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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the mobilisation of the European Globalisation Adjustment Fund

(presented by the Commission)

EXPLANATORY MEMORANDUM

The Interinstitutional Agreement of 17 May 2006¹ allows for the mobilisation of the European Globalisation Adjustment Fund through a flexibility mechanism, within the annual ceiling of EUR 500 million over and above the relevant headings of the financial framework. The conditions of eligibility to the Fund are detailed in Regulation (EC) No 1927/2006² of the European Parliament and the Council.

The Commission services have carried out a thorough examination of the two applications by Germany and Finland in accordance with Regulation (EC) 1927/2006 and in particular with Articles 2, 3, 4, 5 and 6 thereof.

The most important elements of the assessments can be summarised as follows:

Case EGF/2007/03/DE/BENQ

1. The application was presented by the German authorities to the Commission on 27 June 2007. It was based upon the specific intervention criteria of Article 2(a) of Regulation (EC) No 1927/2006 and was submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.
2. The application relates to redundancies in two German subsidiaries of BenQ, i.e. BenQ Mobile GmbH&Co OHG (production of mobile phones) and Inservio GmbH (provision of repair services for Siemens and BenQ mobile phones). It demonstrates a total of 3 303 redundancies during the 4-month period of reference (from 22 December 2006 to 21 April 2007), of which 2 828 occurred in BenQ Mobile GmbH&Co OHG and 475 in Inservio GmbH. The redundancies were caused by the withdrawal by BenQ of all financial support to its two German subsidiaries, causing their insolvency.
3. Analysis of the link between the redundancies and the major structural changes in world trade patterns is based on the following information. A general trend amongst mobile phone manufacturers towards a delocalisation of their production to Asia, primarily China is shown. The main reasons for this delocalisation to China are in the first instance comparative manufacturing cost advantages, but also the proximity of technology partners and a strong increase in local demand. According to the application the assembly costs for a mobile phone amount to about EUR 8 to 10 per unit for production in countries with high wages such as Germany, whereas in China these costs are about EUR 1.50 per phone. Between 2005 and 2008 the world-wide demand for mobile phones is estimated to increase by 9 %, for the same period this increase is estimated at around 5 % in Europe and about 13 % in China.
4. Between 2001 and 2006 the world production of mobile phones increased from 400 million up to 991 million units. In 2001 production in China reached 80 million units or 20 % of world production. In 2006 China produced 450 million units or 45 % of world production. In 2002 46 % of the Chinese mobile phone production was

¹ OJ C 139, 14.06.2006, p. 1

² OJ L 406, 30.12.2006, p. 1

exported, in 2006 the export share increased up to 75 %, i.e. 340 million units out of the 450 million produced.

5. Before the closure of its German production sites, the production capacity of BenQ (in mobile phone units) was distributed as follows: China: 30 million, Taiwan: 5 million, Brazil: 15 million and Germany: 15 million units. The production capacity utilization was 75 % in China, 40 % in Taiwan, 45 % in Brazil and 60 % in Germany. BenQ has announced its decision to shift production from Germany towards its manufacturing sites in China, Taiwan and Brazil. From data provided by BenQ Corporation³ the trend towards a delocalisation of production is also visible in the employment figures: in 2003 Europe (EU-27 and former Soviet Union) represented 31 % of the number of employees and China 15 %, in 2006 Europe dropped to 24 % and China increased to 18 %.
6. As regards the fulfilment of the criteria set out in Article 6 of Regulation (EC) No 1927/2006 Germany provided the following elements: Germany has confirmed that the financial contribution from the EGF does not replace measures which are the responsibility of companies by virtue of national law or collective agreements. In Germany enterprises are obliged to adopt a social plan in order to attenuate the possible negative economic impact on the workers of a change in operations. However, this obligation does not apply to new enterprises during the first four years following their establishment. This is the case for the two German subsidiaries of BenQ. In cases of restructuring, German labour law provides for transfer instruments, such as a transfer company, in order to support redundant workers in a structured manner in their search for a new job. However, there is no legal obligation to create a transfer company. In order to demonstrate the complementarity with measures taken at national or local level, the application distinguishes between the complementary EGF package and the initial package of active labour market measures, mainly financed by the national authorities and Siemens AG. The key component of this initial package was the creation of a transfer company that is operational for one year from 1 January to 31 December 2007. Germany has confirmed that actions funded under the EGF will not receive assistance from other Community financial instruments.

