

003860/EU XXIV.GP  
Eingelangt am 17/12/08

**EN**



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17.12.2008  
SEC(2008)3103 final

**COMMISSION STAFF WORKING DOCUMENT**

**Restructuring in Europe 2008**

**A review of EU action to anticipate and manage employment change**

## PREFACE

Since its establishment, the European Union has been developing policies to encourage adaptation to economic change. Indeed, fostering the reorganisation of economic activity has always been the very essence of European integration. At the same time, the European Union has developed and applied instruments to support the – at times harsh – adaptations that such reorganisation has entailed for the companies, workers and regions concerned. Examples include the provisions of the ECSC Treaty, the European Social Fund and the other Structural Funds.

The combination of these two types of interdependent provisions – reorganisation and support – has ensured the success of the major economic transformations during the last five decades, and it has contributed to development that has been harmonious overall from the social viewpoint, despite the scale of the task and the inevitable disturbances associated with such far-reaching changes.

Today, change no longer constitutes a response to a specific crisis. It has become permanent, like the phenomena that underlie it. Globalisation and climate change affect the whole planet. The ageing of our population is underway and is likely to accelerate. As a result, the dual challenge Europe faces to remain competitive and manage social transitions harmoniously is all the harder to meet nowadays. This is even more the case because our economies have to cope not only with structural changes but also with a difficult economic situation.

The European Union has instruments to cope with the structural adaptation our economies need. The framework is provided by the Lisbon Strategy, with its focus on competitiveness, innovation, the knowledge society, investment in human resources, employment and environmental protection. Implemented at European, national and regional level, the strategy is backed up by a number of policies, which take the form of Community directives, the social dialogue, employment policy, industrial policy, structural policy, commercial policy, competition policy and so on. It has made an undeniable contribution to employment growth in Europe since 2002.

Faced with the financial market crisis and its effects on the real economy, the Commission has mobilised its instruments, in particular those of a financial nature, to contribute to efforts to stimulate growth and employment. Here the invitation to the Member States to step up the contribution their active labour market policies make to managing restructuring, and to redirect, where necessary, the contribution of the European Social Fund towards these policies is worth underlining.

This report reviews all the European Union's policies and instruments of a mainly structural nature that contribute to facilitating economic and social adaptation. It illustrates the greater coordination effort the Commission has made over the last few years to mobilise them effectively in the pursuit of that objective.

At the heart of our concerns is the need to find a political solution to the fundamental asymmetry between the benefits and the social costs associated with restructuring. The benefits are diffuse both in time and in space, while the costs are immediate and concentrated in certain regions and on certain categories of workers, often those least qualified. The Commission's objective in terms of restructuring is to help foster and disseminate a culture of

anticipation and innovation in the way restructuring is handled: this means progressing from a merely ad-hoc approach, involving at best passive anticipation, to a proactive approach to avert or alleviate the onset of crises through early, negotiated management of restructuring. Such management of change must strive to achieve greater competitiveness for our economies and professional mobility that is positive for the employees concerned. Those are the two criteria for success in managing restructuring.

The issue is to mobilise the necessary means for the sake of the two key beneficiaries directly affected by restructuring: the individuals, whose employability needs to be maintained and whose professional transitions needs safeguarding, and the labour catchment area, where the economic fabric needs preserving and the employment market needs to be defended.

Recent events in the economic sphere make it even more necessary for the public authorities and the social partners, including at European level, to play an active role in processes of major change.

Our goal is to make today's Community policies and instruments more effective. Current and future thinking on how to adjust the Lisbon Strategy and the Union's policies as a whole to changing economic and social conditions must incorporate a critical analysis of the past. This report provides a useful instrument to that end.

***Vladimír Špidla***

*Commissioner for Employment, Social Affairs and Equal Opportunities*

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## Executive summary

*An overview of how the EU helps anticipate and manage restructuring...*

This report presents a global overview of the European Union's main strategies, policies and actions that contribute to anticipating, preparing and managing change with a view to tackling the negative effects of restructuring. It aims to create awareness, stimulate debate on new approaches to change and foster dissemination of existing innovative practices and initiatives.

*Restructuring of company workforces is inevitable and can bring opportunities. But it can also have negative effects if not well anticipated or managed.*

The term 'restructuring' means a modification of a company's workforce that affects both the qualitative (skills and qualifications required) and quantitative features (number of jobs) following adaptations to the company's structure, organisation or production processes. Such adaptations, which are the result of many factors, such as changes in demand, the introduction of new processes and the arrival of new competitors, are necessary if companies are to remain competitive. They also bring new opportunities, as evidenced by the creation of over 12 million new jobs across the EU from 2000 to 2007. The social management of restructuring is designed to reduce the negative effects of such adaptations.

Globalisation, new technologies and demography are a few examples of drivers of the economic and social changes we see in our daily lives. Constant change has become a fact of life in our societies. The EU has decided to tackle one other major driver of change: global warming, and its consequence, climate change.

*A European database on restructuring*

The existing European database on restructuring indicates that restructuring is not a marginal phenomenon. From the beginning of 2002 to the end of 2007, over 7 000 cases of large-scale restructuring were recorded in the Member States. Restructuring is now becoming permanent and tends to occur in all Member States. Yet what is known of restructuring processes in public announcements is only the tip of the iceberg: 'silent restructuring' often goes unnoticed, engulfing hundreds of SMEs in waves, the effects of which may continue to be felt locally for years afterwards.

Restructuring that is not properly anticipated can have painful effects, especially on employment, working conditions and regional economies. Poorly managed restructuring may result in a loss of image for the company or the entire sector, and create a general mood of resistance to change, while well-managed restructuring can bring new challenges and opportunities. The success of the operation can be measured, on the one hand, by the enhanced competitiveness and ability to innovate of the companies or sector concerned and, on the

other, by the number of the jobs safeguarded or created and the successful social management of adverse repercussions.

It all depends on how the situation is dealt with at company level, how various stages are managed and how the various players work together to develop a common mindset enabling them to identify opportunities. The real issue is no restructuring *per se* but the way it is dealt with. In other words, successful restructuring demands anticipation and good management.

*The European Union has long acted to counter the negative effects of restructuring...*

The EU has a long tradition of cushioning the negative effects of change and restructuring. The European Coal and Steel Community gave birth to the European Social Fund (ESF) as early as 1958. Fifty years on, the ESF remains one of the Union's most powerful financial instruments for dealing with restructuring, together with the European Regional Development Fund. In the 1980s, programmes such as Rechar, Renaval, Resider and Retex provided funds to help modernise the textile and steel industries and support the economic conversion of areas and communities hit hardest by the decline of the coal-mining industry and shipyards. Through its financial instruments (especially the Structural Funds), the EU also promoted solidarity between the regions, helping the less developed to implement infrastructure improvements and assisting those facing economic hardship to overcome their difficulties and redeploy resources.

*... but has shifted from an interventionist stance...*

By taking stock of — and drawing lessons from — its experience, the EU has progressively developed a new approach to managing change. This has entailed a shift from the views that dominated the 1960s, 1970s, 1980s and partly the 1990s, which were characterised by public intervention in the management of companies and of the economy as a whole, and by relative stability in relations between labour and management.

The rapid pace of change triggered by globalisation, technological developments and other factors has radically altered public conceptions and those of many other stakeholders, as this report (especially Chapter 1) shows.

*... to a proactive approach: promoting anticipation, partnership and financial support for the less robust*

Amidst a variety of positions regarding the optimal level of public intervention and the importance of the EU's role in relation to the responsibilities of Member State governments, a common vision is emerging on how the phenomenon of change and restructuring should be addressed. Unlike the attitudes prevailing in many other areas of the world, in Europe it is widely believed that people, sectors, companies and regions cannot be left to deal alone with the consequences of such swift and far-reaching changes. That is why the EU now promotes a global approach based on the anticipation and management of change and restructuring through the many different policies, instruments and measures described in this report.



The current body of EU legislation and policy (particularly in the industrial, structural and employment areas) is based on the assumption that restructuring can work more effectively if those affected are involved in the management of change. Managing change at all levels, and not solely at company level, is a sign that the adaptation process can move forward on the basis of consensus, which is an essential condition for competitiveness.

*This report covers many different fields of EU action...*

Chapters 1 and 2 deal with the main drivers of change triggering restructuring and the issue of measuring it. Chapter 3 recalls the main policy papers produced by the Commission and other organisations in the last ten years, which have seen an enormous rise in the number of restructuring processes and heightened awareness among public bodies at all levels, the social partners and the public at large of the need to devise policies to cope with the phenomenon. The subsequent Chapters describe the contribution of the main EU policies to achieving that goal, namely the Lisbon Strategy, flexicurity, the European Research Area, life-long learning, industrial policy and competition policy (Chapter 4); EC labour law, social partners' agreements (Chapter 5); and cohesion policies through the financial support mechanisms existing at European level (Chapter 6). The report concludes (Chapter 7) with a description of the work done since the March 2005 Communication by the Unit in charge of restructuring in the Directorate-General for Employment, Social Affairs and Equal Opportunities (Employment DG), in close cooperation with many other Commission departments, other European and national institutions, the social partners and experts, to foster knowledge of the phenomenon of restructuring, to disseminate a culture of anticipation and to promote the establishment of mechanisms to help individuals, companies, sectors and regions to face change in a proactive and socially responsible way.

*... the strategy for growth and jobs...*

A key component of the EU's approach to restructuring is the strategy it launched in 2000 and renewed in 2005: the *Lisbon Strategy* aims for Europe to become the most competitive knowledge-based economy and proposes a global strategy involving clearly interlinked macroeconomic, microeconomic and employment guidelines. It provides a framework for actively anticipating and preparing for change through renewed industrial policy, active lifelong learning promotion and the design of policies which simultaneously address flexibility on the labour market and in work organisation, labour relations and employment, and social security.

*... industrial policy...*

Under the reformed Lisbon Strategy, a set of policies have been designed and are being implemented by the European Union with the Commission's active coordination to develop a systematic and proactive approach to management of change. European *industrial policy* aims to establish an enabling framework of conditions for enterprises and industry to increase their competitiveness. Targeted at all manufacturing or manufacturing-related enterprises, it relies on an

integrated and sectoral approach, incorporates structural changes, such as energy and environmental challenges, and pays special attention to SMEs.

...flexicurity...

The concept of *flexicurity* is part of the broad set of policies regrouped under the Lisbon Strategy; it provides for the possibility to design policies that simultaneously address the issue of flexibility on the labour market and in work organisation, labour relations and employment and social security in order to achieve the objectives of the Growth and Jobs Strategy while preserving and modernising the European Social Model and the values it embodies. *Flexicurity* relies on four pillars: modern social security systems, flexible reliable contractual arrangements, effective active labour market policies and comprehensive lifelong learning strategies. These four pillars are an integral part of the European Employment Strategy and are reflected in the Employment Guidelines addressed to the Member States. Recent developments in lifelong learning policies and their crucial importance in the Lisbon Strategy have a strong connection with restructuring owing to their capacity to help workers acquire new skills and competences.

... EU legislation on  
employee  
involvement...

There is a link between a well-functioning market and the existence of rules. The EU contributes actively not only to analysing change and developing and implementing various policies but also to framing the rules that allow restructuring to be anticipated and managed. Several directives have been transposed into national labour law, and restructuring and rescue aid are stringently monitored. *EU legislation* provides for protection and ensures worker participation in restructuring operations at both national and international level. Six directives have been issued on the subject, all of which pay special attention to workers' information and consultation. Community to buy time to come up with a restructuring plan. Restructuring aid may be provided on the basis of a comprehensive restructuring plan aimed at restoring long-term viability. The Commission regularly checks the implementation of these rules.

... promoting dialogue  
between trade unions  
and employers at all  
levels...

Sound management of the negative effects associated with restructuring relies on the extent to which the various stages are anticipated and the key players work together. Positive management of restructuring processes relies heavily on anticipation and *social dialogue*, the former being closely linked to the latter. In its policy choices for anticipating and managing change, the EU has been guided by its conviction that restructuring can be managed more effectively and in a socially responsible way if those most affected are actively involved in managing change. Social dialogue must therefore involve all actors at European, national, regional, sectoral, cross-sectoral and company level. This approach to managing change at all levels rather than solely at management level is an important condition for enhanced competitiveness as well as being a significant requirement for a successful consensus-based adaptation process.

Tackling the negative consequences of restructuring is therefore an integral part of a policy aimed at stepping up competitiveness.

The involvement of third parties such as the workers' representatives in merger operations is also presented in Chapter 4 and the role and action of the European social partners are presented in Chapter 5. Under Article 138(2) of the EC Treaty, the Commission launched two consultations of the social partners in 2002 and 2005 on restructuring and management of change. In 2003 the cross-industry European social partners drew up a set of guidelines entitled *Orientations for reference in managing change and its social consequences*. Several sectoral social dialogue committees have worked on anticipating and managing change. Transnational agreements on the subject have been adopted in large companies and early warning tools have been designed to help SMEs at risk of *going out of business* or bankruptcy.

*...the European Social Fund, the major financial tool for helping to anticipate and manage restructuring...*

The essential role played by the European Social Fund in the anticipation and management of restructuring but also by the European Regional Development Fund (*ERDF*), the Cohesion Fund as well as by the European Agricultural Fund for rural development (EAFRD) is often unknown or underestimated. The Structural Funds are one of the principal components of the EU budget, along with the two pillars of the Common Agricultural Policy. In terms of anticipation and management of change and restructuring, they play a fundamental role in the process that accompanies structural change.

