COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.2.2008
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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 2006[1] 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. Eligibility rules applicable to the contributions from the Fund are laid down in Regulation (EC) No 1927/2006[2] of the European Parliament and the Council.

The Commission services have carried out a thorough examination of the applications submitted by Malta and Portugal 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/2007/08/MT/Textiles

1. The application was presented by the Maltese authorities to the Commission on 12 September 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 relates to a total of 675 redundancies in two manufacturing companies operating in the Maltese textiles sector, namely VF (Malta) Ltd. and Bortex Clothing Ind Co Ltd. For *VF*, which is part of the multinational firm VF Corporation, the 562 redundancies were the result of the decision of this multinational to close down its factory in Malta with effect from 31 July 2007 and move production to sites in Asia. For *Bortex*, a Maltese firm with production sites in Malta and Tunisia, the 113 redundancies were caused by the decision to reduce its activities in Malta by closing down its sewing line as from 14 September 2007, while continuing with pressing, storage and distribution activities to clients within the Community and making prototypes. The individual notices of dismissal to the affected workers in the two companies were sent out between 19 June 2007 and 6 September 2007. As the application is based on redundancies in a NACE 2 sector (no. 13 textiles) in a NUTS II region (MT00), the case is assimilated to those submitted under Article 2(b) of Regulation (EC) 1927/2006, which requires a threshold of 1,000 redundancies. Malta applied for its 675 redundant workers under Art 2(c) of the Regulation, because of the small size of its labour market.

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 of the clothing and accessories industry in the Community to delocalize their production to lower cost non-EU countries, such as China, India and Turkey is proven. Before its accession, Malta's textile exports went predominantly to the Member States. Due to increased competition from outside the EU the textiles sector in Malta has now come under pressure.

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[1] OJ C 139, 14.6.2006, p. 1

[2] OJ L 406, 30.12.2006, p. 1

4. The application uses EUROSTAT trade statistics to illustrate the evolution - between 2000 and 2006 - of trade in clothing and accessories into and out of the Community. For reasons of statistical comparability, the figures were adjusted in order to include all 27 current Member States for the whole period under consideration.

The trade position of the Community, measured as the ratio of the volume of clothes imported into the Community to the volume of clothes exported from the Community to third countries, has changed to the disadvantage of Community production. This ratio increased from 2.89 in 2000 to 4.29 in 2006, thus reflecting a much more rapid growth of imports compared to exports. The situation is further exacerbated by the pressure on prices as illustrated by the terms of trade. Indeed, in value terms, the import / export ratio for textiles shows a much more gradual increase, from 2.8 in 2000 to 3.3 in 2006 which, if compared to the import / export ratio in volume terms, demonstrates the downward pressure on prices. This has had a negative effect on the financial position of enterprises in the textiles sector in theCommunity, in particular those operating in the lower value market segments (non-fashion, and non-design clothes).

Between 2004 and 2006, the volume of clothes imported into the Community showed an annual increase of about 10 %. This is primarily related to much higher imports from China, following the expiry of the World Trade Organisation Multifibre Arrangement at the end of 2004. In 2006, China represented more than one-third of the total imports of clothes into theCommunity.

5. In order to illustrate the small size of the Maltese labour market, the application refers to indicators for the total active population and for the relative share of the redundancies in the total active population. The active population in Malta is the lowest of the EU-27. Malta accounts for 0.07 % of the total active population in the EU-27. The Maltese authorities claim that 1,000 redundancies in their country would represent 0.6 % of the active population, whereas for Member States such as Germany, the United Kingdom, France, Italy, Spain and Poland this would represent less than 0.01 % of the total active population. A simulation based on the same relative share of redundancies in the total active population indicates that the 675 redundancies in Malta would, for instance, be equivalent to about 170,000 redundancies in Germany, 125,000 in the United Kingdom and 115,000 in France.

These arguments are confirmed by the fact that Malta with its 400,000 inhabitants is significantly below the threshold put forward in the Nomenclature of Territorial Units for Statistics (NUTS). For regions at NUTS II level the relevant Regulation[3] lays down an average size of between 800,000 and 3 million inhabitants. Malta only reaches 50 % of the lowest threshold.

