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COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION STAFF WORKING DOCUMENT

accompanying the

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND THE COUNCIL

**amending Regulation (EC) No 1927/2006 on establishing the European Globalisation
Adjustment Fund**

SUMMARY OF THE IMPACT ASSESSMENT

{COM(2008) 867 final}
{SEC(2008) 3055}

INTRODUCTION

In the light of the scale and the speed of the current economic crisis the proposal prepared by the present impact assessment had to be adapted. The Commission announced in its European Economic Recovery Plan, adopted on 26 November 2008, that it would propose to extend the scope of the EGF as part of Europe's crisis response and turn it into an early, more effective intervention instrument in line with the fundamental principles of solidarity and social justice. This led to the introduction in the final proposal of the extension of the scope to "a serious disturbance in the economy due to globalisation", an element that was not covered by the version of the impact assessment presented to the Impact Assessment Board.

The impact assessment concerns the scheduled review of Regulation (EC) No 1927/2006 on the European Globalisation Adjustment Fund ("the EGF Regulation"), which Article 20 provides that the Commission may submit a proposal to review the Regulation on the basis of its first annual report. The Commission adopted its report on the first year of operation of the EGF on 2 July 2008 and indicated in that report that it would examine ways to improve the performance of the EGF. The impact assessment was carried out between July and September 2008. Given the tight deadlines for making progress within the current European Parliament, the other departments concerned were consulted on an ad hoc basis during the preparation of the impact assessment.

The Commission consulted the Member States' experts and social partners twice: first in July 2008 by way of a questionnaire relating to EGF operations and management and to the possible improvements identified in the EGF annual report, and secondly at a conference of Member State representatives and other stakeholders held in Brussels on 4 September 2008. Besides the views expressed by Member States and other stakeholders in response to the consultation, the impact assessment also used relevant external data. It has been revised to take into account the opinions of the Impact Assessment Board.

PROBLEM DEFINITION

The EGF was created in December 2006 in order to enable the European Union to show solidarity with and provide support for workers made redundant as a result of major structural changes in world trade patterns due to globalisation. It covers the period 2007–2013 and has an annual maximum budget of EUR 500 million to support active labour market policy measures such as assistance with job-search, training and mobility allowances. It was assumed in the impact assessment of the original proposal for the EGF Regulation¹ that the EGF could support 35 000 to 50 000 workers per year with between EUR 10 000 and 20 000 each.

The outcome of the first 18 months of EGF operations is significantly lower than that: during 2007 and the first half of 2008 the EGF received 12 applications for support from 8 Member States, totalling EUR 67.5 million of EGF support for 15 000 workers, and giving an average of EUR 4 500 per worker.

¹ SEC(2006) 274 accompanying COM(2006) 91.

Moreover in its proposal for An European Economic Recovery Plan the Commission has identified the need to make the EGF a more effective early intervention instrument and to fully exploit its potential as part of the crisis response. The current EGF Regulation specifies that only trade related redundancies are eligible for support. However global crisis impacts the real economy and employment in many other ways than through(international) trade. In addition to lowering the threshold for support the Commission is proposing to include changes in the definition of EGF eligibility to encompass redundancies that occur as a result of a serious disturbance in the economy and thus directly respond to the effects on employment of the crisis. In this way the EGF will be able to provide support to more workers who are in fact made redundant by globalisation but who could not be assisted so far. The key problems are:

- whether the stated objective of solidarity is being met by the current EGF, i.e. whether the EGF is available to the redundant workers concerned,;
- whether its actions match the needs of the individuals, and
- whether the EGF is an adequate instrument in the face of the gloal financial crisis.

In 2007 the European Restructuring Monitor (ERM) recorded 66 cases of restructuring of enterprises involving more than 1 000 workers, and there were a further 38 in the first half of 2008, as compared to 12 EGF cases during 2007 and 2008. ERM figures cover all recorded events regardless of their nature and some of them quite clearly fall outside the current EGF definition of eligibility. However, Member States have informed the Commission that even under current rules further applications could have been made for EGF assistance, but were not for a variety of reasons. Evidence gathered from national administrations and opinions expressed during the consultation suggest that cases might exist where redundancies are stretched over a longer period, not allowing the threshold to be reached within the reference period It is particularly difficult to collect of information from the regional and local levels within short reference periods.

The ERM also recorded 73 events involving between 500 and 1 000 workers and, just as for the larger cases, it is likely that some of these events are caused by changes in international trade patterns. However, these trade-redundant workers cannot benefit from EGF assistance because of its current eligibility criteria.

From these two considerations it can be concluded that the objective of solidarity of the EGF is only partially being met under the present rules and that this situation can be addressed by lowering the redundancy threshold for EGF applications from 1 000 to 500 workers.