Structural change implies that people must change jobs and sectors. This, as a general rule, calls for large accompanying infrastructure investments and adjustments to the educational curriculum, action to foster innovation and the part-financing of active labour market instruments to help people by means of tailor-made training activities, reconversion centres and observatories. The Structural Fund rules prohibit the use of financial support to encourage relocation among the Member States, and funds must be reimbursed if the rules are not followed. Stemming from previous interventions of the Structural Funds, including Community Initiative programmes such as Equal and Article 6 innovative actions, there is also a large body of good practice and recommendations in the EU regarding the definition and application of tools for the responsible management of change.

*...and the European Globalisation Adjustment Fund, a new tool for helping in crisis situations...*

At the beginning of 2007 the Union established a new financial instrument to help workers made redundant through the impact of globalisation. The *European Globalisation Adjustment Fund (EGF)* gives substance to the Union's solidarity.

*... the Commission's Restructuring Taskforce and the Restructuring Forum...*

In line with the action plan in the 2005 Communication on restructuring, an internal *Taskforce* of the Commission departments concerned by economic change and restructuring policies, was set up with the aim of achieving convergence and creating synergy between the various internal objectives, policies and actions. A *Restructuring*

*Forum* was established to strengthen social dialogue and foster corporate responsibility and exchange between peers and among actors. It has met six times since 2005.

... *Forward-looking studies on skills needs in different sectors...*

As announced in the 2005 Communication and with help from the sector's main actors, the Commission has also supported *reinforced follow-up* in the automotive and defence industries, rounded out by other, more recent initiatives. A set of *forward-looking sectoral studies*, results of which are expected in spring 2009, provide a partial response to the March 2008 Council request regarding the development of employment and skills up to 2020. The link between health and restructuring is being examined in the wake of the 2000–06 ESF innovative actions programme.

... *Actions launched by the Employment DG's Restructuring Unit and for the immediate future...*

Coordinating and overseeing the Commission's work on restructuring is the task of a specific unit within the Employment DG. Its initiatives since it was set up in May 2006 are also presented in this report. As part of the Renewed Social Agenda, the Commission presented a *staff working document "Restructuring and employment: The European Union contribution"* based on this accumulated experience. It outlines a new action plan aimed mainly at reinforcing actions previously implemented and calls on the European social partners to deliver the results of the work they have undertaken in the framework of their "*Orientations for reference in managing change and its social consequences*".

A large number of Commission departments have contributed to this report on restructuring in Europe<sup>1</sup>. Contributions have also been received from various European institutions and bodies (the Committee of the Regions, the European Economic and Social Committee's Consultative Commission on Industrial Change, Eurofound and Cedefop).

The electronic version contains numerous electronic links and readers are welcome and indeed strongly encouraged to react and contribute to the debate, using email address [empl-f3-restructuring-report-2008@ec.europa.eu](mailto:empl-f3-restructuring-report-2008@ec.europa.eu). They will thus be contributing to the next version of the *Restructuring in Europe* report.

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<sup>1</sup> See list of contributors at the end.

# Chapter 1. Europe in a changing world

It is often said that changes today are bigger and more rapid than in the past. It may depend on which past is being referred to, but the world we live in is undoubtedly changing constantly, and restructuring is a very visible consequence of that.

Capital market integration, acceleration in the worldwide relocation of production processes, and the emergence of new competitors on the world scene are some aspects of the globalisation process which are described and analysed in Section 1. Section 2 deals with what could be seen as a particular aspect of globalisation, namely the European Union's enlargement process, which has gathered speed since the fall of the Iron Curtain.

Section 3 presents and discusses two related but different issues, namely technological change and the emergence of a knowledge-based economy. It ends by addressing two long-term challenges. The sharp increase expected in the number of elderly people as a percentage of the overall population and its consequences are presented in Section 4, while Section 5 deals with global warming, which will be the source of big changes in coming decades.

The five sections making up this Chapter could have been put in a different order. However, the most important fact to bear in mind is that each and every change under review interacts with all others; in particular, globalisation, the knowledge-based economy and enlargement are closely linked.

## Financial crisis consequences

The global financial crisis unfolded in the second half of 2008 when this report was about to be finished. Policy implications to deal with this crisis and with the subsequent looming recession are largely not reflected in the report. It is today, still too early, to know how this will affect the various policies which are described. A first of answers was suggested in a Communication from the Commission released on 29 October 2008: "From financial crisis to recovery: A European framework for action"<sup>2</sup>. The Commission underlines in particular in this communication the need for the EU, in the current crisis, "to adapt the medium to long term measures of the Lisbon strategy to take account of the crisis. It needs to add short term actions to its structural reform agenda, while continuing to invest in the future through:

- Increasing, investment in R&D innovation and education;
- promoting flexicurity as way of protecting and equipping people rather than specific jobs;
- freeing up businesses, especially SMEs, to build markets at home and internationally;
- enhancing European competitiveness by continuing to green our economy as a way of creating new jobs and technologies, overcoming our energy security constraints and achieving our environmental goals."

Concerning specifically the employment and social impact, the following actions were suggested:

- "Countering the effects of unemployment by offering Member States the possibility of reprogramming funds under the European Social Fund to support measures to quickly reintegrate unemployed into the labour market;
- Reviewing the effectiveness of the Globalisation Adjustment Fund;
- Helping the unemployed to start up a new business quickly and cheaply;
- Monitoring the impact of the crisis on different sectors affected by structural adjustments and using the scope offered by the State Aids regime to enable timely, targeted, and temporary support where appropriate;
- Pursuing flexicurity: in particular active labour market policy measures tax and benefit reform, and reinforced matching of skills and jobs. The situation is likely to be particularly difficult at the lower end of the labour market, making it particularly important to ease the unavoidable restructuring and provide income and targeted social protection support."

<sup>2</sup> COM(2008) 706 final

The Commission also announced on 26 November 2008 a Plan to contain the scale of the downturn and to stimulate demand and confidence. This **European Economic Recovery Plan** is based on two key pillars, and one underlying principle:

- The first pillar is a major injection of purchasing power into the economy, to boost demand and stimulate confidence.
- The second pillar rests on the need to direct short-term action to reinforce Europe's competitiveness in the long term.

The fundamental principle of this Plan is solidarity and social justice.

The Plan includes ten actions for recovery, from support businesses and SMEs, to measures in favour of innovation and greening of EU investment and to actions in favour of employment. This action is detailed here below:

### **"Launch a major European employment support initiative**

a) The Commission is proposing to simplify criteria for European Social Fund (ESF) support and step up advance payments from early 2009, so that Member States have earlier access to up to € 1.8 bn in order to:

- Within flexicurity strategies, rapidly **reinforce activation schemes**, in particular for the low-skilled, involving personalised counselling, intensive (re-)training and upskilling of workers, apprenticeships, subsidised employment as well as grants for self-employment, business start-up's and
- Refocus their programmes to **concentrate support on the most vulnerable**, and where necessary opt for full Community financing of projects during this period;
- Improve the monitoring and **matching of skills** development and upgrading with existing and anticipated job vacancies; this will be implemented in close cooperation with social partners, public employment services and universities;

Working with Member States, the Commission proposes to re-programme ESF expenditure to ensure that immediate priorities are met.

b) The Commission will also propose to revise the rules of the **European Globalisation Adjustment Fund** so that it can intervene more rapidly in key sectors, either to cofinance training and job placements for those who are made redundant or to keep in the labour market skilled workers who will be needed once the economy starts to recover. The Commission will review the budgetary means available for the Fund in the light of the implementation of the revised rules.

### **2. Create demand for labour**

- Member States should consider **reducing employers' social charges on lower incomes to promote the employability of lower skilled workers**. Member States should also consider the introduction of innovative solutions (e.g. service cheques for household and child care, temporary hiring subsidies for vulnerable groups), which have already been successfully pioneered in parts of the Union;
- The Council should adopt, before the 2009 Spring European Council, the proposed directive to make permanent **reduced VAT rates for labour-intensive services**."

## **1 – Globalisation and the European Union**

Globalisation, defined as the phenomenon that is leading to an increasingly integrated world economy, has the potential to greatly stimulate and accelerate the process of structural change which, together with other major driving forces such as technological change, is generating the largest structural upheaval in economies since the industrial revolution. As in the past, this

process is underpinned by cheaper and more highly sophisticated communication and transport networks, increased possibilities of slicing up production processes and a shift in policies in many countries towards a more open, market-based system of economic governance (see Section 2 on enlargement below). These policies reflect the realities of a new world order, where knowledge creation and dissemination and flexibility in the regulatory and institutional frameworks will be the key determinants of the economic fortunes of societies.

The post-1990 globalisation phase was further characterised by three key interrelated phenomena: the unprecedented development of trade and capital market integration; the cost-induced, ICT-enabled acceleration in the worldwide relocation of production processes with an associated boost to trade in intermediate goods and services; and higher trade and capital flows, coupled with strong human capital endowments in the developing countries.

Increasing trade and foreign investment flows between countries are bringing huge opportunities and far-reaching consequences for the functioning of the EU economy. EU firms enjoy easier access to new and expanding markets and sources of finance and technology. EU consumers have access to a larger variety of goods at lower prices. This opens up the prospect of significant potential gains for the Union in terms of higher levels of productivity and real wages. The Commission has estimated that about one fifth of the increase in EU-15 per capita income over the past 50 years has been attributable to globalisation<sup>3</sup>.

#### **Social Europe can take on globalisation**

Going by a recent study "Is social Europe fit for globalisation?"<sup>4</sup> carried out for the Commission, the European social model is as valid as ever, but needs to be knocked into shape if it is to take on the challenges of globalisation. Globalisation is a source of anxiety to many Europeans: they are worried about their jobs and pensions. But a strong social model can — and indeed must — go hand in hand with success in the global economy. If we prepare, invest and adapt, globalisation can be a win-win situation and not a zero-sum game.

Recent Eurobarometer opinion surveys (May 2006) show that 47% of Europeans see globalisation as a threat to jobs and companies in their country (compared with 37% who see it as a good opportunity for business). However the study argues that such fears are largely unfounded: some of the most successful economies in northern Europe, which are characterised by high market openness, have high employment rates and a much greater degree of income equality than other parts of the world, together with large, efficient public sectors.

The study also finds no empirical evidence that globalisation has led to any erosion of social provision. As a percentage of GDP, social protection spending in the EU has remained remarkably stable over the last two decades, remaining at around 27- 28% since the early 1990s. Similarly, data show continuing progress towards the attainment of widely supported social aims, such as reducing gender imbalances in pay and employment rates, even though these gaps remain sizeable (the gender pay gap in the EU was 15% in 2005). This implies that the way welfare provision is used, rather than its magnitude, is the factor most affecting competitive success.

The study also recognises the EU's need to modernise social policies and invest in human resources if it is to make the best use of the opportunities offered by globalisation. To do this, the EU and the Member States will need a range of policy responses, in particular to:

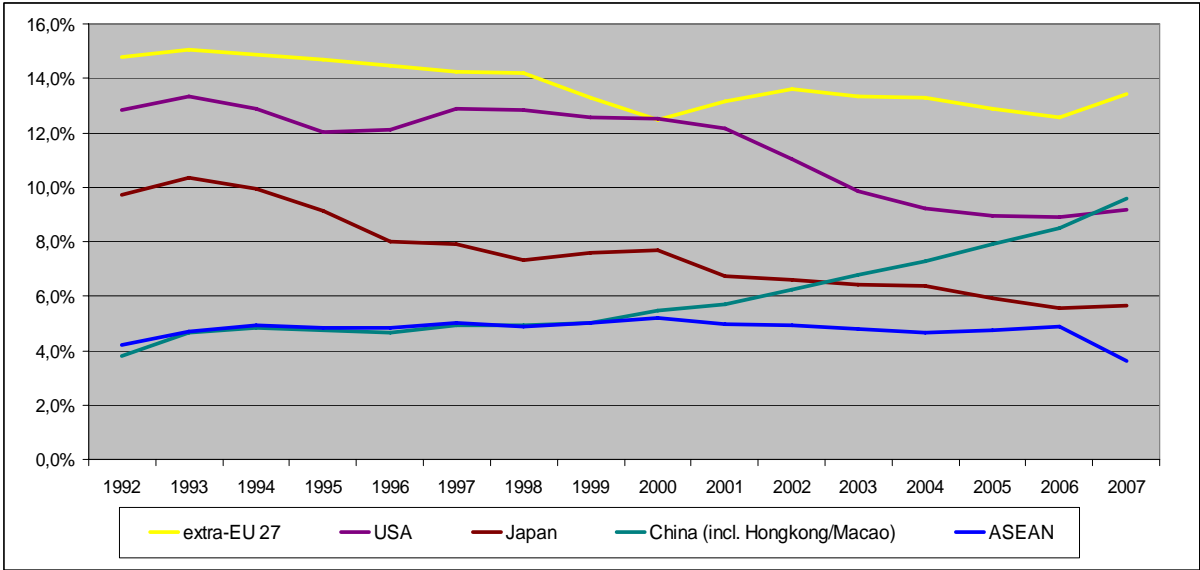
- prepare the economy to compete by investing in activities for the future and adapting to cope with the demands of climate change, ageing and new sources of competition;
- ease adjustment, recognising that globalisation will require economic and social change that will impose costs and require the redeployment of resources;
- improve socio-economic governance in order to facilitate these changes, with the EU and the Member States acting together.