6. The application describes the impact of the 675 redundancies on the domestic labour market. Given the small size of the Maltese labour market, these redundancies correspond to 0.4 % of total employment. On the basis of EUROSTAT statistics and administrative records from ETC, the Maltese authorities claim that the 675

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[3] Regulation (EC) N° 1059/2003 of the European Parliament and of the Council of 26 May 2003 on the establishment of a common classification of territorial units for statistics (NUTS), 0J L 154 of 21.6.2003, p. 1, as subsequently amended

redundancies increase the number of unemployed persons by about 6.3 % and the unemployment rate by 0.4 % points from 6.8 to 7.2 %. It is further estimated that employment in the relevant NACE 2 sector will decrease by 60 % as a result of the redundancies in VF and Bortex. Simulations using an econometric model[4] indicate that the closure of production in VF and Bortex might result in a reduction in the growth of the Maltese Gross Domestic Product by 0.2 percentage point.

7. As regards the fulfilment of the criteria set out in Article 6 of Regulation (EC) No 1927/2006 the application provided the following elements: Malta 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 and has given assurances that the actions provide support for individual workers and are not to be used for restructuring companies or sectors. The Maltese authorities confirmed that the eligible actions do not receive assistance from other Community financial instruments.

In conclusion, for the reasons set out above, it is proposed to accept application EGF/2007/08/MT/Textiles submitted by Malta relating to the redundancies in connection with closing down of VF (Malta) and Bortex, 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 1 362 207 has been proposed of which the requested contribution of the EGF is EUR 681 207.

Case EGF/2007/10/PT/Lisboa-Alentejo

1. The application was presented to the Commission by the Portuguese authorities on 9 October 2007. It was based upon the specific intervention criteria of Article 2(b), relating to NACE rev 2 sectors in NUTS II regions, 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 concerns 1,549 redundancies in two companies located in NUTS II region PT18 Alentejo (Opel Portugal and Johnson Controls) and one company located in the contiguous NUTS II region PT17 Lisboa (Alcoa Fujikura) during the 9-month period of reference lasting from 20 December 2006 to 20 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: The redundancies result from a rapid decline of the Community share in world motor vehicle production which, according to the International Organisation of Motor Vehicle Manufacturers (OICA), was 30.6 percent (for EU-15) in 2001, but had declined to 26.9 percent (for EU-25) by 2006, despite the intervening EU enlargement. Motor vehicle production in Portugal is concentrated specifically in the lower value segment of the market, which has been particularly affected[5], and the resulting pressure is reflected in Portuguese production figures declining from 251,000 vehicles in 2002 to 227,000 in

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4 SAMM model of the Economic Policy Division within the Ministry of Finance, used to undertake economic policy simulations and to provide a framework for medium-term forecasts.

5 As was already demonstrated in SEC(2007) 881 and SEC(2007) 882

2006. The decline in Portuguese passenger car production was even more pronounced during the same period (182,000 in 2002, down to 143,000 in 2006).

Competitive pressure was also felt by individual manufacturers. Thus, the total production of General Motors in Europe declined from 2.03 mio units in 2000 to 1.77 mio units in 2006, leading to under-utilised production capacity and the subsequent concentration of manufacturing on the most efficient sites.

4. It is against this background that the Opel plant in Azambuja stopped production on 20 December 2006 which led to 945 redundancies which constituted about 40% of jobs in manufacturing industry in the municipality. Two Portuguese suppliers to the motor vehicle industry were similarly affected. Alcoa Fujikura, a producer of electric components for motor vehicles (in particular for Auto Europa, whose production declined from 137,000 units in 2001, to 82,000 units in 2006), closed down production at its plant in Seixal, leading to 440 redundancies. Johnson Controls (supplier of interior systems for automobiles with Auto Europa and General Motors / Opel as its main clients) decided to lay off 222 workers from its Portalegre plant. A total of 1549 unemployed workers registered with the Job Centre during the reference period and are included in this application. Registrations of unemployed persons in the motor vehicle sector in the whole of mainland Portugal during the 8-month period January to August 2007 where 0.7 % higher than during the same 8-month period in 2006. As regards the Lisboa-Alentejo region alone, the increase in unemployment over the same period was 7.5´%, demonstrating the gravity of the crisis in the sector and region during the first eight months of 2007.

