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EUROPEAN COMMISSION

Brussels, 2.8.2010
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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 in accordance with point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (application EGF/2009/015 DK/Danfoss Group from Denmark)

EXPLANATORY MEMORANDUM

The Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management¹ allows for the mobilisation of the European Globalisation Adjustment Fund (EGF) (point 28) within the annual ceiling of EUR 500 million over and above the relevant headings of the financial framework.

The rules applicable to the contributions from the EGF are laid down in Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund².

On 8 September 2009, Denmark submitted application EGF/2009/015 DK/Danfoss Group for a financial contribution from the EGF, following 1 443 redundancies in the Danfoss Group in Denmark.

After a thorough examination of this application, the Commission has concluded in accordance with Article 10 of Regulation (EC) No 1927/2006 that the conditions for a financial contribution under this Regulation are met.

SUMMARY OF THE APPLICATION AND ANALYSIS

Key data:	
EGF Reference no.	EGF/2009/015
Member State	Denmark
Article 2	(a)
Enterprises concerned	Danfoss A/S, Sauer Danfoss ApS, Danfoss Drives A/S
NUTS II region	DK03 - Syddanmark
NACE Revision 2 division	n/a
Reference period	01/03/2009 – 30/06/2009
Starting date for the personalised services	01/10/2009
Application date	08/09/2009
Redundancies during the reference period:	588
Redundant workers targeted for support	1,010
Personalised services: budget in EUR	12 986 846
Expenditure for implementing EGF ³ : budget in EUR	695 211
% expenditure for implementing EGF	5.1 %
Total budget in EUR	13 682 057
EGF contribution EUR (65 %)	8 893 336

1. The application was presented to the Commission on 8 September 2009 and supplemented by additional information up to 30 March 2010.

¹ OJ C 139, 14.6.2006, p. 1.

² OJ L 406 of 30.12.2006, p. 1.

³ In accordance with the third paragraph of Article 3 of Regulation (EC) No 1927/2006.

2. The application meets the conditions for deploying the EGF as set out in 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.

Link between the redundancies and major structural changes in world trade patterns due to globalisation or the global financial and economic crisis

3. In order to establish the link between the redundancies and the global financial and economic crisis Denmark argues that the redundancies in Danfoss A/S, Sauer Danfoss ApS and Danfoss Drives A/S are a direct consequence of the abrupt deterioration of demand for mechanical and electronic machinery as a result of the economic crisis and associated recession. It provides statistical evidence from Eurostat that demonstrates that the generally favourable evolution in production in the sector 'manufacture of machinery and equipment' changed dramatically in the fourth quarter of 2008 in the EU. In both Denmark and Germany (the leading EU producer) declines in production of 25 % and over were recorded between 2008 Q4 and 2009 Q3.

Denmark provided information that demonstrated that Danfoss adjusted net sales of the first nine months were 17 % lower than the year before, and the firm made a significant loss. Likewise, Sauer Danfoss had suffered a drop in sales during the third quarter of 2008 of 52 % in Europe, 48 % in the Americas and 23 % in the Asia-Pacific region.

The downturn in production caused by the crisis exacerbated an already difficult situation for companies in the sector. As a result of cost pressures from Asia, where labour costs are considerably lower than those in the EU, production had been progressively migrating out of the EU, including Denmark.

Companies in the Danfoss Group were not unaffected by the cost pressures, and had already started to move some production out of the EU, including to Mexico where Danfoss had already established a production facility. Denmark acknowledges that the redundancies in Danfoss and other companies in the sector would have occurred in any event, but would have taken place over a longer period, and could thus have been planned for and dealt with more easily.

The economic crisis placed unexpected pressures on the Danfoss Group, which saw its pre-tax profit drop from DKK 164 million in 2008 Q1 to a pre-tax loss of DKK 562 million in 2009 Q1. In such circumstances the company had no alternative but to close certain production facilities, with the redundancies as a consequence.

Denmark does not expect that any of the jobs lost in the three enterprises will return to Denmark even after the crisis. The cost pressures in the sector, along with the growing importance of markets in Asia and other non-EU regions, will ensure that any new production capacity is likely to be established outside the EU.