<sup>3</sup> Source: EU Economy: 2005 Review, "Rising international economic integration. Opportunities and challenges", European Economy No. 6, European Commission, January 2005.

<sup>4</sup> The study was produced on behalf of the Commission by the Centre for European Policy Studies, led by Professor Iain Begg of the London School of Economics. It is available at [http://ec.europa.eu/employment\\_social/spsi/simglobe\\_en.htm](http://ec.europa.eu/employment_social/spsi/simglobe_en.htm).

Even with the growing internationalisation of production and emerging concerns regarding the phenomenon of outsourcing, analytical work conducted by the Commission suggests that Europe has handled the post-1990 upsurge in worldwide trade integration relatively successfully. The EU still holds its long-established title as the world's foremost global trading power. In addition, it has been a net beneficiary in terms of the outsourcing part of the phenomenon of production relocation, with its surplus on trade in intermediate goods and services increasing over the period 1992 to 2003, as the table below shows.

**Figure 1: World export market shares for the different countries/country groupings (World = extra-EU-27 for EU-27)** Source: Eurostat-Comtrade



A study by the Commission also highlighted a number of areas of concern, such as the EU's growing trade deficits with Asia in general and its relatively poor performance in terms of information and communication technologies (ICT). Complacency must therefore be avoided and policy-makers need to remain alert to a number of potential medium to long-term challenges to the EU's present supremacy in world trade.

The public often associate globalisation with job losses and downward pressures on wages and working conditions. These anxieties are based on fears that increased competition from low-wage countries may put too much pressure on local producers and workers and may result in the closure, or partial closure, of factories at home and their relocation abroad. While global relocation has been an aspect of the integration process for decades, its pace has accelerated dramatically since the early 1990s with the fall of the Iron Curtain in Europe, the opening-up of China, and the emergence of fast-developing economies in India and parts of Central and South America. Moreover, the widespread use of ICT has increasingly eroded the boundaries between what can and cannot be traded. The phenomenon is mainly driven by multinationals that seek to take advantage of changes in worldwide specialisation patterns and by their need to focus their developed economic activities on the higher value-added parts of their production processes.

**Support for adaptation in non-EU countries**  
 The Commission has also developed policies to tackle poverty and promote employability, productivity, competitiveness, decent work and social protection in partner countries. Those objectives feature prominently in



the Communication on a European Consensus on Development policy (2005),<sup>5</sup> have been reaffirmed in several recommendations of the European Parliament and the Council calling to strengthen the social dimension of globalisation and are confirmed by the recent external dimension of the Lisbon Strategy<sup>6</sup> and renewed social agenda<sup>7</sup>.

The demand-driven approach of the Community's external aid is confirmed in the new cooperation instruments and the Financial Perspective for 2007-13, and responds to different policy challenges in the various geographical areas and countries, such as the provision of basic services (health and education), the modernisation of vocational training systems, the enhancing of employment services and support for the modernisation of social protection.

New thematic programmes for 2007-13 provide a framework for innovative actions<sup>8</sup>. Under 'Investing in people' the Community supports employment, decent work and social cohesion. In 2007 and 2008 specific actions address managing labour market adjustment to maximise the benefits of trade in developing countries, developing decent work indicators, raising awareness on needs and affordability of social protection, enhancing labour market information systems and demand driven technical and vocational education and training in a series of pilot countries in different geographical areas.

Efforts towards **decent work** for all in EU external and internal policies have been promoted. The EU has actively supported the introduction of decent work as a global goal by the UN. The Commission set out, in its communication dated 24 May 2006 an integrated strategy to mobilise EU internal and external policies for promoting decent work. The Commission has supported the defence of decent work and decent work issues by the G8 and the recent initial joint research work by the ILO and the WTO secretariat on the interaction between trade, employment and social policy.

While the evidence shows that globalisation has not been associated with overall net employment losses, the adjustment of economic structures leads costs resulting from resources being moved between firms and activities. Job turnover and shifts of employment are seen to increase and the demand for unskilled workers in particular drops, even though overall employment levels are maintained. The transition towards higher-skilled, more specialised and thus more competitive products, which is necessary for EU industry and services to compete on the global market, can cause considerable hardship for those workers affected when uncompetitive sectors restructure, including loss of security, periods of unemployment and the need to retrain. Even if restructuring can entail permanent net gains at macro level which are enjoyed by the population as a whole, short-term transition costs may be relatively severe for individual sectors and skill groups and potentially higher than in the past, given that the EU's production and trade structures have a substantially higher share of low and medium-low technology products compared with both the US and Japan.

In this context, the more rigid labour, capital and product markets are, the more costly structural adjustment is, and it may have a strong impact, at least in the short term, in particular sectors, and in the regions where these sectors are concentrated. To reap the gains

<sup>5</sup> "The European Consensus", COM(2005) 311 final of 12 April 2005.

<sup>6</sup> "The social dimension of globalisation: The EU's policy contribution on extending the benefits to all" (COM(2004) 383 final of 18.5.2004); "Social Agenda" (COM(2005) 33 final of 9.2.2005), "Policy Coherence for Development: Accelerating progress towards attaining the Millennium Development Goals" (COM(2005) 134 final of 12.4.2005); "Promoting decent work for all" (COM(2006) 249 of 24.5.2006); "Strategic report on the renewed Lisbon strategy for growth and jobs: Launching the new cycle (2008-2010) (COM(2007) 803 final of 11.12.2007); Proposal for a Community Lisbon Programme (2008-2010) (COM(2007) 804 final of 11.12.2007).

<sup>7</sup> COM(2008) 412 "Renewed social agenda: Opportunities, access and solidarity in 21st century Europe, July 2008: <http://ec.europa.eu/social/main.jsp?catId=547&langId=en>.

<sup>8</sup> Financing instrument for development cooperation – DCI (2007-2013), Regulation (EC) No 1905/2006, 18.12.2006. The Regulation provides for five thematic programmes on investing in people, the environment and sustainable management of natural resources including energy, non-State actors and local authorities in development, food security, and migration and asylum.

from globalisation it is necessary to undergo a process of adjustment as factors of production (such as investment in capital) move from activities and firms that cannot withstand the increased competition pressure to those that thrive on it. In the case of the EU, there needs to be a shift of displaced resources from those sectors which are strongly affected by globalisation into those (mainly higher-skilled) activities where the EU still has a comparative advantage. Finding the right response to globalisation may thus be seen as part of the broader policy challenge for dynamic economies – i.e. to successfully cope with structural economic change.

#### **Examples of European analytical works on Globalisation and Structural Change**

"Globalisation: Trends, Issues and Macro Implications for the EU", EU Economic Paper No. 254, European Commission, July 2006. This paper examines the historical empirical evidence regarding globalisation and quantifies the macro benefits and costs for the EU over the coming decades. Besides discussing the main globalisation trends and issues, the paper makes a general assessment of the benefits and risks of globalisation over the period 1991-2050. This is done by using an open economy macro model which takes account of the most recent evidence over relevant transmission channels (including the shift in international specialisation, enhanced levels of competition, increased incentives for investment and innovation, the diffusion of new technologies and organisational practices, scale economies and greater efficiency in terms of resource allocation).

Available at: [http://ec.europa.eu/economy\\_finance/publications/publication668\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication668_en.pdf)

"Global Trade Integration and Outsourcing: How well is the EU coping with the new challenges?", EU Economic Paper No. 259, European Commission, October 2006. The paper provides an insight into the extent of the goods and services outsourcing phenomenon at the world level and on the role played by the EU new EU Member States and China in the evolving global production structures. It also tries to assess how vulnerable the EU is to the emergence of new global trading.

Available at: [http://ec.europa.eu/economy\\_finance/publications/publication600\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication600_en.pdf)

The EU Economy: 2005 Review on "Rising international economic integration. Opportunities and challenges", European Economy No 6, European Commission, January 2005, analyses recent trends and developments in international economic integration and offers a comprehensive picture of the costs and benefits of globalisation. The report includes a number of specific studies further characterising globalisation and assessing its impact (e.g. on the location of multinationals across EU regions). The report pays special attention to the impact of globalisation on jobs and wages and to the adjustment challenge in the labour market. Available at: [http://ec.europa.eu/economy\\_finance/publications/publication433\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication433_en.pdf)

"Steps towards a deeper economic integration: the Internal Market in the 21st century. A contribution to the Single Market Review", European Economy, Economic Paper No 271, European Commission, January 2007. The paper takes a broader approach to the analysis of the Internal Market, exploring its close links with the rapidly changing economic environment (growing importance of services and fast development of ICT, EMU, and globalisation), analyses the remaining barriers to its completion, and presents a critical review of the adequacy of the instruments that have been used so far.

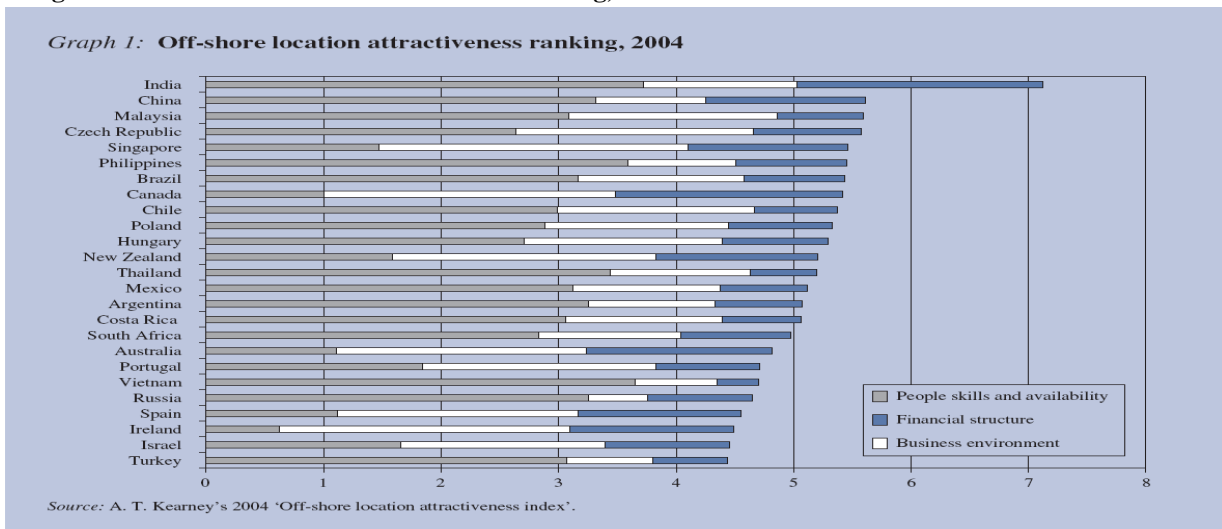
Available at: [http://ec.europa.eu/economy\\_finance/publications/publication784\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication784_en.pdf)

Lastly, the Commission closely analyses the evolution of the main trends in world trade and Foreign Direct Investment (FDI) flows and the performance of the EU in this regard. It also regularly analyses the impact of globalisation on the EU's economic performance and provides policy advice on the basis of its analysis. In this context, a Working Group on Globalisation attached to the Economic Policy Committee (EPC) was set up in 2005, to contribute to the discussions within the ECOFIN Council on policies to respond to the fundamental changes occurring in the world economy and ensuing from developments in technology, production, investment and trade. The group produced a report to the EPC in November 2006<sup>9</sup>, which concentrates on factor mobility in the global economy. The report

<sup>9</sup> The report is available at: [http://ec.europa.eu/economy\\_finance/epc/documents/2006/globalisation\\_en.pdf](http://ec.europa.eu/economy_finance/epc/documents/2006/globalisation_en.pdf).

provides an analysis of recent trends and policy options concerning flows of FDI and workers both within the EU and with the rest of the world. In particular, the report concludes that greater factor mobility strengthens the need to make our economies internationally attractive, pushing ahead with structural reforms as necessary to achieve this. The challenge for the EU is to develop more outward looking economic policies, to continue to benefit from increased factor flows and keep up with the US on leading-edge research and development. Policies to attract human and physical capital – high skilled migrants and Foreign Direct Investment – should be key components of strategies to maximise growth in an interconnected global economy.

**Figure 2: Off-shore location attractiveness ranking, 2004**



### **Relations between private equity funds and industrial change<sup>10</sup>**

The Consultative Commission on Industrial Change (CCMI) held a members-only seminar on 5 December 2007, with the aim of compiling detailed technical information on the workings of this type of fund, which has recently come to public attention, and of gauging the real importance of these funds to European businesses.

The CCMI welcomed speakers from a variety of backgrounds such as academia, pension funds, traditional banks, trade unions and associations representing private equity funds in Europe, each of whom explained their different approaches to the subject. Further activities on this subject are planned in the coming months.

## **2 – Enlargement and restructuring**

The EU enlargement process delivered significant benefits for the European economy. The liberalisation of markets in acceding countries created a new class of entrepreneurs, while integration into the single market made these countries attractive for foreign direct investment, which brought much needed capital and knowledge. On the other hand, the old Member States benefited from new trade and investment opportunities, which increased their competitiveness on a global scale.