On the issue of whether EGF actions match the needs of individual workers, analysis of the EGF cases, the FAQs to the Commission and input from the Member States' experts and other stakeholders indicate that the combination of requirements (especially implementing a coordinated package of personalised services within a 12-month period) is detrimental to the quality of the actions and does not leave sufficient time for the measures to be effective in re-integrating particularly the most vulnerable workers into new jobs. It is therefore proposed to extend the implementation period to 24 months.

Besides, in order to make the EGF co-funding more attractive to Member States it is proposed to increase the common intervention rate to 75% to bring it more into line with the Structural Funds.

OBJECTIVES

The general policy objective is to provide the Union with an efficient instrument to respond flexibly and confidently to serious economic disruption brought about by globalisation. The specific policy objective is to make the EGF a better performing and more flexible instrument by extending the coverage of the Fund and enhancing its effectiveness in re-integrating workers made redundant by globalisation into employment. The aimed operational objectives are to: (1) adapt the eligibility criteria to better reflect labour market characteristics; (2) increase the effectiveness of re-integration measures; (3) make co-funding from the EGF more attractive to Member States; (4) ensure equivalent treatment of all workers affected by developments in global markets; (5) improve the quality of applications and measures; and (6) provide legal certainty about undefined key elements in the current EGF Regulation.

POLICY OPTIONS AND ASSESSMENT

Four options — with two variants for the third option — have been assessed as to their social, economic and budgetary impact:

- Under option 1, "*No change*", the EGF Regulation would continue to apply unchanged. The advantages of this option relate to continuity in terms of the legislative framework and practical aspects of implementation of EGF-funded actions. As 2007 and 2008 were particular years in that there was an exceptionally low number of mass redundancy events, one would expect the number of EGF eligible events to double in 2009 and beyond.
- Under option 2, "*No change plus improvements*", a number of operational improvements would be introduced without changes to the EGF Regulation. These improvements would involve: simplifying procedures and application requirements; making use of existing networks to promote interest in the EGF among potential stakeholders and exchange of good experience; clarifying eligibility of the services sector and for measures such as mobility allowances and micro-credits; stepping up awareness-raising activities to achieve greater visibility of the EGF. However, a number of drawbacks with this option would make the EGF less effective as a financing instrument than was intended by the legislator: Member States would continue to face difficulties in meeting the intervention criteria and the short funding period would still make it difficult to provide actions which meet the needs of the workers concerned.

Under option 3, "*Improvements and operational changes*", the Commission assessed two variants related to the eligibility criterion:

- Under "variant A: Trade" of option 3, the eligibility criterion would continue to be changes in world trade patterns, but the EGF Regulation would be amended in the following ways: reduction of the trigger number of redundancies from 1 000 to 500; inclusion of redundancies occurring before the start of the reference period among the redundant workers eligible for EGF support; extension of the time period for implementation of EGF support from 12 to 24 months; clarification of the amount available for technical assistance at the initiative of the Commission and broadening of the scope of technical assistance through the inclusion of forward-looking activities; clarification of the meaning of "use" of the financial contribution; and increase of the standard intervention rate for EGF support from 50% to 75% of the total costs. Option 3 "variant A: Trade" would enable a greater number of redundant workers to benefit from the EGF and for a longer period. The impact

would be significantly positive in terms of re-integration into employment and effectiveness of the measures co-funded. However, this variant would not allow the EGF to ensure equal treatment for workers made redundant as a result of major changes in world markets.

- Under "variant B: Markets" option 3, the EGF Regulation would be amended as described above with one difference: eligibility would be expanded from major changes in world trade patterns to include also major changes in world markets, such as changes in production and product technology, changes in the organisation of production (such as company outsourcing) and the access to, and price of, raw materials and other inputs. Option 3 "variant B: Markets" would combine the positive impact of the variant described above with increased solidarity and social inclusion as a result of broadening the scope of globalisation events eligible for EGF support.
- Under Option 4 "Improvements and operational changes responding to a serious disturbance in the economy due to globalisation" the Regulation would be amended as in variant "Trade" above, but the scope would be further enlarged than in option "Markets" and this option would therefore represent all the positive elements of the other options and in addition enable the EGF to better respond to the needs brought about by the global financial crisis

CONCLUSION

From the analysis carried out by the Commission, it appears that option 4 " "Improvements and operational changes responding to a serious disturbance in the economy due to globalisation" provides all the benefits of the other options and has the potential to address more globalisation events and reach more workers receiving assistance from the EGF. Option 4 is therefore considered to better fulfil the objective of solidarity in as much as it makes support available to more redundant workers.