In conclusion, for the reasons set out above, it is proposed to accept application EGF/2007/03/DE/BENQ submitted by Germany relating to the redundancies in connection with the insolvency of two BENQ subsidiaries, as evidence has been provided that these redundancies result from major structural changes in world trade patterns which have led to a serious economic disruption, which affects the local economy. A coordinated package of eligible personalised services for the amount of EUR 25 532 300 has been proposed of which the requested contribution of the EGF is EUR 12 766 150.

³ BenQ company factsheet:<http://benqu.com/page/?pagelid=5>

Case EGF/2007/04/FI/PERLOS

1. The application was presented by the Finnish authorities to the Commission on 18 July 2007. It was based upon the specific intervention criteria of Article 2 (c) of Regulation (EC) No 1927/2006 related to small labour markets and was submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.
2. The application demonstrates a total of 899 redundancies in Perlos during the period of reference (from 7 March 2007 to 6 July 2007), plus another 9 redundancies in subcontractors and downstream operators, i.e. a total of 908 redundancies resulting from the Perlos factory closures. A further 7 people were given their notice by Perlos between 10 and 31 July and are also eligible for the measures to be implemented. The redundancies were caused by the decision of Perlos to discontinue production activities in Finland and to close down its two factories located in Joensuu and Kontiolahti, Northern Karelia, by September 2007.
3. Analysis of the link between the redundancies and the major structural changes in world trade patterns is based on the following information. A general trend amongst mobile phone manufacturers towards a delocalisation of their production to Asia, primarily China is shown. The main reasons for this delocalisation to China are in the first instance comparative manufacturing cost advantages, but also the proximity of technology partners and a strong increase in local demand. A key factor determining the delocalisation is the speed of the production cycle. Suppliers in the mobile phone industry are now expected to respond to orders within 2 hours, "Just In Time" (JIT), so as to save storage costs and respond without delay to the demands of the market. This necessitates moving manufacturing sites to the immediate vicinity of the large brands. It also cuts transport costs, which is especially important for the new generation of cheap mobile phones. Between 2005 and 2008 the world-wide demand for mobile phones is estimated to increase by 9 %, for the same period this increase is estimated at around 5 % in Europe and about 13 % in China.
4. Between 2001 and 2006 the world production of mobile phones increased from 400 million up to 991 million units. In 2001 production in China reached 80 million units or 20 % of world production. In 2006 China produced 450 million units or 45 % of world production. In 2002 46 % of the Chinese mobile phone production was exported, in 2006 the export share increased up to 75 %, i.e. 340 million units out of the 450 million produced.
5. Before the closure of its Finnish plants, the staffing of Perlos (including temporary workers) was distributed as follows: EU 4,207 (Finland, Sweden and Hungary, including 1,105 temporary workers), Asia 7,612 (mainly China and India, including 4,605 temporary workers), North and South America 1,125 (mainly Brazil and Mexico, including 5 temporary workers). Perlos employed 1,600 people in Finland at the end of 2006 (with no temporary workers).

As regards its factory setup, while Finland in the first quarter of 2007 still provided 26 % of the Perlos global factory space in terms of square metres, with China at 41 % and India at zero during the same quarter, this changes drastically for the second half of 2007, when Finland provides zero factory space, China rises to 58 % and India appears for the first time at 12 %.

