their citizens – reap the gains from trade. These entail:
 - 4.1. Income-replacement benefits that provide adequate income security for displaced workers while fostering their reintegration into employment. Thus, welfare benefits should support work incentives and not be used as a way to withdraw displaced workers from the labour force (as has often been the case with early retirement and disability schemes).
 - 4.2. Active labour market programmes, including job-search assistance, counselling, training, moving allowances and proactive measures in anticipation of mass layoff. These entail:
 - 4.2.1: Active bipartite co-operation between management and workers' representatives and wider tripartite co-operation with the government in accordance with national practice.
 - 4.2.2: Realistic assessment of workers' labour market opportunities and adjustment assistance needs.
 - 4.2.3: Use of external specialists in the case of large-scale layoffs.
 - 4.2.4: Programmes that are of sufficient duration to provide real support while also discouraging complacency.
 - 4.2.5: Complementary support via income-replacement benefits.
 - 4.3. Employment protection policies that achieve a balance between lessening adjustment costs and not restricting business dynamism.

4.4. Flexible wage-setting systems, pension portability and fluid housing markets.

4.5. Education and training systems that foster the development of human capital and help ensure that labour skills meet evolving labour market needs.

5. Foster a sound **regulatory and competition environment** which permits transformation within firms as well as entry and exit across sectors by facilitating mergers and shifts in corporate culture, keeping regulatory barriers on enterprises to the necessary minimum and reducing the trade-distortive effects of domestic regulation through the reinforcement of: 5.1: Transparency. 5.2: Non-discrimination. 5.3: Avoidance of unnecessary trade restrictiveness. 5.4: International harmonisation of standards. 5.5: Streamlined conformity assessment. 5.6. Vigorous application of competition principles.

6. Foster a strong **institutional and governance framework** that will favour structural reform, while also enhancing public understanding and acceptance of reform measures, via: 6.1: Effective ex ante policy evaluation, including analysis of whether proposed structural reform is in the overall interests of the community. 6.2: Independent review processes to ensure that benefits will outweigh costs while avoiding conflicts of interest. 6.3: Mid-term and ex post evaluation to help ensure that policies will be modified if necessary in light of actual experience as well as unanticipated difficulties. 6.4: Effective social dialogue based on a well-functioning consultative process between the government and the public, including the private business sector. 6.5: Sound public institutions for managing the services and incentives provided to investors, importers and exporters.

7. **Adopt liberal trade policies** that support structural adjustment by contributing to economic growth, fostering competitiveness and innovation, improving access to essential imports and encouraging synergies between countries with different areas of comparative advantage, and which: 7.1. Maximise the particular welfare and flow-on benefits which arise from the liberalisation of trade in services; 7.2. Are implemented over a time period long enough to enable affected parties to adjust but short enough to avoid back-tracking; 7.3. Rely sparingly on the use of safeguards, with a careful assessment of whether their potential benefits in providing breathing space for – and greater public acceptance of – structural adjustment justifies the cost they entail; 7.4. Maximise opportunities for associated flows of foreign direct investment.

8. Undertake **reforms across different policy areas in a complementary, broad-based way**, in order to maximise cross-policy synergies and to reduce resistance to structural change, by helping ensure that those adversely affected by one reform may benefit from another.

9. Foster **bilateral and regional initiatives**, where regulatory co-operation can foster opportunities through trade or ease adjustment strains in particular sectors, and where trade-related adjustment and opening can be undertaken among bilateral or regional partners as a transition, or complement, to wider multilateral commitments.

10. Foster **multilateral co-operation in the adjustment-related and interlinked areas of:**

10.1. Trade and finance, by avoiding mutually destructive trade policy retaliation, helping lock in domestic reform, while addressing in particular adjustment related concerns of developing countries, via: 10.1.1. A sustained commitment to the trade-liberalising and rules strengthening objectives of the Doha Development Agenda.

10.1.2. The effective application of special and differential treatment for developing countries. 10.1.3. Strengthened disciplines on the provision of officially supported export credits. 10.1.4. Enhanced co-operation by the WTO, the World Bank and the IMF to ensure greater coherence in global economic policy making.

10.2 Capacity building, via: 10.2.1. Effective co-ordination of the WTO, IMF, World Bank, ILO, bilateral donors and other multilateral agencies to help reinforce developing country institutional and supply-side capacities. 10.2.2. Co-ordination of donor activities.

10.3. Corporate responsibility and core labour standards, via: 10.3.1 Ongoing efforts to enhance the effectiveness, transparency and timeliness of the implementation of the OECD Guidelines for Multinational Enterprises. 10.3.2 Ongoing application of the OECD guidelines relating to corporate social governance in the provision of official support for export credits. 10.3.3 Ongoing application of core labour standards and promotion of decent work, notably by the promotion of the ratification of the relevant conventions and through continued enforcement of the ILO Declaration on Fundamental Principles and Rights at Work.