In conclusion, in these circumstances, the redundancies can be seen as having a significantly negative effect on the local economies of Azambuja, Portalegre and Seixal.

5. As regards the fulfilment of the criteria set out in Article 6 of the EGF Regulation, the application provided the following elements: Portugal 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 and has given assurances that the actions provide support for individual workers and are not used for restructuring of companies or sectors. The Portuguese authorities confirmed that the eligible actions do not and will not receive assistance from other Community financial instruments.

In conclusion, for the reasons set out above, it is proposed to accept application EGF/2007/010 PT/Lisboa-Alentejo submitted by Portugal relating to the redundancies in three companies in NACE rev 2 Division 29 in the contiguous regions of Lisboa and Alentejo, 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, affecting the local economy. A co-ordinated package of eligible personalised services for the amount of EUR 4 851 350 has been proposed of which the requested contribution of the EGF is EUR 2 425 675.

Financing

The total annual budget available for the European Globalisation Adjustment Fund is EUR 500 million.

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

On the basis of the applications for support from the Fund submitted by Malta in which the textile industry was affected by redundancies due to closing down of VF (Malta) Ltd and Bortex Clothing Ind. Co Ltd, and by Portugal for redundancies in the automobile sector, total estimates of the coordinated packages of personalised services to be funded are as follows:

	Personalised services to be funded (in EUR)
Malta: Textiles 08/2007	***681* 207**
Portugal: Automobile sector 10/2007	**2 425 675**
Total	**3 106 882**

In the light of the examination of these applications[6], and considering the maximum possible amount of a grant from the Fund determined in accordance with Article 10 of Regulation (EC) N° 1927/2006 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 3 106 882**, to be allocated under heading 1a of the financial framework.

This amount of support will leave more than 25 % of the maximum annual amount earmarked for the European Globalisation Adjustment Fund available for allocation during the last four months of the year 2008, as required by Article 12 (6) of Regulation (EC) N° 1927/2006.

By presenting this proposal to deploy the Fund, the Commission initiates the simplified trialogue procedure, as required by Point 28 of the Inter-institutional Agreement of 17 May 2006, in view of securing the agreement of the two arms of the budgetary authority on the need to use the Fund and the amount required. The Commission invites the first of the two arms of the Budgetary Authority that reaches agreement on the draft mobilisation proposal, at appropriate political level, to inform the other arm and the Commission of its intentions.

In case of disagreement by either of the two arms of the budgetary authority, a formal trialogue meeting will be convened.

The Commission will also present a transfer request in order to enter in the 2008 budget specific commitment and payment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

[6] Communications to the Commission on an application to mobilise the European Globalisation Adjustment Fund introduced by Malta in the case of VF (Malta) Ltd and Bortex Clothing Ind. Co Ltd (SEC(2007) 1657) and of Portugal with regard to the automobile sector (SEC(2008) 102) setting out the analysis of the Commission of these requests.

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DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the mobilisation of the European Globalisation Adjustment Fund

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

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 management[7], 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 Fund[8], and in particular Article 12(3) thereof,

Having regard to the proposal from the Commission[9],

Whereas:

(1) The European Globalisation Adjustment Fund (the "Fund") was established to provide additional support to redundant 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) On 12 September 2007 Malta submitted an application to deploy the Fund, in respect of redundancies in the textile sector, specifically for workers made redundant by VF(Malta)Ltd and Bortex Clothing Ind Co Ltd. The application complies with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006.

(4) On 9 October 2007 Portugal submitted an application to deploy the Fund, in respect of redundancies in the automobile sector, specifically for workers made redundant by Opel in Azambuja, Alcoa Fujikura in Seixal and Johnson Controls in Portalegre. The application complies with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006.

(5) The Fund should, therefore, be mobilised in order to provide a financial contribution for the applications,

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7 OJ C 139, 14.6.2006, p. 1.
8 OJ L 406, 30.12.2006, p. 1.
9 OJ C […], […], p. […]

HAVE DECIDED AS FOLLOWS:

Article 1

For the general budget of the European Union for the financial year 2008, the European Globalisation Adjustment Fund shall be mobilised to provide the sum of EUR **3 106 882** 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