Demonstration of the number of redundancies and compliance with the criteria of Article 2(a)

4. Denmark submitted this application under the intervention criteria of Article 2(a) of Regulation (EC) No 1927/2006, which requires at least 500 redundancies over a four-month period in an enterprise and in its suppliers and downstream producers.
5. The application cites 588 redundancies in 3 enterprises of the Danfoss Group during the four-month reference period from 1 March 2009 to 30 June 2009. All of the redundancies were calculated in accordance with the 2nd indent of the 2nd paragraph of Article 2 of Regulation (EC) No 1927/2006.

Explanation of the unforeseen nature of those redundancies

6. The Danish authorities argue that the global economic and financial crisis exacerbated an already difficult situation for enterprises in the engineering sector. Cost pressures had been exerting pressure on enterprises in high-cost countries, and the reduction in demand and thus production that the crisis brought left the Danfoss Group with no alternative but to close loss-making production facilities. The suddenness of the crisis meant that alternatives could not be found quickly, and the depth of the recession meant that losses incurred by the Group were unsustainable.

Identification of the dismissing enterprises and workers targeted for assistance

7. The application cites a total of 1 443 redundancies in the following enterprises, of which 588 occurred during the reference period, and 855 which occurred before the reference period, but which are eligible for inclusion according to Article 3a (b) of Regulation (EC) No 1927/2006:

Enterprises and number of dismissals	
Danfoss A/S	345
Sauer Danfoss ApS	909
Danfoss Drives	189
Total Enterprises: 3	Total of Dismissals: 1 443

Denmark estimates that 70% of the redundant workers (1 010), will receive assistance from the EGF. The remaining 30% are expected to find employment through their own initiative without requiring assistance from the EGF.

8. The break-down of the targeted workers is as follows :

Category	Number	Percent
Men	624	61.8 %
Women	386	38.2 %
EU citizens	n/a	n/a
Non EU citizens	n/a	n/a
15 to 24 years old	96	9.5 %
25 to 54 years old	762	75.4 %
Over 54 years old	152	15.0 %

9. In terms of professional categories, the break-down is as follows :

Category	Number	Percent
Professionals	182	18.0 %
Technicians and associate professionals	107	10.6 %
Plant and machine operators and assemblers	721	71.4 %

10. In accordance with Article 7 of the Regulation (EC) No 1927/2006, Denmark has confirmed that a policy of equality between women and men as well as non-discrimination has been applied, and will continue to apply, during the various stages of the implementation of and, in particular, in access to the EGF.

Description of the territory concerned and its authorities and stakeholders

11. The territory concerned is the municipality of Sønderborg, which was established on 1 January 2007 as an amalgamation of seven previous municipalities. It has a population of 76 647. Geographically, it consists of two different parts: the island of Als and the Sundeved peninsula, connected by two bridges in the main town of Sønderborg. Als has a ferry connection over the Little Belt to Fyn, but the main transport artery in southern Jutland is to the west of the municipality. Especially northern Als, where Danfoss has its headquarters, is relatively remote. From the town of Sønderborg it is only 30 km by road to the German border, and part of the municipality is on the northern side of Flensburg Fjord, with a short journey across the water to the southern shore in Germany. The municipality is thus part of the border region. However, northern Schleswig-Holstein, the adjacent area, is not a German 'growth region'. In fact, over the last decade, there has been a significant migration of labour from Germany to southern Jutland. If there had not been a cluster of mechatronics firms around Danfoss, Als in particular would certainly have become a peripheral area, as is the case for example with the neighbouring areas of southern Fyn and the South Fyn archipelago. The area is especially characterised by a relatively high average age, and demographic forecasts suggest a decline in population over the next ten years — without considering the effects of the sudden economic downturn. Even if the average level of education and training is reasonably high, it is still a feature of the area that a significant proportion of the population has been employed in unskilled industrial jobs. To a large extent it is this section of the population which is now affected by globalisation.
12. The principal stakeholders include Sønderborg municipality and the region of South Denmark.