For the economies and businesses of the candidate countries, the economic part of the accession criteria played a role in their process of transformation and restructuring. They needed to move towards a functioning market economy and to be able to cope with competitive pressure and market forces within the Union. They were thus pushed into liberalising their markets, and privatising and restructuring their state owned companies. They had an obligation to legally align with, and implement, the *acquis communautaire*. This had a

<sup>10</sup> [http://www.eesc.europa.eu/sections/ccmi/Hearingsandconferences/Thepast/Private\\_equity/index\\_en.asp](http://www.eesc.europa.eu/sections/ccmi/Hearingsandconferences/Thepast/Private_equity/index_en.asp).

major impact on enterprises (i.e non-trade barriers, state aids, food safety and consumer protection, growing competitive pressure from EU companies, etc.)

The Commission provided substantial amounts of funding to the CEEC through Phare financial assistance (see box).

#### **The Phare programme**

The Phare programme was one of the three pre-accession instruments (ISPA and SAPARD being the other two) created by the European Union to assist the applicant countries of Central and Eastern Europe (CEEC) in their preparations for joining the European Union.

The Phare programme's objectives were: to strengthen public administrations and institutions so that they can function effectively inside the European Union; to promote convergence with the European Union's *acquis communautaire* and to reduce the need for transition periods; to promote economic and social cohesion. Originally created in 1989 to assist Poland and Hungary, the Phare programme eventually covered 10 countries: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, assisting them in a period of economic restructuring and political change. Until 2000 some countries of the Western Balkans (Albania and the former Yugoslav Republic of Macedonia) were also beneficiaries of the Phare programme. However, as of 2001, CARDS (Community Assistance for Reconstruction, Development and Stability in the Balkans) took over and provided financial assistance to all the Western Balkans.. CARDS and Phare are since 2007 replaced by IPA (Instrument for Pre-accession Assistance) which covers all Western Balkans countries and Turkey. Projects linked to economic transformation figure prominently of the list of IPA priorities. Implementation of Phare and CARDS project adopted in years previous to programmes' expiry is still ongoing.

#### **Examples of assistance projects financed by the Phare programme**

##### **Alleviation of social costs of steel sector restructuring in Poland, , Czech republic, Slovakia**

Restructuring the industry in the future Member States has a major regional and social dimension, especially as some 40% of all steel production is concentrated in an industrial triangle on the Polish, Czech and Slovak borders. Although this area substantially improved steel company productivity by the accession, additional efforts were necessary up to 2006.

Sector-specific early retirement and retraining schemes, and the extension of income support to employees made redundant were complemented by industry-wide measures to improve the overall investment climate by encouraging SME start-ups and financing infrastructure projects.

The EU provided finance through Phare pre-accession strategy. In Poland, for instance, €61 million from Phare were allocated to counsel and retrain former steel workers and to support retraining measures in Silesia. (Enterprise Europe No.13).

##### **Multi-beneficiary steel restructuring programme**

The Commission has been involved in the restructuring of the steel sector taking place simultaneously in Bulgaria, Croatia, Romania and Turkey, in order to allow the smooth integration of this sector into the highly competitive European steel industry. The overall objective of the programme is to support the restructuring of the steel sector of these beneficiary countries so that they can meet the Accession Treaty obligations, the EU's accession negotiation commitments and the other relevant association and trade agreements. Following a call for tenders, a contract was awarded to carry out an independent assessment of National Steel Restructuring Programmes and Individual Business Plans for steel companies and for monitoring/auditing the proper implementation of these plans. This project will continue until 2011.

Assistance was also provided through the Sapard programme for the restructuring and adaptation of agricultural holdings/enterprises in the CEEC. Quite a substantial amount of funding has also been channelled either through the Phare programme (Social and Economic Cohesion measures) or through the ISPA instrument to programmes/projects for the economic and social development of disadvantaged or underdeveloped regions (including those hit by the restructuring/privatisation of key sectors). The types of measures supported were large-scale transport infrastructure projects, SME development, vocational training, etc.

The European social partners carried out a joint project to analyse restructuring in the new Member States and the role that social partners play in dealing with its social consequences. (See Chapter 5.2)

### **The economic outcome of enlargement**

#### **For EU-10**

Following enlargement, the EU-10 countries have become very open economies for trade. While the market gains of the EU-10 have been significant, reflecting competitive labour cost conditions, the EU-15 continue to run a substantial trade surplus with the new Member States. To a large extent, the pattern of trade integration reflects complementarities between Member States. Comparative advantage estimates confirm that the trade of EU-10 is so far dominated by medium-low technology specialisation using labour intensively. The trade of the EU-15 is more specialised in products requiring a higher skill and capital intensity.

Although they face increased competition from emerging markets, in particular China and India, the EU-10 have significantly increased their share in world markets. As can be expected of catching up economies, the EU-10 have been running relatively large trade deficits, which have been easily financed by inward foreign direct investment. In spite of the reduction in tariffs and competition from emerging markets, the average trade deficit has strongly diminished in recent years to about 3% of GDP by 2005. In a number of countries however, external imbalances remain sizeable, warranting – especially when coupled with high inflation – close policy surveillance.

Since the mid-1990s the presence of foreign firms in the new Member States has grown rapidly, with the stock of foreign direct investment (FDI), virtually non-existent some ten years earlier, reaching over €190 billion in 2004, or 40% of local GDP. With a share of three quarters of the total FDI to new Member States, the old Member States are the main investor. The largest part of FDI (55%) is invested in services such as media, retail or banking, followed by manufacturing (37%). In the Baltic States and to a lesser extent in Poland manufacturing FDI is still concentrated in traditional industries like food processing, textiles and wood products, whereas in Hungary, the Czech Republic and Slovakia foreign investors are focusing increasingly on modern manufacturing sectors (e.g. cars, electronics, pharmaceuticals).

Since the transition-related banking crisis of the early 1990s, the new Member States have made substantial progress in developing a stable financial environment and have hence avoided any major financial turbulence, although in some cases their exchange rate has shown considerable volatility, including since the outburst of the 2008 financial crisis. With the exception of Cyprus and Malta, which have been market economies from the outset, the financial systems in the new Member States are typically small compared to the EU-15, but are expanding rapidly, as the recent surge in credit growth illustrates. Loans outstanding in the eight Central and East European countries still remain far below the average level in the euro area. The same is true as regards stock market capitalisation. Integration has proceeded rapidly in the banking sector with cross-border investment and foreign-banks penetration rates now much higher than in the EU-15. Enhanced competition has resulted in cheaper loans, especially mortgages, and net interest margins narrowing to euro-area levels (at around 0.5%) in Hungary, Latvia and Slovakia. By contrast, in some countries, such as Poland and Slovenia, net interest margins remain relatively high at 3%, suggesting that there is scope for further competition in this field.

#### **For EU-15**

Enlargement towards the countries of Central and Eastern Europe (CEEC) started at a time when the EU-15 economies were coming under growing global pressure. Companies have reacted to globalisation by outsourcing parts of production to more competitive locations. Many chose CEEC, not only because of its geographical closeness but also because accession preparations made their business environments look more and more similar to those of the EU.

Various studies have tried to identify the impact of FDI stimulated relocation on employment. The economic impact of eastward enlargement on the EU-15 economies has been marginal, because the economies of new Member States are so small compared with the EU-15. While the EU-15 is the destination of 70% of CEEC

exports, the new Member States account only for approximately 5% of EU-15 trade. Similarly the FDI inflows to CEEC were only a small portion of total FDI outflows (4%)<sup>11</sup>.

If FDI towards CEEC caused some job losses, they also enabled investing companies to stay competitive on a global scale. Most of the FDI into CEEC were made in sectors that are under global competition, such as cars, pharmaceutical and electronics. It can be argued that in the job relocation process low-paid factory jobs moved to CEEC, while jobs in research, design and higher value-added production were preserved or increased in the EU-15.

Enlargement therefore helped to facilitate the structural change. The frictions it created in labour markets should be addressed through national or community policies which support structural change and facilitate transition to a knowledge-based economy (e.g. Globalisation Adjustment Fund).

### **3 – The transition to a knowledge-based economy**

The emergence of the knowledge-based economy in recent decades has had considerable effects on the structure and content of work and on its organisational contexts. These effects will become even more important in the future, due to the rapid expansion of technology and knowledge-intensive activities. In the past decade, the increasing role of information and communication technologies (ICTs) at the workplace and in every aspect of life has given rise to the so-called "information economy". By making knowledge increasingly shared, collaborative and global, the use of ICTs and the internet have strengthened the impact of the knowledge-based economy.

#### **3.1. The growing economic role of knowledge**

During the last thirty years, the trend rise in educational attainment has in part been reflected in the growing share of economic growth that can be attributed to intangible rather than tangible capital. Intangible capital mainly falls into two main categories: investment in the production and dissemination of knowledge (i.e. in training, education, R&D); and investment in augmenting or sustaining the level of physical human capital (education, training and health expenditure). Growing evidence shows that current discrepancies in productivity and growth have far less to do with the abundance of natural resources than with the capacity to create new knowledge and ideas and integrate them successfully into the production process.

A recent study on the measurement of investment in knowledge has revealed sustained growth in this type of expenditure during the past decade. In 2002, investment in knowledge activities — defined as the sum of research and development (R&D), higher education and software - amounted to 5.2% of GDP in the OECD area. The United States is the country that invests most in knowledge (6.6%) followed by Japan (5.0%) and the European Union (3.8%). For all the countries covered in that study, except Ireland, the ratio of investment in knowledge to GDP was higher in 2002 than in 1994. For most countries, increases in software expenditure were the major source of increased investment in knowledge. Notable exceptions are Finland (R&D expenditure was the main source of the increase) and Greece (higher education and software were the main sources).

The trend towards higher investment in knowledge activities should not lead us to disregard the growing importance of science and technology-related activities. The knowledge economy is not confined to high technology, as science and technology are also central to the new sectors giving momentum to economic growth over the past few decades. For instance, in 2006 just 40% of the EU-27 workforce was employed in "knowledge-based" sectors as defined by Eurostat (high- and medium-high technological manufacturing plus knowledge-

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<sup>11</sup> *Enlargement: Two years after*: [http://ec.europa.eu/economy\\_finance/publications/publication7548\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication7548_en.pdf).

intensive services), with Sweden reaching the highest level (54%) and Portugal the lowest (20%). Moreover, these developments are reflected in the increasing proliferation of jobs in scientific and technical occupations, i.e. workers actively involved in the creation and diffusion of knowledge. Scientific and technical occupations grew much faster than overall employment, at an average annual rate of 2.7% in the EU-15 between 1995 and 2004. Even in countries where overall employment declined during that period, employment in scientific and technical occupations grew (Poland, Czech Republic and Slovakia).

The growing trend of technology and knowledge-intensive activities in Europe is expected to continue in the future. All EU Member States have made commitments to increasing their investments in R&D in the coming years given the growing recognition of technological progress as a key determinant of competitiveness. A particular concern in Europe is the existence of a R&D deficit - the fact that business R&D expenditure in the EU is 30% below the US. A report from the Commission's expert group "Knowledge for Growth" qualifies the deficit as a symptom of the EU difficulties to develop new activities and to make new firms grow quickly and significantly. It means that in most established or traditional sectors, there is no R&D deficit at all such as in the automotive, chemical and aerospace industries. EU businesses spend in these sectors at least as much on R&D as their US counterparts. The R&D deficit primarily reflects a shortfall in EU R&D spending in the production of information technology (IT) goods and services.<sup>12</sup> EU firms are weaker in IT technology-based sectors and new EU firms are less able to expand. Industrial structure and transformation are therefore crucial to understanding the EU's R&D deficit vis-à-vis the US.

Raising the stock of highly skilled workers in the EU labour force will consequently be a priority in order to support R&D activity. The share of highly skilled workers in the labour force in Europe is low compared to countries at the leading edge of technology. And, permanent upgrading of workers' skills will be necessary too.

The transition of EU Member States to a knowledge-based economy may nevertheless impact negatively on the labour market prospects of the low-skilled, calling for appropriate corrective measures (e.g. continuing vocational training) (see Section 4 of Chapter 4). Indeed, growing evidence shows that technological progress is biased towards highly skilled and adaptable workers and favours non-routine skills (e.g. problem solving, communication, collaboration), constituting one of the causes of growing wage inequality. The move towards a knowledge-based economy is likely to accelerate the so-called "process of creative destruction", leading to the emergence of employment relationships based more on complex career paths, as workers become more mobile across both employers and occupations.

As technological change speeds up, private and publicly financed research also has to change its pace of adaption. More flexibility is needed both on the levels of firms and of public research institutions to adjust to new technologies and new demands. Firms need to have the possibility to adjust quickly their research capacities to changing demands. At the same time they need access to state of the art knowledge, supplied by public research institutions. It will be important to achieve Europe-wide a high level of mobility of researcher between the business and the public sector.

### **3.2. The impact of ICTs on the knowledge economy**

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<sup>12</sup> Mary O' Sullivan, [EU's R&D Deficit & Innovation Policy](http://ec.europa.eu/invest-in-research/monitoring/knowledge_en.htm), [http://ec.europa.eu/invest-in-research/monitoring/knowledge\\_en.htm](http://ec.europa.eu/invest-in-research/monitoring/knowledge_en.htm)

The development of technology and knowledge-intensive activities has also been fuelled by the expansion of some tangible activities, primarily ICTs, which have provided a powerful technological base for the growth of the knowledge-based economy. The digital revolution has helped to drive productivity growth, especially in the area of information processing, data storage and exchange, which is fundamental for the knowledge-based economy. ICTs have been responsible for driving half of productivity gains in modern economies in the past decade.

