BUSINESSEUROPE

POSITION PAPER

16 April 2009

REVISION OF THE EUROPEAN GLOBALISATION FUND REGULATION

Introduction

1. On 16 December 2008, the European Commission adopted a draft regulation amending regulation (EC) 1927/2006 establishing the European Globalisation Adjustment Fund (EGF).

2. The European Commission has proposed to enlarge the scope of the EGF for a fixed period in order to enable it to intervene in response to the global financial and economic crisis.

3. Other operational changes have been proposed to facilitate the use of the EGF by the Member States, notably by reducing its intervention threshold from 1,000 to 500 redundancies, increasing the European Union co-financing rate from 50% to 75%, and by extending the implementation period from 12 months to 24 months.

4. The European Commission has also indicated that it will review the level of the budgetary means available to the EGF, which is currently set at € 500 million, in the light of the implementation of the revised rules.

General comments

5. Already in 2006, BUSINESSEUROPE expressed caution about the added value of creating a European Globalisation Adjustment Fund. Other structural funds, such as the European Social Fund, are already in place to promote the adaptability of workers and to help people enhance their skills, including in the case of restructuring. Moreover, companies stressed that the EGF should be designed in such a way as to complement labour market reforms in Member States. The very poor uptake of the EGF confirmed BUSINESSEUROPE's fears.

6. Two years after its creation, Member States have made only a very limited use of the EGF and no evidence has been provided so far about the effectiveness of the EGF in re-integrating people in the labour market who have been made redundant as a result of globalisation. In particular, the heavy application procedure for Member States to apply for funds under the EGF may play a role in the low take-up. A full assessment of the functioning of the EGF is needed immediately, in particular to assess whether there is any justification to continue to run this scheme.

7. As a result of the financial and economic crisis, the situation on Europe's labour markets is deteriorating significantly. The latest Commission forecasts expect employment growth to turn negative in 2009, with overall employment contracting by 1.6 % or some 3.5 million jobs**.** The annual average unemployment rate could reach 9.5% in the EU and more than 10% in the euro area by 2010.

8. BUSINESSEUROPE accepts that there is justification in considering how existing schemes might be adapted to address the crisis. However, European companies are very unsure that broadening the scope of the EGF, a largely unused and unproven scheme, is the answer. Therefore, any broadening of the EGF, which BUSINESSEUROPE does not oppose in principle, is only acceptable if it is temporary. In the meantime, the Commission should carry out an evaluation of the reasons why the EGF has not been used more by the Member States. This evaluation should be done in consultation with the social partners and also look at whether there is no duplication with other structural funds.

9. It is clear that there can be no justification for the increase of the EGF budget. The 2007 annual report published in July 2008, the Commission indicated that only 3.72% of the maximum annual amount of 500 million euros, i.e. 18.6 million euros, was granted by the budgetary authority during that year. The take-up of the EGF remained limited in 2008. It is therefore essential to make an in depth assessment of the reasons behind this.

10. According to its regulation, the EGF finances only Active Labour Market Measures and cannot contribute to passive social protection measures. Measures providing for a salary substitute or a kind of unemployment benefit should therefore be excluded from the scope of the actions that can be funded by the EGF under "job-search allowances". Moreover, ensuring complementarity with the European Social Fund is key to avoid double funding. The EGF must only provide one-off, time-limited, individual support, geared directly to activating workers who are made redundant and to promote their return to work.

11. The European Globalisation Adjustment Fund should primarily provide assistance to workers made redundant by enabling them to train and upskill so that they are reintegrated into the workforce as quickly as possible. It is essential that the training measures financed by the EGF encourage the development of skills that are aligned with the needs of employers. So doing, the EGF support would contribute to improve companies' and workers' capacity to adapt to change. This is key to reinforce Europe's competitiveness, which BUSINESSEUROPE believes is the real answer to globalisation.

Specific comments

Article 1 – Scope

12. As mentioned above, BUSINESSEUROPE does not oppose in principle changes in the EGF's scope to also cover redundancies which occur as a result of the

economic and financial crisis. However, BUSINESSEUROPE insists that such a broadening is only acceptable if it is temporary. An in-depth assessment of the limited take-up and of the effectiveness of the EGF should be undertaken at the same time.

13. Furthermore, it is essential to avoid free-rider effects where redundancies which had been planned anyway would be ascribed to the effects of the economic crisis. Clear criteria need to be defined for Member States to establish whether collective redundancies are the direct result of the economic and financial crisis.

<u>Article 2 - Intervention criteria</u>

14. BUSINESSEUROPE is not against the lowering of the eligibility threshold from 1,000 to 500 employees as it may help increase the take-up of the EGF. However, this must only be done temporarily in the period during which the EGF will be mobilised in response to the economic crisis. The level of the eligibility threshold should be assessed as part of the Commission's review of the EGF's revised rules.

<u>Article 5 – Redundancies intervening before or after the 4-month period</u>

15. All redundancies which are connected to the same cause or event need to be considered on an equal footing. BUSINESSEUROPE therefore supports the Commission proposal to ensure equitable and non-discriminatory treatment of those workers whose redundancy occurred before or after the 4-month reference period.

<u>Article 10 - Co-financing</u>

16. BUSINESSEUROPE opposes an increase in the EGF's co-financing rate from 50% to 75%. A contribution of 50% by the Member States is an important guarantee that the EGF's interventions are absolutely necessary. The EGF's intervention should not replace national policies but rather complement them. This complementarity is important to achieve more efficiency and to ensure that the full opportunities of national labour market reforms are harnessed.

<u>Article 13 – Implementation period</u>

17. It is important not to create any incentives for people to benefit from the EGF for a period which goes beyond what is needed to find a new job. BUSINESSEUROPE believes that 12 months is an adequate timeframe and therefore does not see the need to prolong it to 24 months. Moreover, after 12 months redundant workers become long-term unemployed. Specific national policies should be devised to respond to the concrete challenges of the long-term unemployed.

Conclusion

18. The EGF's main aim is to ensure a quick re-integration of redundant workers in the labour market. The EGF should therefore focus on training measures, which lead to the acquisition of skills and competences, which are needed on the labour market. In that the European Globalisation Fund can play an important supporting role to increase the

adaptability of workers. This is essential to reinforce Europe's competitiveness and to ensure that Europe's companies and workers can reap all the benefits of globalisation. However, it is apparent from the very uptake of the EGF that the current mechanism is not working, so an urgent review must take place.

19. BUSINESSEUROPE accepts that the current crisis justifies consideration being given to a limited and conditioned expansion of the scope of the EGF. BUSINESSEUROPE does not oppose in principle changes in the EGF's scope to cover redundancies which occur as a result of the crisis. This should be done on a temporary basis and should not lead to an increase in the EGF's budget. In the meantime, the Commission should carry out an evaluation of the reasons why the EGF has not been used more by the Member States. This evaluation should be done in consultation with the social partners. It should also look at whether there is no duplication with other structural funds.

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