Expected impact of the redundancies as regards local, regional or national employment

13. The iron and metal industry in Sønderborg municipality represents around 25 % of all employment in the municipality. In the first nine months of 2009 registered unemployment climbed by more than 300 %, and the iron and metal industry has over the same time laid off more than 1 600 employees.

14. Denmark has provided evidence that the increase in unemployment in Sønderborg has been greater than the Danish average over the period from mid-2008 to mid-2009. During this period the numbers of unemployed workers in Sønderborg increased by around 250 %.
15. With around 15 % of the workforce, the engineering sector was the largest single sector in the area, and the job losses in the Danfoss Group will not be absorbed by other enterprises. Without retraining, the redundant workers are likely to find it difficult to be re-employed.

Co-ordinated package of personalised services to be funded and a breakdown of its estimated costs, including its complementarity with actions funded by the Structural Funds

16. Denmark proposes a package of measures in favour of the redundant workers that is built around three pillars, following an initial vocational counselling and placement: education and training, employment incentives and incentives for business start-ups. The package is designed to take into account the educational levels of the workers, their ability to be mobile, and current or expected job opportunities in the region. Although all of the targeted workers will participate in the initial counselling and placement, other actions may target smaller numbers of workers, some of whom will benefit from more than one action where appropriate.
17. An initial vocational counselling and placement is carried out in order to identify the best options for each worker individually. Each targeted worker is offered a basic training to identify their skills and to find the best fit with the available active labour market measures. It is estimated that 70 % of the redundant workers will avail of this action, at an estimated cost of €3 356 per worker.
18. The pillar 'education and training' comprises five separate actions:
 - (1) Supplementary training in tourism. It is estimated that 132 workers, predominantly those with low levels of educational attainment will benefit from the action, at an estimated cost of €6 644 per worker. The action aims to give the workers skills relevant to the growing tourism sector in the region, including advertising, marketing, branding, the service concept and business administration.
 - (2) Supplementary training in energy technology. Due to the focus on sustainability, demand for skilled workers from small, medium and large enterprises in the region is expected. It is proposed to train approximately 88 workers, predominantly those with low levels of educational attainment, to enter this industry, in close collaboration with existing employers in the region. The estimated cost per worker is €6 644.
 - (3) Attracting and retaining young people in education. The Sønderborg area is characterized by having a group of young people without training. There have been many initiatives to tackle this, but they have not had the desired effect. This action is aimed at attracting younger redundant workers back into education, for which additional support is needed, including guidance and material and financial support to facilitate the transition from work to study. It is estimated that 132 workers with low levels of educational attainment will benefit from this action, at an estimated cost of €6 711 per worker.

(4) Education and training in business management. An estimated 66 workers, predominantly those with low levels of educational attainment, will be offered training in aspects of business administration, such as accounting, planning, communication, and strategic management. The training will include both classroom and practical (on-the-job) training. The estimated cost per worker is €7 114.

(5) Remedial education. An estimated 352 of the older workers (aged 40-60) with very low levels of educational attainment will be offered remedial education in areas such as reading, spelling and mathematics in order to allow them to take advantage of other educational and employment opportunities. The cost per workers is estimated at €5 302.

19. The pillar 'employment incentives' comprises three separate actions:

(1) Incentives for older persons who wish to change career. This action aims to provide incentives to older workers (aged 40-60) who have worked in the metal sector to take up opportunities in other sectors. In recognition of the likelihood that the metal sector will not recover in the near future in the region, it is necessary to help these workers move to other sectors. This action will include guidance and mobility support, and it is estimated that around 88 workers will benefit, at an estimated cost of €4 952 per worker.

(2) Internships and mentoring. It is expected that around 264 of the younger workers with a low level of education will benefit from internships and mentoring, in close cooperation with businesses in the region which have a track record of recruiting staff from other sectors. The estimated cost per worker is €5 161. The aim is to ensure that these workers remain in close contact with the job market, to facilitate their reintegration as quickly as possible.

(3) Company-based training. In order to facilitate the reintegration of the unemployed into the labour market, this action offers on-the-job training, especially in SMEs, with a specific focus on the skills that such firms require. It is estimated that around 264 redundant workers will benefit from this action, at an estimated cost of €5 772 per worker.