The development of ICTs is likely to continue in future given their increasing convergence with other key technologies, such as nanotechnology and biotechnology. The diffusion of ICTs in many industries has often been accompanied by a rise in productivity. Nevertheless, evidence shows that investments in ICT by firms will deliver efficiency gains only if accompanied by the restructuring of business processes and changes in enterprise organisation. Therefore, in order to reap the full benefits of ICTs, firms have to carry out complementary investments such as introducing new work practices and ensuring that employees benefit from appropriate skills levels. Hence, as a growing share of jobs requires ICT skills, a continuous upgrade of workers' digital skills is necessary to meet labour market's demands<sup>13</sup>.

### **3.3. New forms of work organisation**

The requirements of a knowledge-based economy provide incentives for firms to reorganise their methods of work in order to become more productive and adaptable to changing economic conditions. Examples of new forms of work organisation include greater workers' 'autonomy' in setting the pace and methods of work, and the flattening of hierarchical structures. The latter can favour work practices, such as teamwork, task rotation or multi-tasking. Multi-tasking, together with the increasing use of ICTs, enriches job content, leading to more complex and less repetitive tasks with greater cognitive demands for discretionary efforts at problem solving.

New work organisation practices are often accompanied by complementary human resource management policies, such as increased provision of training as well as incentive-based compensation plans. Moreover, evidence shows that forms of work organisation characterised by high levels of autonomy in work combined with high levels of learning, problem-solving, and task complexity are often associated with high innovative performance<sup>14</sup>. Finally, new work organisation practices and flexible working time arrangements have, on the one hand, a positive effect on job satisfaction to the extent that they flatten hierarchical structures, giving workers more control over their work as well as enriching its content by making it more complex and intellectually challenging, and on the other hand, they facilitate the reconciliation of work and family life.

Take-up rates for these new forms of work organisation are expected to continue to rise in the coming years, given the evidence suggesting that they tend to enhance both workers' satisfaction and firms' productivity. Nevertheless, the diffusion of these new work practices tends to be skill-biased - as they apply more often to the highly-skilled and adaptable workers than to the low-skilled. In addition, these new forms of work organisation may also lead to deterioration in working conditions (e.g. a high risk of work-related accidents and illnesses, resulting from higher work intensity and the insufficient development of stable working routines).

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<sup>13</sup> OECD, *New perspectives on ICT skills and employment*, 2005.

<sup>14</sup> For instance see European Commission (2006), *Employment in Europe*. Chapter 4.



Frequent social dialogue and high-trust employee-employer relations will remain critical to the adoption of these new work organisation practices. For instance, greater access of employees, especially the low-skilled, to continuing vocational training will be crucial for a successful dissemination of these new practices across the economy. At the same time, social dialogue will have to pay more attention to the health risks of workers.

#### 4 – Towards an older population

In the coming decades, all EU countries will experience steep increases in the proportion of elderly persons in the total population and a significant decline in the proportion of young people and those of working age. While longer lives are a major achievement of modern European societies, the ageing of the population also creates significant challenges for their economies and welfare systems. This is seen as one of the most important challenges facing the EU and demographic change is high on the European policy agenda. During the coming decade, the baby boom cohorts will start retiring from the labour market. Young cohorts entering the labour market will be much smaller as a result of low fertility. In about ten years, total employment in the EU could start to fall, in spite of rising employment rates. Europe's potential growth rate could decline at a time when significant additional resources will be required to meet the needs of an increasing number of elderly people for whom adequate pensions and health and long-term care provision will have to be secured.

In October 2006, the Commission presented its views on the demographic challenge and the best ways for tackling it in the communication "*The demographic future of Europe — from challenge to opportunity*"<sup>15</sup>. This communication followed a major public debate launched by the Green Paper '*Confronting demographic change: a new solidarity between the generations*' of March 2005<sup>16</sup> as well as discussions at the level of heads of state and government at the Hampton Court informal summit in October 2005. The Commission expressed confidence in Europe's ability to cope with the demographic challenge and presented five key areas in which there are major opportunities for constructive policy responses. These are:

- Promoting demographic renewal in Europe;
- Promoting employment in Europe: more jobs and longer working lives of better quality;
- A more productive and dynamic Europe;
- Receiving and integrating migrants in Europe;
- Sustainable public finances to guarantee adequate social protection and equity between the generations.

The main drivers of demographic change are fertility, mortality (life expectancy) and migration. In addition, the passage of different-sized age cohorts through the life cycle can have significant impacts.

The combination of these trends will leave the total population size roughly unchanged by 2050, but will transform Europe's population structure. According to Eurostat's baseline **population projection**, the median age of the EU will increase between 2004 and 2050 from 39 to 49 years. The number of young people (aged 0-14) in the EU will continue to decline in absolute terms from around 100 million in 1975 to some 66 million by the year 2050. The population of working age (15-64) will be most numerous around the year 2010 (331 million) but will subsequently decline to about 268 million by 2050. While ageing will affect all Member States of the EU, it will do so to varying degrees. The old-age dependency ratio (number of people over 65 divided by the number of people aged 15-64) will reach around 53% in 2050 for the EU-25 (up from 25% today).

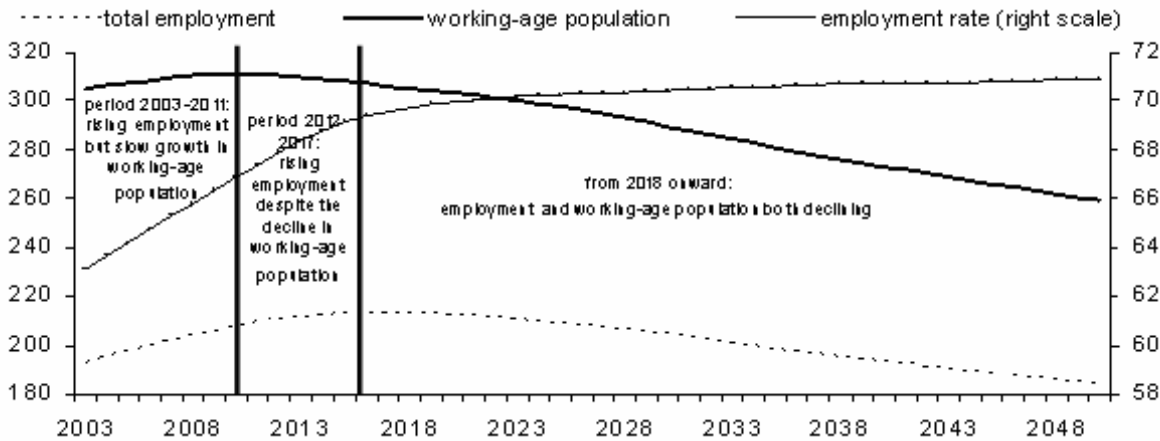
<sup>15</sup> COM(2006) 571, adopted on 12 October 2006.

<sup>16</sup> COM(2005) 94, adopted on 16 March 2005.

A century ago some 15% of the world population lived in the area of the current EU-25; nowadays this share is 7% and by the year 2050 the **share of the EU-25 in the total world population** is projected to be around 5%, according to the UN population projections (2004). While all world regions — except sub-Saharan Africa — will experience significant ageing of their populations, the EU is the only major world region where the total population is projected to decline in the coming four decades.

Demographic change will gradually limit the scope for future **employment** growth. Although the population of working age (aged 15-64) is already expected to decline from around 2011 onwards, total employment in the EU-25 is expected to continue growing up to around 2017 due to rising labour force participation (higher education levels, greater labour force attachment of younger cohorts of women and of older workers). From around 2017 onwards, however, the shrinking working age population will lead to stagnation and, subsequently, reduction of total employment. Projections show that, as employment decreases and productivity becomes the only source of future economic growth, the annual average **potential GDP growth** rate in the EU-25 will decline from 2.4% in the period 2004 to 2010 to only 1.2% in the period 2031-50.

**Figure 3 Projected working age population and total employment, EU-25**



Source: 2007 Demography report SEC(2007) 638

Economic growth and high living standards beyond 2017, when total employment is expected to decline, will depend solely on increases in labour productivity. There is a huge potential for productivity improvements in Europe if all Member States were to catch up with the highest-performing countries, whose productivity levels are above or close to that of the US. Indeed, even the productivity leaders can further accelerate their growth by removing obstacles to innovation and structural change and by boosting research and development that will lead to new products and more efficient production processes.

The key to unlocking this potential is to invest in human capital. The example of the highest-performing Member States shows that general education levels across the EU can still be raised significantly. In this context, it is particularly important to reduce the number of early school leavers, who will face increasing difficulties in future labour markets. In 2006, about six million young people (18-24 years old) left education prematurely in the EU. Further improvements are also necessary with regard to the proportion of people with an upper-secondary or tertiary education. Spending on tertiary education in the EU-25 represents only 1.2% of GDP, compared to 2.9% in the US.

The gap between the EU and the US is also large as regards R&D investment, which was just above 1.8% of GDP in the EU and about 2.6% in the US in 2006. Europe's future capacity for innovation and productivity growth will depend on increased investment in top-level education and research. This will also be crucial for successful adaptation to the new market opportunities brought about by the 'silver economy', i.e. new goods and services adapted to the changing needs and demand patterns of an ageing society.

Europe will continue to be an attractive destination for migrants due to its prosperity and effectively functioning societies. However, it should be noted that the EU is not as successful as the USA and Canada in attracting the highest-skilled migrants. The procedure adopted in 2005 for the admission of third-country researchers is a first step towards addressing this issue. Such arrangements need not come at the cost of developing countries in the form of brain drain, but can and should be beneficial to all parties. Around 3.7% of the EU-27 population are non-EU nationals (5.1% in the EU-15). European labour markets, and this need for both high- and low-skilled migrant labour will continue. While internal mobility of workers within the EU will not change demographic trends for the EU as a whole, it does represent an enormous potential for higher rates of participation and employment, as it opens up better opportunities for people living in regions where they face poor labour market prospects. Countries that have experienced rapid economic growth over recent years, like Spain and Ireland, have clearly benefited enormously from the significant inflow of workers both from outside and from within the European Union.

Declining employment at a time when the number of older people in need of adequate pensions, healthcare and long-term care is rising will make it a challenge to provide sufficient resources for social protection in a sustainable way<sup>17</sup> and then to have sufficient productivity gains.

## **5 – Facing climate change**

It is particularly hard to produce reliable data on the impact of climate change on a given region of the world. The smaller the region, the harder the forecast. Nevertheless, over the last few years the EU has financed several large research projects on regional climate modelling and assessment of its impacts. Some projects have produced high-resolution maps representing the projected changes in climate variables, such as mean temperature and precipitation, and projected impacts, e.g. agricultural yields, conditions for tourism, cold- and heat-related mortality and biodiversity losses. These maps illustrate what can be expected in Europe by the end of the century, according to the [Intergovernmental Panel on Climate Change \(IPCC\) scenario SRES A2](#) if no action is taken to reduce greenhouse gas emissions, so that the global mean temperature increases by about 3.4°C by the 2080s compared to 1990 levels. Under this scenario, nearly all European regions are expected to be negatively affected and up to half of Europe's plant species could be vulnerable or threatened by 2080.

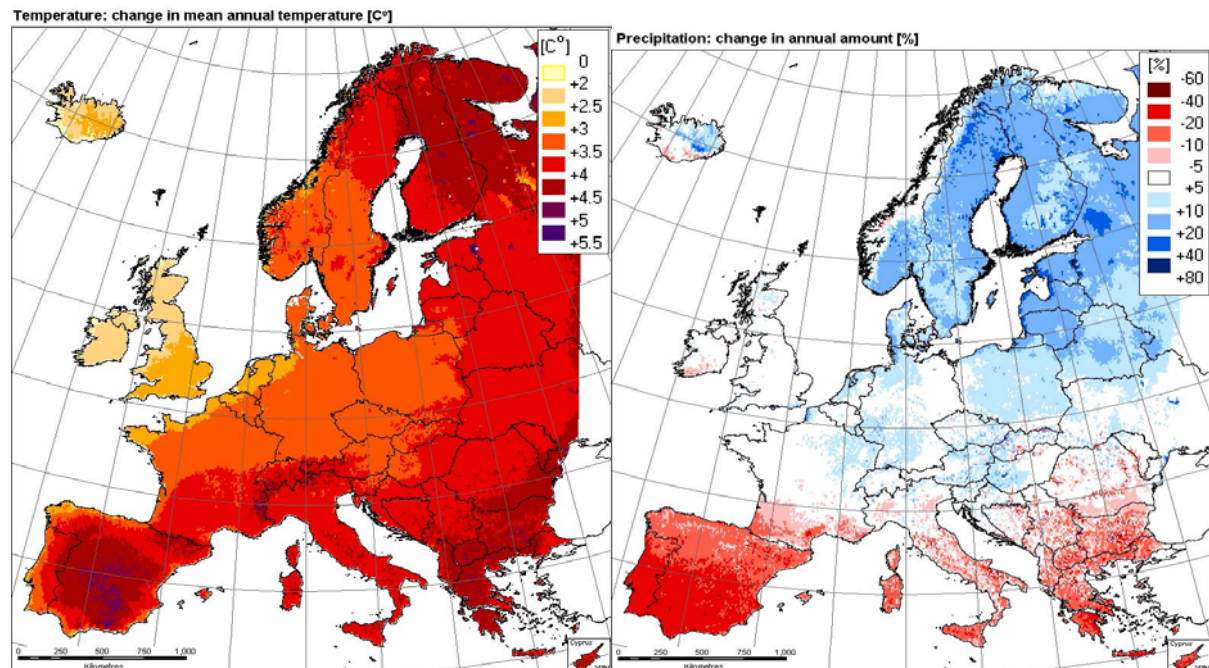
It is now obvious: the climate is changing and climate change is one of the greatest environmental, social and economic threats facing the planet. Dealing with it entails meeting two basic challenges: managing the restructuring of the economy towards a low-carbon economy and adapting to the climate change that will inevitably happen.