6. As regards the fulfilment of the criteria set out in Article 6 of Regulation (EC) No 1927/2006 Finland provided the following elements: Finland confirmed inter alia that the financial contribution from the EGF does not replace measures which are the responsibility of companies by virtue of national law or collective agreements. These concern in particular the obligations which employers, employees and the Employment Office have under the change security operating model. The Finnish authorities provided evidence that the actions provide support for individual workers and are not used for restructuring of companies or sectors. Finland further confirmed that the eligible actions, referred to under points 15 to 17 in the Communication (SEC(2007) 1228), do not receive assistance from other Community financial instruments. Finland mentioned a regional ESF funded project, called "A Bridge Between Working Life Phases", which is different but complementary to the proposed EGF support. The project is being implemented in Northern Karelia since 1 October 2006. Its aim is to create an operating model for responding to challenges posed by dismissals, to produce a guidebook in which information relevant to dismissals is gathered and to seek out support measures that are complementary to those enabled by change security.

In conclusion, for the reasons set out above, it is proposed to accept application EGF/2007/04/FI/PERLOS submitted by Finland relating to 915 redundancies caused by the closure of the PERLOS plants and of its subcontractors in Northern Karelia, as evidence has been provided that these redundancies result from major structural changes in world trade patterns which have led to a serious economic disruption, which affects the local economy. A coordinated package of eligible personalised services for the amount of EUR 4 057 075 has been proposed of which the requested contribution of the EGF is EUR 2 028 538.

Financing

The total annual budget available for the European Globalisation Adjustment Fund is EUR 500 million. In 2007, EUR 3 816 280 have already been earmarked for two earlier applications leaving EUR 496 183 720 available.

The Commission's proposed allocation under the Fund is based on the information made available by the applicant.

On the basis of the two applications for support from the Fund by Germany and Finland where the mobile phone industry was affected by redundancies of BENQ and PERLOS, total estimates of the coordinated packages of personalised services to be funded are as follows:

	Personalised services to be funded (in EUR)
Germany: BENQ 03/2007	12 766 150
Finland: PERLOS 04/2007	2 028 538
Total	14 794 688

In the light of the examination of these applications⁴, and considering the maximum possible grant from the Fund as well as the scope for reallocating appropriations, the Commission proposes to deploy the European Union Globalisation Adjustment Fund for a total amount of **EUR 14 794 688**, to be allocated under heading 1a of the financial framework.

This amount of support will leave more than 25 % of the European Globalisation Adjustment Fund available for allocation during the last four months of the year, as required by Article 12 (6) of Regulation 1927/2006.

The Commission will present a transfer request in order to enter in the 2007 budget specific commitment and payment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

⁴ Communication to the Commission on an application to mobilise the European Globalisation Adjustment Fund introduced by Germany in the case of BENQ (SEC(2007) 1142) and Communication to the Commission on an application to mobilise the European Globalisation Adjustment Fund introduced by Finland in the case of PERLOS (SEC(2007) 1228) setting out the analysis of the Commission of the requests.

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DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Inter-institutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management⁵, and in particular point 28 thereof,

Having regard to Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 establishing the European Globalisation Adjustment Fund⁶, and in particular Article 12(3) thereof,

Having regard to the proposal from the Commission⁷,

Whereas:

- (1) The European Globalisation Adjustment Fund (the "Fund") was established to provide additional support to workers who suffer from the consequences of major structural changes in world trade patterns and to assist them with their reintegration into the labour market.
- (2) The Interinstitutional Agreement of 17 May 2006 allows the mobilisation of the Fund within the annual ceiling of EUR 500 million.
- (3) Germany and Finland submitted applications to deploy the Fund, in respect of two cases concerning redundancies in the mobile phone sector, specifically for workers made redundant by BENQ and PERLOS. The applications comply with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006.
- (4) The Fund should, therefore, be mobilised in order to provide a financial contribution for the two applications,

⁵ OJ C 139, 14.06.2006, p. 1.

⁶ OJ L 406, 30.12.2006, p. 1.

⁷ OJ C [...], [...], p. [...]

HAVE DECIDED AS FOLLOWS:

Article 1

For the general budget of the European Union for the financial year 2007, the European Globalisation Adjustment Fund shall be mobilised to provide the sum of EUR **14 794 688** in commitment and payment appropriations.

Article 2

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

Done at Brussels,

For the European Parliament
The President

For the Council
The President