20. The pillar 'incentives for business start-ups' contains three separate actions, all of which are aimed primarily at the older workers with low levels of education amongst the redundancies:

(1) Financial support to persons starting up businesses in growth industries. Financial assistance in the form of interest-only loans would be offered to redundant workers who start new companies in growth business such as the leisure or welfare sectors. It is expected that 44 people will benefit from it. The financial support may be awarded if the redundant worker recruits employees in the company he or she starts. It is estimated that the average loan per entrepreneur will be about €26 846.

(2) On-going advice and mentoring for entrepreneurs. To help new entrepreneurs to succeed, this action proposes to offer entrepreneurs ongoing advice and mentoring. It is expected that 66 will benefit, at an estimated cost of around €4 027 per worker.

Each entrepreneur will be assigned a mentor with knowledge of the sector who regularly consults and advises the entrepreneur. It is planned that the mentoring scheme will run for one year, and simultaneously it is planned to set up network groups within current and potential growth sectors, where new entrepreneurs can meet, discuss and cooperate.

(3) Support for advertising and branding of growth entrepreneurs. This action is designed to provide professional advice from an advertising agency on branding and advertising the start-up companies. It is expected that 18 workers will benefit from this action, which will run for six months, at an estimated cost of around €8 054 per worker.

21. The expenditure for implementing EGF, which is included in the application in accordance with Article 3 of Regulation (EC) No 1927/2006, covers preparatory, management and control activities as well as information and publicity.
22. The personalised services presented by the Danish authorities are active labour market measures within the eligible actions defined by Article 3 of Regulation (EC) No 1927/2006. The Danish authorities estimate the total costs of these services at €12 986 846 and the expenditure for implementing EGF at €695 211 (5.1 % of the total amount). The total contribution requested from the EGF is €8 893 336 (65 % of the total costs).

Actions	Estimated number of workers targeted	Estimated cost per worker targeted (in EUR)	Total costs (EGF and national co-financing) (in EUR)
Personalised services (first paragraph of Article 3 of Regulation (EC) No 1927/2006)			
<u>Vocational counselling and placement</u>	1 010	3 356	3 389 262
<u>Education and Training</u>			
Supplementary training in tourism	132	6 644	877 047
Supplementary training in energy technology	88	6 644	584 698
Attracting and retaining young people in youth or continuing training	132	6 711	885 906
Education and training in business management	66	7 114	469 530
Remedial education	352	5 302	1 866 309
<u>Employment incentives</u>			
Incentives for older persons who wish to change career	88	4 953	435 866

Internships and mentoring	264	5 161	1 362 523
Company-based training	264	5 772	1 523 758
<u>Incentives for business start-ups</u>			
Financial support to persons starting up businesses in growth industries	44	26 846	1 181 208
On-going advice and mentoring for entrepreneurs	66	4 027	265 772
Support for advertising and branding of growth entrepreneurs	18	8 054	144 966
Sub total personalised services			12 986 846
Expenditure for implementing EGF (third paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Preparatory activities			104 282
Management			347 606
Information and publicity			104 282
Control activities			139 042
Sub total expenditure for implementing EGF			695 211
Total estimated costs			13 682 057
<i>EGF contribution (65 % of total costs)</i>			<i>8 893 336</i>

23. Denmark confirms that the measures described above are complementary with actions funded by the Structural Funds.

Date(s) on which the personalised services to the affected workers were started or are planned to start

24. Denmark started the personalised services to the affected workers included in the co-ordinated package proposed for co-financing to the EGF, on 1 October 2009. This date therefore represents the beginning of the period of eligibility for any assistance that might be awarded from the EGF.

Procedures for consulting the social partners

25. The South Denmark region and Sønderborg municipality prepared the application jointly, with the involvement of various social partners, including industrial associations, trade unions and education and training institutions. A public hearing on the matter was also held, which was announced in the local and regional press, and all interested parties were able to participate.

26. The Danish authorities confirmed that the requirements laid down in national and Community legislation concerning collective redundancies have been complied with.