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<sup>17</sup> "The impact of ageing on public expenditure: projections for the EU25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004-2050)", report prepared by the Economic Policy Committee and the European Commission (ECFIN), European Economy, Special Report No 1/2006, European Commission, [http://ec.europa.eu/economy\\_finance/epc/documents/2006/ageingreport\\_en.pdf](http://ec.europa.eu/economy_finance/epc/documents/2006/ageingreport_en.pdf).

Kyoto is only a first step. Ambitious action to reduce global emissions is needed after 2012, when Kyoto's targets expire, in order to limit global warming to 2°C. In January 2007 the European Commission set out proposals and options for achieving this in its [Communication "Limiting Global Climate Change to 2 degrees Celsius: The way ahead for 2020 and beyond"](#). The key targets in the Communication, as well as the broad thrust of the integrated energy and climate change strategy of which it forms part, were endorsed by EU leaders at their summit in Brussels on 8-9 March 2007.

Fig 4. Change in mean annual temperature by the end of this century<sup>18</sup> Fig 5. Change in mean annual precipitation by the end of this century



Source: Green Paper from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - Adapting to climate change in Europe – options for EU action {SEC(2007) 849}

### 5.1. Adapting to the climate change

Global warming is a fact. Climate change is happening and is even accelerating. What we are seeing today are only the early signs of climate change and the result of past greenhouse gas emissions. As said, next to deep cuts in greenhouse gas emissions we also need to adapt to the changing climate conditions and Europe needs a wake-up call to prevent climate change from reaching catastrophic proportions later this century.

On 29 June 2007, the European Commission therefore adopted its first policy document on adapting to the impacts of climate change. This Green Paper "Adaptation to climate change in Europe - options for EU action", (see [Green Paper](#) and [Annex to the Green Paper](#)) builds upon the work and findings of the [European Climate Change Programme](#), that was launched in June 2000 to identify and develop the necessary elements of an EU strategy to implement the Kyoto Protocol.

#### **What is adaptation?**

Adaptation actions are taken to cope with a changing climate, e.g. increased rainfall, higher temperatures, scarcer water resources or more frequent storms, at present or anticipating such changes in future. Adaptation aims at reducing the risk and damage from current and future harmful impacts cost-effectively or exploiting potential

<sup>18</sup> Figures 1 and 2 are based on IPCC SRES scenario A2. The projected climate impacts are estimated for 2071-2100 relative to 1961-90. The maps are based on DMI/PRUDENCE data (<http://prudence.dmi.dk>) and have been processed by the Joint Research Centre (JRC) under the JRC-funded study Peseta (<http://peseta.jrc.es>).

benefits. Examples of actions include using scarce water more efficiently, adapting existing building codes to withstand future climate conditions and extreme weather events, constructing flood walls and raising levels of dykes against sea level rise, developing drought tolerant crops, selecting forestry species and practices less vulnerable to storms and fires, and developing spatial plans and corridors to help species migrate. Adaptation can encompass national or regional strategies as well as practical steps taken at community level or by individuals. Adaptation measures can be anticipatory or reactive. Adaptation applies to natural as well as to human systems. Ensuring the sustainability of investments over their entire lifetime taking explicit account of a changing climate is often referred to as 'climate proofing'.

The paper argues that there is a need for a Europe-wide public debate on the matter and presents the four directions (it calls them “pillars”) that will be at the heart of European action. To kick-start the debate a [major conference launching the public debate on adaptation in Europe](#) took place in Brussels on 3 July 2007, A [web-based public consultation](#) on how to take it forward was opened from the end of July until mid December 2007 and [four regional workshops](#) took place in Finland, Portugal, UK and Hungary during autumn 2007.

#### **Adapting to climate change: a flexible four-pronged approach**

##### *First pillar: Early action in the EU*

Early action covers policy options in the following areas: integrating adaptation when implementing and modifying existing and forthcoming legislation and policies, integrating adaptation into existing Community funding programmes and developing of new policy responses.

##### *Second pillar: Integrating adaptation into EU external actions*

The growing concern about climate change impacts and resulting adaptation needs will influence EU relations with third countries. Dialogue and partnerships on adaptation must be initiated with developing countries, neighbouring and industrialised countries. EU Common Foreign and Security Policy (CFSP) has an important role to play in enhancing the EU's capacity to prevent and deal with conflicts such as border disputes and tensions over access to natural resources and natural disasters accentuated by climate change, as well as their potential consequences such as forced migration and internal displacements of persons. EU migration policy should also take the impacts of climate change into account, in particular in migration management.

##### *Third pillar: Reducing uncertainty by expanding the knowledge base through integrated climate research*

Sound scientific results are paramount in the development of climate policy. Although considerable progress has been made in understanding the earth-climate system, uncertainties remain particularly in relation to more accurate and detailed forecasts as to the impacts of climate change at regional and local levels, and the costs and benefits of adaptation measures for shorter time frames such as 2020-30. An integrated, cross-sectoral and holistic approach should be promoted, together with internalisation of environmental costs of physical and biological system degradation. Research should address the complexity of interrelated factors which cannot be analysed independently. The EU's 7<sup>th</sup> Framework Programme for Research (2007-2013) places a strong emphasis on climate change, both in terms of predictive capacity, modelling and adaptation strategies.

##### *Fourth pillar: Involving European society, business and the public sector in the preparation of coordinated and comprehensive adaptation strategies*

The need for adaptation could provoke significant restructuring in some economic sectors that are particularly weather dependent, e.g. agriculture, forestry, renewable energy, water, fisheries and tourism, or specifically exposed to climate change, e.g. ports, industrial infrastructure and urban settlements in coastal areas, floodplains and mountains. There should be a structured dialogue with the parties and civil society concerned to explore these challenges systematically. They could exchange views and provide advice on comprehensive and coordinated strategies, including possible restructuring and accompanying measures.

A strategy for adapting policies to climate change can only succeed if it is perceived as socially fair, notably through its employment and distributive consequences. Whereas unsustainable use of natural resources and damage to the environment can put some vulnerable groups of the population on particular risk, also adaptations to climate change can produce adverse social and employment effects, and therefore lead to further social divisions.

Therefore it is important to promote social and environmental fairness by assessing policy proposals, monitoring impacts of policies and counteracting environmental inequalities.

A strategy for adapting to climate change has to include a strong notion of the importance of human capital. 'Human capital' comprises aspects ranging from awareness for the challenges linked with adaptation to climate change, starting from (pre-)school age, to very concrete training and qualification initiatives to make sure that Europe has the skills and competences to adapt to climate change.

With the European Social Fund (ESF), the EU has an instrument that provides Member States and regions with the opportunity to invest in human capital. The current programming period 2007-2013 calls for ESF co-funded interventions in this area. If anything, this notion may be even more prominent in the future of the ESF, potentially linked to a more explicit mentioning of the challenge of adaptation to climate change.

A Forum will be organised by the European Commission, in the first half of 2009, to examine the effect on European employment of policies designed to mitigate climate change.

## **5.2. Fostering a shared knowledge of the challenges and common responses**

On 23 January 2008 the European Commission put forward a far-reaching package of proposals that will deliver on the European Union's ambitious commitments to fight climate change and promote renewable energy up to 2020 and beyond. This was the "Climate action and renewable energy package": the European Commission's legislative proposal to achieve agreed EU objectives in the fight against climate change

The EU has committed to reducing its overall emissions to at least 20% below 1990 levels by 2020, and is ready to scale up this reduction to as much as 30% under a new global climate change agreement if other developed countries make comparable efforts. It has also set itself the target of increasing the share of renewables in energy use to 20% by 2020.

The "Climate action and renewable energy package" sets out the contribution expected from each Member State to meeting these targets and proposes a series of measures to help achieve them.

Central to the strategy is a [strengthening and expansion of the Emissions Trading System \(EU ETS\)](#), the EU's key tool for cutting emissions cost-effectively. Emissions from the sectors covered by the system will be cut by 21% by 2020 compared with levels in 2005. A single EU-wide cap on ETS emissions will be set, and free allocation of emission allowances will be progressively replaced by auctioning of allowances by 2020.

Emissions from sectors not included in the EU ETS – such as transport, housing, agriculture and waste – will be cut by 10% of 2005 levels by 2020. Each Member State will contribute to this effort according to its relative wealth, with national emission targets ranging from -20% for richer Member States to +20% for poorer ones.

National renewable energy targets are proposed for each Member State, which will contribute to achieving the emissions reductions as well as to increasing the EU's energy independence. These include a minimum 10% share for biofuels in petrol and diesel by 2020. The package also sets out sustainability criteria that biofuels must meet to ensure they deliver real environmental benefits.

The package also seeks to promote the development and safe use of [carbon capture and storage \(CCS\)](#), a suite of technologies that allows the carbon dioxide emitted by industrial processes to be captured and stored underground where it cannot contribute to global warming.

Actions taken to both promote a low carbon economy and to adapt to climate change are at an early stage and it is especially difficult to understand what their consequences will be for employment and companies. At company level one can expect a very positive outcome for innovative companies at the forefront of developing and producing the new low-carbon technologies of the future, but also some apprehension on the part of companies producing goods which are carbon and/or energy intensive and are sold in highly competitive international markets where non-European players do not face similar constraints. It nevertheless has to be stressed that all of these policies are subject to Impact Assessment (see box). This ensures that policies are cost-effective and that any negative impacts are justified by the positive impacts (in other words, the pros are greater than the cons). See, for example, [http://ec.europa.eu/energy/climate\\_actions/doc/2008\\_res\\_ia\\_en.pdf](http://ec.europa.eu/energy/climate_actions/doc/2008_res_ia_en.pdf) Section 11 on energy intensive industries. This shows both the impact on these sectors, and the measures to alleviate those impacts. There is an ongoing discussion about how best to ensure the competitiveness of these sectors and to avoid unnecessary carbon leakage.

## Chapter 2. Measuring restructuring at European level

The European Restructuring Monitor (ERM) has undertaken the very difficult task of assessing the overall impact of restructuring on employment, i.e. by measuring job creation and job losses linked to restructuring. What is the employment impact of restructuring? The word “restructuring” has several meanings and some definitions of restructuring may include events that have no impact on employment rates or that impact on the workforce in some other way, e.g. through reorganisation of work. Furthermore, the relationships between restructuring and employment are neither simple nor straightforward.

The term ‘restructuring’ has come to be associated with the enactment of structural change below the macro-economic or national level: we speak of the restructuring of sectors, companies and establishments. Restructuring also tends to be seen as an active process initiated by employers in contrast to the more passive and deterministic long-term forces of structural change and economic development. Even though it is driven by the need to maintain or enhance profitability and therefore to ensure the company's survival (and thus preserve jobs) in the long term, restructuring is primarily perceived as having a negative impact on employment rates at particular workplaces.

Nonetheless, the more abstract concept of structural change, i.e. the reallocation of resources to more productive uses, is generally viewed in positive terms. Together with cheaper goods and services, job creation in new companies and sectors of the economy is the main benefit of structural change. However, to define such job creation as restructuring is contrary to the public perception of the term restructuring is also often defined by its negative effect on jobs.

In Section 1, two tables drawn from a report by the European Monitoring Centre on Change (EMCC)<sup>19</sup> illustrate some aspects of jobs creation and jobs reduction. The first table presents employment data showing the net changes by economic sector, while the second reports on the reasons for leaving the previous job. Both tables are based on data from the European Labour Force Survey (ELFS).

Section 2 presents data and analyses collected by the ERM, which is now the main source of information on restructuring at European and international level.

### 1 – A general overview

#### 1.1. Sectoral analysis

The net labour market effects of structural change between 2000 and 2005 can best be summarised by examining changes in the level of employment, and the shifts in its composition. Table 1 presents the relative growth rates and employment structure by broad economic sector (NACE 1 classification) in 2000 and 2005. These years represent somewhat similar phases in the business cycle and so, to some extent, remove the distorting effects of the business cycle on comparisons between employment levels.

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<sup>19</sup> See “Restructuring and employment in the EU: Concepts, measurement and evidence”, EMCC, 2006 (<http://www.eurofound.europa.eu/pubdocs/2006/38/en/1/ef0638en.pdf>).



The primary sectors – agriculture, forestry, fishing, mining and quarrying – continue to demonstrate a long-term relative decline. As these represent important sectors in the EU-10, their decline has led to the loss of a very substantial number of jobs in these countries. There are reasons to suppose that agriculture will continue to be the source of significant job loss, particularly in the EU-10, for many years to come. This is due to the ongoing rationalisation of the agriculture sector, mainly in the eastern European countries as a consequence of their adoption of the Common Agricultural Policy (CAP), and to the implementation of the CAP reforms throughout the EU-25. This underlines the often neglected fact that a major share of job loss due to structural change is actually still found in agriculture. Manufacturing, the largest of the NACE 1 sectors, also continues its long-term decline. This is, however, solely attributable to its decline in EU-15, as the EU-10 figures are quite stable. Employment in both the hotels and restaurants sector and business services sector exhibit high job growth and contribute significantly to the aggregate increase in employment. The rapid increase in business services in the EU-10 (38%) is striking, and presumably this sector will keep on growing as these economies continue to develop. In particular, the three sectors – education, health and social work, and social and personal services – have proved to be major contributors to employment growth.

**Table 1. Employment level and growth in the EU by NACE 1 sectors, 2000–2005 (%)**

	EU25			NMS10			EU15		
	change	level		change	level		change	level	
	2000-2005	2000	2005	2000-2005	2000	2005	2000-2005	2000	2005
Agriculture, etc	-11.0	5.2	4.4	-12.1	12.4	10.9	-10.4	3.9	3.3
Fishing	-16.6	0.1	0.1	-5.4	0.1	0.1	-18.1	0.1	0.1
Mining and quarrying	-17.2	0.5	0.4	-26.5	1.5	1.1	-9.2	0.3	0.3
Manufacturing	-5.8	20.4	18.4	0.6	22.5	22.5	-7.2	20.1	17.7
Electricity, gas and water supply	-2.9	0.9	0.9	-8.2	1.9	1.7	-0.6	0.8	0.7
Construction	5.2	7.9	7.9	-3.3	7.7	7.4	6.7	7.9	8.0
Wholesale and retail trade	4.0	14.6	14.6	2.0	14.0	14.2	4.3	14.8	14.7
Hotels and restaurants	13.8	3.8	4.2	12.5	2.5	2.9	13.9	4.1	4.4
Transport, storage and communications	2.2	6.3	6.2	-6.9	7.2	6.7	4.2	6.1	6.1
Financial intermediation	-1.9	3.2	3.0	-8.4	2.3	2.1	-1.1	3.4	3.2
Business services	23.6	7.9	9.4	38.3	4.3	5.9	22.3	8.7	10.1
Public administration and defence	3.5	7.4	7.3	10.9	6.1	6.8	2.4	7.6	7.4
Education	10.2	6.8	7.2	5.1	7.3	7.7	11.2	6.7	7.1
Health and social work	13.3	9.0	9.8	-2.0	6.4	6.2	15.1	9.6	10.5
Social and personal services	10.3	4.5	4.7	1.2	3.8	3.8	11.6	4.6	4.9
Private households	32.4	0.9	1.1	88.0	0.1	0.2	31.7	1.1	1.3
Extra-territorial organisations	-11.6	0.1	0.1	-22.2	0.0	0.0	-11.2	0.1	0.1
Total	4.5	100	100	0.4	100	100	5.2	100	100

Source: ELFS, 2000–2005

The employment decline in the primary sectors and in manufacturing, along with the increase in business, personal and some social services, is a well-known, long-term trend. The rate of structural change in terms of shifts between sectors depends crucially on the level of sector

aggregation. The OECD<sup>20</sup> finds that the rate of change has been relatively stable over the past two decades. However, its findings also show that while the rate of change in broad shifts between the primary sectors, industry and services has declined, there is some indication of an increased change within the various sub-sectors of the ever-growing services sector. This implies that structural changes in employment patterns, to an increasing extent, are taking place within the services sector. Again, it is likely that this trend will continue, as the services sector becomes ever more deeply affected by both technological change and international competition.

## 1.2. Individual analysis

It may be difficult to identify the full impact of restructuring through survey data. The possible responses to reasons for separation include: 'dismissed or made redundant', 'a job of limited duration has ended', 'own illness or disability', 'education or training' and 'early retirement'. Obviously, the first category should be included in any measurement of the impact of job loss at restructuring. Legally, the second category should not be included (end of a limited duration contract).

**Table 2. Reasons for leaving previous job, by non-employed people who separated from previous job up to one year before ('000), 2005**

Country	Reason for leaving previous job										Total
	Dismissal	Temporary job ends	Personal or family reasons	Illness or disability	Education or training	Early retirement	Retirement	Military service	Other	Missing	
BE	52.5	71.7	6.9	17.3	25.2	24.9	15.6	0.0	47.5	0.0	261.5
CZ	82.9	41.6	70.9	23.1	3.7	13.2	41.2	0.0	13.4	0.8	290.9
DK	43.6	26.3	3.4	13.4	15.4	11.6	1.1	0.0	0.8	0.0	115.5
DE	982.6	447.3	124.2	110.4	136.3	100.6	179.3	10.3	382.0	0.9	2473.9
EE	8.7	5.6	6.9	3.6	2.4	0.4	4.7	0.5	5.6	0.0	38.3
EL	38.8	71.4	16.7	6.3	7.4	5.2	23.8	0.7	18.6	0.0	188.9
ES	27.7	202.1	11.4	20.0	16.4	10.4	4.1	0.0	2.9	2088.0	2383.0
FR	401.4	861.8	45.8	52.6	20.7	58.4	292.8	0.0	226.0	0.0	1959.6
IE	11.2	10.3	10.9	4.7	2.6	2.1	1.3	0.0	6.1	0.1	49.2
IT	294.3	705.1	71.5	58.3	35.0	0.0	170.1	2.5	206.0	43.4	1586.2
CY	4.0	4.4	6.9	1.7	1.1	0.4	1.6	0.0	1.2	0.0	21.3
LV	7.8	11.8	20.2	6.9	2.8	1.9	5.1	0.0	14.3	0.0	70.8
LT	9.0	20.8	6.0	5.6	4.3	1.0	7.8	0.0	27.4	0.0	81.8
HU	117.3	32.9	30.4	20.2	4.3	6.2	30.1	0.0	10.8	0.0	252.2
MT	1.3	0.4	0.8	0.4	2.8	0.3	0.7	0.0	0.3	0.0	6.9
NL	0.0	62.2	8.6	14.9	42.0	57.9	0.0	0.0	12.2	159.8	357.6
AT	100.1	55.7	19.4	29.4	23.3	16.3	22.9	8.1	89.6	0.4	365.4
PL	308.7	350.8	72.0	72.6	18.6	62.6	55.0	2.1	133.6	0.0	1075.9
PT	91.6	69.8	6.4	21.9	6.9	8.8	5.5	0.0	68.2	0.0	279.2
SI	9.9	10.3	1.2	1.6	1.2	0.9	7.0	0.0	3.7	0.0	35.8
SK	48.3	24.3	10.3	6.5	0.7	0.0	19.0	0.0	9.5	0.0	118.6
FI	28.8	219.4	10.2	15.7	30.0	2.7	13.4	0.6	23.3	0.4	344.4
SE	76.0	147.3	12.8	21.2	42.3	13.8	3.5	3.0	31.2	0.1	351.3
UK	256.4	214.9	242.0	162.0	0.0	53.7	77.7	0.0	456.4	0.9	1463.9
Total	3002.8	3668.1	815.9	690.3	445.3	453.4	983.3	27.9	1790.6	2294.8	14172.2

Source: ELFS, 2005

<sup>20</sup> OECD, Trade and Structural Adjustment, Paris, OECD, 2005.

However, excluding this category would make comparisons between Member States very difficult given that, for example, in Spain 30.6% of all jobs for men and 35% of jobs for women are of limited duration. This is well over twice the EU-15 average in 2004.

On the other hand, it would probably not be appropriate to equate the loss of these jobs to longer tenure jobs where investment in specific human capital is thus larger. Early retirement is also relevant, to some extent, as it is quite common that redundancy is a reason for taking up early retirement and this may be partially financed by the company. It is also highly likely that the category ‘own illness or disability’ will include many people who have experienced displacement.

There are numerous case studies showing that displaced workers qualify for a disability pension after losing their jobs. Thus, it is not an easy task to determine from this information the real negative employment impact of job loss at restructuring. Once again, this underlines the need for a dedicated survey on job loss arising from restructuring. Without further information, the choice of measurements will be arbitrary, so a variety of measurements will be used.

## **2 – The European Restructuring Monitor**

The ERM records announced restructuring in establishments on the basis of media reporting. The ERM has been in operation since 2002 and now constitutes a dataset of over 7 000 individual cases of restructuring which, notwithstanding certain biases<sup>21</sup>, is the best single source of EU data on the employment impacts of large – scale organisational restructuring.

Using a network of national correspondents based in each of the EU-27 Member States plus Norway, the ERM captures basic descriptive and quantitative data<sup>22</sup> concerning each reported case of restructuring involving over 100 job losses or creations or, in the case of companies employing more than 250 persons, announced restructurings affecting at least 10% of the workforce.

One should note that this definition only captures reported mass restructuring processes. It corresponds to the visible part of the iceberg of job creation and destruction. First, the information does not include the consequential impact on subcontractors unless these also satisfy the thresholds, and ignores local spillovers effects indirectly generated on the employment in a given area. Second, it is well-known that the main flows of job destruction and creation in a given country overwhelmingly come from small scale destructions and creation. However, these large – scale processes are highly meaningful, for several reasons. They are often brutal, dramatised in the headlines of newspapers. They entail important spillovers in a given area. As they hit well identified social group and communities and they represent a kind of breach in the social cohesion, they call for collective action. Also it is easier to conduct policy measures addressed to a single big case than many small ones.

The interest of the ERM database also stems from the distinctions it allows regarding various organisational dimensions of restructuring. The following box summarises the types of restructuring identified in the ERM.

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<sup>21</sup> Cf. box with main caveats about ERM biases in Annex.

<sup>22</sup> Cf. description of ERM factsheets in Annex.

### **Type of restructuring**

- Relocation: When the activity stays within the same company, but is relocated to another location within the same country
- Outsourcing: When the activity is subcontracted to another company within the same country.
- Off-shoring/ delocalisation: When the activity is relocated or outsourced outside of the country's borders.
- Bankruptcy/Closure: When an industrial site is closed or a company goes bankrupt for economic reasons not directly connected to relocation or outsourcing.
- Merger/Acquisition: When two companies merge or during an acquisition which then involves an internal restructuring programme aimed at rationalising organisation by cutting personnel.
- Internal restructuring: When the company undertakes a job-cutting plan, which is not linked to another type of restructuring defined above.
- Business Expansion: Where a company extends its business activities, hiring new workforce. This form of restructuring has been introduced in the ERM database in view of accounting also for positive effects of certain restructuring processes on employment.

This section begins by giving an overview on the effects of restructuring on employment in Europe as captured by the ERM (§1). Then it turns to the dynamics of large-scale job creation and destruction (§2) before examining the hotly debated issue of delocalisation (§3) and ending with a brief comment of the effects of enlargement (§4).

## **2.1. The employment impact of restructuring in Europe: an overview**

Between the beginning of 2002 and the end of 2008 (until 24 November 2008), there were 5,105 cases of restructuring in Member States (including CEEC from 2005 on) recorded by the ERM which involved job losses. They were associated with announced job losses totalling just above 2.9 million, each restructuring case being associated with an average oscillating between 512 and 706 jobs being lost.

**Table 3.: Restructuring in Europe: an overview from 2002 to 2008** (until 24 November 2008)

Year	Cases		Total		Mean	
	Job loss	Job creation	Job loss	Job creation	Job loss	Job creation
2002	440	(Missing, see below)	310602		706	(Missing, see below)
2003	646	11	330495	3835	512	349
2004	696	147	381450	83635	548	569
2005	1008	681	593939	370293	589	544
2006	1033	862	559546	507158	542	588
2007	631	770	330186	427404	523	555
2008	651	461	345629	241290	531	523

Source: *European Restructuring Monitor*

In the same period there were 2,932 cases of restructuring which involved job creation (see box). These were associated with announced job gains totalling 1.6 million jobs. The annual mean size of restructuring cases involving job expansion varied between 349 and 588 jobs over the period covered.

## **2.2. Job losses and job creations**

Comparing the sectoral proportions of overall announced job losses and gains in the two most recent years (2006-07) with the first four years (2002-05), we can assess which sectors have been most affected and whether there has been any relative change in the sectoral level of restructuring job loss or gain in the most recent period.

#### a. Job losses

In both periods, the top-ranking twelve sectors account for over 85% of aggregate announced job reductions. There is also a fair degree of consistency in terms of the main sectors contributing to restructuring job losses; albeit with a shift in the rankings, the same seven sectors account for the biggest share of restructuring job losses in both 2002-05 and 2006-07.

The public sector is the sector most affected in the most recent period and its proportion in the overall share of announced job reductions has increased significantly from 12% to 17%. The auto sector has also seen a significant increase in its share and accounts for 10% of recent overall announced job reductions compared to less than 7% in 2002-05.

Looking at the entire period, the sector accounting for the biggest announced job losses through restructuring was 'Post and telecommunications'. This is unsurprising given increased competition arising from market-opening and integration in this sector which has been one arena of determined application of EU single market rules over the last two decades. It has also of course been one of the sectors affected most by technological advances.