Information on actions that are mandatory by virtue of national law or pursuant to collective agreements

27. As regards the criteria contained in Article 6 of Regulation (EC) No 1927/2006, the Danish authorities in their application:
- 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,
 - demonstrated that the actions provide support for individual workers and are not to be used for restructuring companies or sectors,
 - confirmed that the eligible actions referred to under points 16 to 23 above do not receive assistance from other Community financial instruments.

Management and control systems

28. Denmark has notified the Commission that the financial contributions will be managed and controlled by the same bodies that manage and control the European Social Fund (ESF) funding in Denmark.

Financing

29. On the basis of the application from Denmark, the proposed contribution from the EGF to the coordinated package of personalised services is €8 893 336, representing 65 % of the total cost. The Commission's proposed allocation under the Fund is based on the information made available by Denmark.
30. Considering the maximum possible amount of a financial contribution from the EGF under Article 10(1) of Regulation (EC) No 1927/2006, as well as the scope for reallocating appropriations, the Commission proposes to mobilise the EGF for the total amount referred above, to be allocated under heading 1a of the financial framework.
31. The proposed amount of financial contribution will leave more than 25 % of the maximum annual amount earmarked for the EGF available for allocations during the last four months of the year, as required by Article 12(6) of Regulation (EC) No 1927/2006.
32. By presenting this proposal to mobilise the EGF, the Commission initiates the simplified dialogue procedure, as required by Point 28 of the Inter-institutional Agreement of 17 May 2006, with a view to securing the agreement of the two arms of the budgetary authority on the need to use the EGF 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 dialogue meeting will be convened.

33. The Commission presents separately a transfer request in order to enter in the 2010 budget specific commitment and payment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

Source of payment appropriations

34. In the current state of implementation, it is foreseeable that the payment appropriations available under the budget line 01.04 05 'Completion of programme for enterprises: improvement of the financial environment for small and middle-sized enterprises (SMEs)' in 2010 will not be fully used this year.

Payment appropriations are transferred to trust accounts as required to ensure that the European Investment Fund (EIF) is at all times in a position to make disbursements to the financial intermediaries.

The financial crisis had a major effect on the disbursement profile of financial instruments, particularly those in the area of venture capital. According to the European Venture Capital Association (EVCA), investments and divestments (exits) were more than halved between 2007 and 2009 compared to the pre-crisis situation. These developments had also a substantial impact on the forecasts in terms of disbursements for 2010.

As a consequence of the above elements, payment appropriations foreseen in the 2010 budget will not be fully needed in 2010. The amount of EUR 8 893 336 can therefore be made available for transfer.

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on the mobilisation of the European Globalisation Adjustment Fund in accordance with point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (application EGF/2009/015 DK/Danfoss Group from Denmark)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management⁴, 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 Fund⁵, and in particular Article 12(3) thereof,

Having regard to the proposal from the European Commission⁶,

Whereas:

- (1) The European Globalisation Adjustment Fund (EGF) was established to provide additional support for workers made redundant as a result of major structural changes in world trade patterns due to globalisation and to assist them with their reintegration into the labour market.
- (2) The scope of the EGF was broadened for applications submitted from 1 May 2009 to include support for workers made redundant as a direct result of the global financial and economic crisis.
- (3) The Interinstitutional Agreement of 17 May 2006 allows the mobilisation of the EGF within the annual ceiling of EUR 500 million.
- (4) Denmark submitted an application to mobilise the EGF, in respect of redundancies in the Danfoss Group. This application complies with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006. The Commission, therefore, proposes to mobilise an amount of €8 893 336.

⁴ OJ C 139, 14.6.2006, p. 1.

⁵ OJ L 406, 30.12.2006, p. 1.

⁶ OJ C [...], [...], p. [...].

- (5) The EGF should, therefore, be mobilised in order to provide a financial contribution for the application submitted by Denmark.

HAVE ADOPTED THIS DECISION:

Article 1

For the general budget of the European Union for the financial year 2010, the European Globalisation Adjustment Fund (EGF) shall be mobilised to provide the sum of €8 893 336 in commitment and payment appropriations.

Article 2

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

Done at,

For the European Parliament
The President

For the Council
The President