**Table 4. ERM announced job losses by sector, 2002-07**

Rank	2002-05		2006-07	
	Sector	Planned job reductions	Sector	Planned job reductions
1	Post and telecommunications	16.92%	Public Sector	16.95%
2	Financial services	11.94%	Post and telecommunications	14.33%
3	Public Sector	11.29%	Motor	10.08%
4	Transport and storage	10.35%	Financial services	9.59%
5	Metal and machinery	7.73%	Transport and storage	7.45%
6	Motor	6.68%	Metal and machinery	6.07%
7	Chemical	4.14%	Chemical	4.57%
8	Commerce	3.78%	Food, beverage and tobacco	4.37%
9	Food, beverage and tobacco	3.39%	Commerce	3.54%
10	Extractive industries	3.34%	Health and social work	3.09%
11	Electrical	3.31%	Construction and woodworking	3.07%
12	Textiles and leather	3.14%	Extractive industries	2.83%
	Total top 12 sectors	86.01%	Total top 12 sectors	85.94%

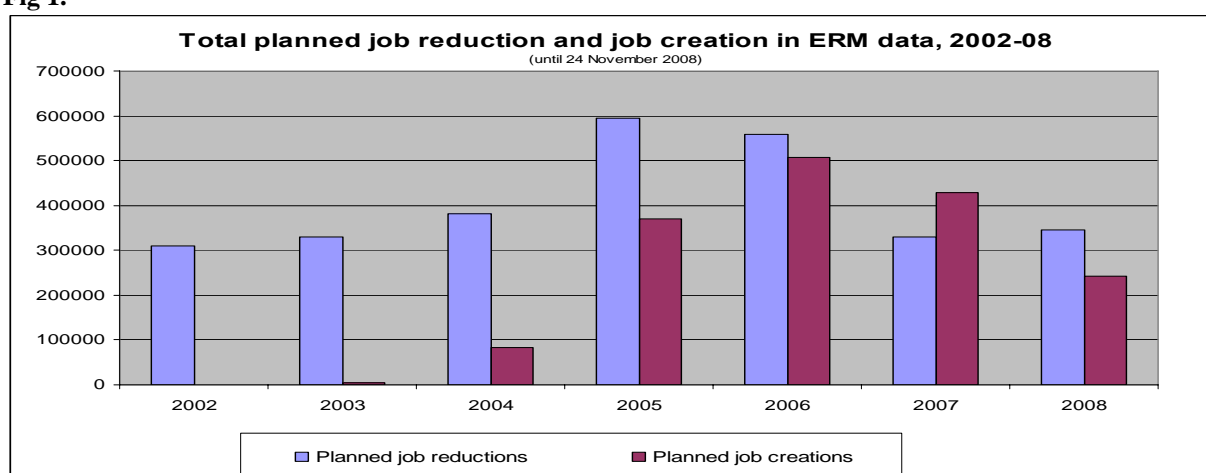
Source: *European Restructuring Monitor*

As can be seen from the table below which shows analogous ERM data for aggregate announced job creations, the post and telecommunications sector also happens to be one of the more dynamic sectors in terms of announced job creations. Its share of overall announced job creations has increased by 70% over the two periods and it is now the second ranked sector in terms of positive restructuring job announcements.

## b. Job creations

There has been a marked shift to job creating as opposed to job destroying in cases of restructuring during the ERM's six years in operation. This is reflected in the fact that while cases of business expansion only began to be included in the dataset late in 2003, the original focus of ERM was on the negative employment consequences of industrial change. In 2007, they accounted for the majority of individual restructuring cases. It was also the first year in which the aggregate positive employment impact of all cases exceeded the aggregate negative employment impact. However for 2008, the negative impact exceeds again the positive impact.

**Fig 1.**



Source: European Restructuring Monitor

While it is unwise to extrapolate from the above data to represent real, aggregate trends in the employment impact of restructuring, especially as the employment effects of restructuring are highly cyclical, what the chart does underline is that the ERM appears to be capturing an increasing proportion of business expansion cases and that the number of announced job losses from restructuring has declined since the peak year, which was 2005.

**Table 5. ERM announced job creations by sector, 2002-07**

Rank	2002-05		2006-07	
	Sector	% planned job creation	Sector	% planned job creation
1	Commerce	21.11%	Commerce	14.71%
2	Motor	18.35%	Post and telecommunications	9.88%
3	Transport and storage	9.08%	Motor	8.28%
4	Metal and machinery	8.13%	Transport and storage	8.25%
5	Consultancy business services	6.12%	Consultancy business services	8.14%
6	Post and telecommunications	5.83%	Energy	6.32%
7	Construction and woodworking	5.54%	Information technology	5.42%
8	Chemical	4.48%	Electrical	5.41%
9	Electrical	4.21%	Metal and machinery	4.87%
10	Financial services	3.08%	Financial services	4.10%
11	Information technology	2.79%	Chemical	3.97%
12	Public Sector	2.12%	Public Sector	3.85%
	Total top 12 sectors	90.84%	Total top 12 sectors	83.20%

Source: European Restructuring Monitor

Overall, at the same time as there has been a large year-on-year increase in the absolute numbers of ERM announced job creations, these tend to have been dispersed over a larger number of sectors. In 2002-05, half of announced job creations were concentrated in just the top three sectors while the top three sectors accounted for around a third of announced new jobs in 2006-07.

### **2.3. Delocalisation: evidence from ERM, 2003-2006**

In the 2007 ERM annual report, *Restructuring and employment in the EU: The impact of globalisation*, an analysis was made of ERM offshoring cases in 2003-06 in order to study how this high-profile form of restructuring has developed in the EU over recent years, what proportion of overall restructuring it accounts for and what sectors or industries are particularly affected. The context for this analysis was the debate on globalisation and the concerns about the competitive impacts on European jobs of what American labour economist Richard Freeman has coined the ‘great doubling’ of the global labour market with the rapid integration of large developing economies, principally China and India, in the global economy.

The analysis of delocalisation cases includes not only those cases where national ERM correspondents had specifically selected ‘offshoring / delocalisation’ as the ‘type of restructuring’ (from a choice of six types, cf. above) but also cases of ‘outsourcing’ where there was a switch from own production to purchase of goods or services from external suppliers based outside the EU-15, and also other cases of delocalisation not necessarily labelled as such in the database, but where the additional information indicates that they could be so described. By focusing on the EU-15 and including cases of job transfer from the EU-15 to the Central and Eastern European Countries (CEEC), the analysis also allows a comparison of the scale and nature of shifts of activity to the former New Member States with those to third countries.

What were the main findings of the analysis?

- Over the period covered, 2003-06, delocalisation accounted for approximately 10% of cases of restructuring involving job loss and 8% of announced job losses.
- Total jobs off shored and captured by the ERM amounted to just under 200,000 jobs over the four-year period.
- There was no sign of an upward trend in delocalisation; 2005 was the peak year in terms of cases of delocalisation and announced job losses but the most recent year, 2006, had the lowest number of announced job losses.
- By sector, offshoring job losses have been larger in high to medium tech sectors than in low-tech sectors. The sector accounting for the highest proportion of EU jobs lost through offshoring (one in four of the total) was banking / insurance, a service sector with a generally high skill profile.
- By type of activity, one in two offshoring job losses are in manufacturing / production, the remainder in more service-oriented activities such as call centres, operational activities, administrative and financial operations and back-office and accounting functions.
- Again, differences between Member States are evident in the destination of offshored jobs. 85% of UK jobs offshored were relocated to Asia, mainly to India, while a similar percentage of German jobs offshored were relocated to the CEEC.

- The majority of service sector jobs were offshored to Asia while manufacturing jobs are more likely to be offshored to the new Member States.

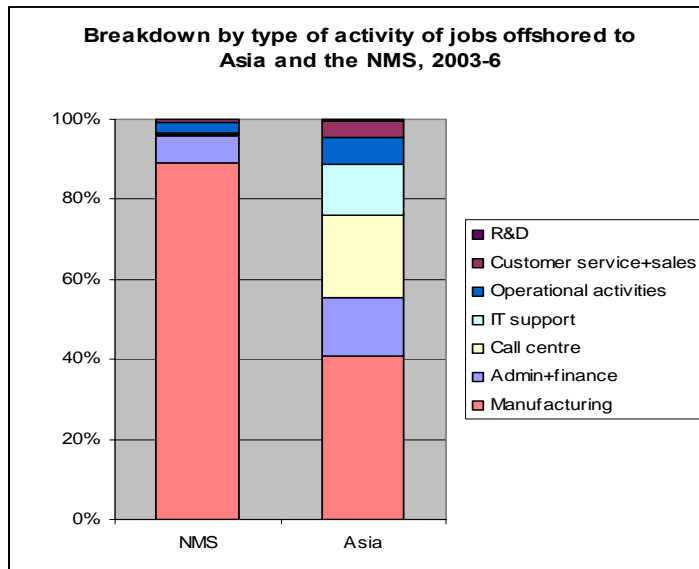
**Table 6.**

**Table 1 Cases of restructuring involving job losses and delocalisation in the EU, 2003-2006**

	Total cases involving job losses		Cases involving delocalisation		Delocalisation as % of total	
	Number	Announced cut in employment	Number	Announced cut in employment	Number	Announced cut in employment
<b>2003</b>	745	525,389	55	47,011	7.4	8.9
<b>2004</b>	745	662,986	89	45,241	11.9	6.8
<b>2005</b>	1,049	657,072	112	63,894	10.7	9.7
<b>2006</b>	936	600,346	100	38,144	10.7	6.4
<b>2003-2006</b>	3,475	2,445,793	356	194,290	10.2	7.9

Source: European Restructuring Monitor

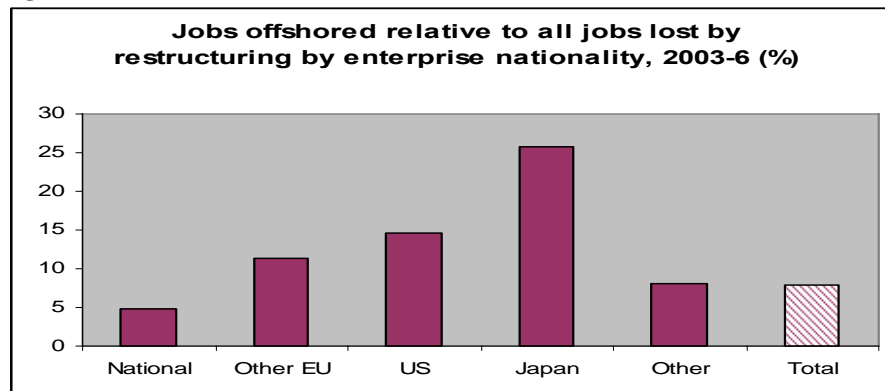
**Fig 2.**



Source: European Restructuring Monitor

A smaller proportion of restructuring job losses involved offshoring in the case of domestically-owned companies than in the case of foreign-owned companies.

**Fig 3.**



Source: European Restructuring Monitor

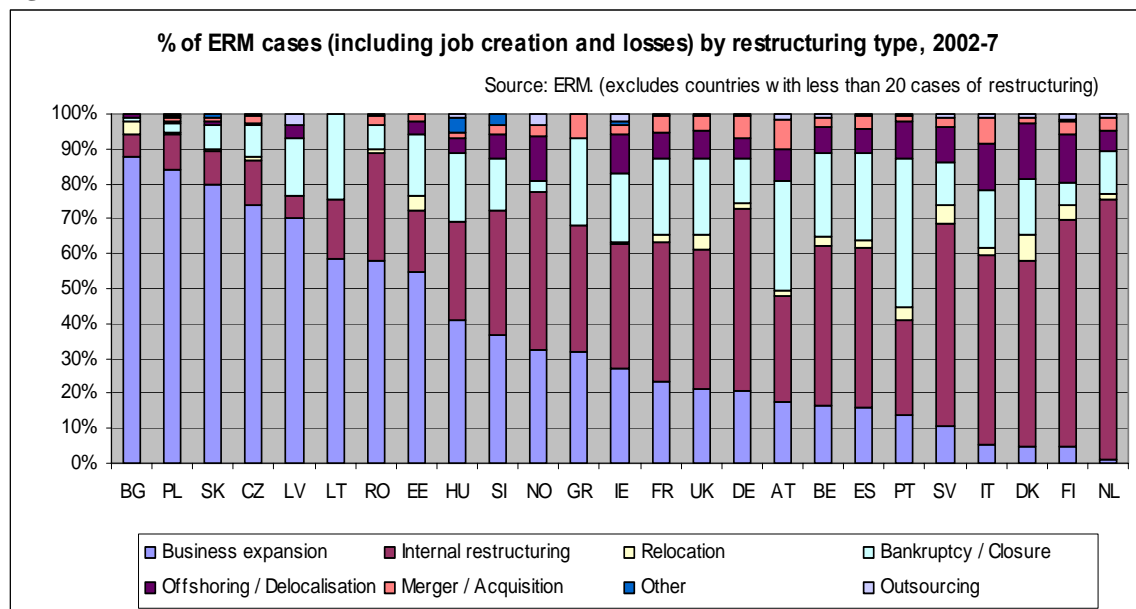


The analysis concludes that ‘while offshoring is one element of the shifting pattern of the international division of labour, contributing to the loss of some jobs in Europe, it is almost certainly only a rather minor one’.

#### 2.4. ERM data and the recent enlargement

The ERM has been in operation since 2002 and covers a period when the EU has enlarged from fifteen to twenty seven states. The integration of the new central and eastern European states has been accompanied by a significant relocation of economic activity to these states attracted in part by lower wage levels but also by encouraging FDI regimes, the prospect of access to faster-growing markets in a region enjoying the benefits of catch-up growth. This is reflected in comparatively higher growth rates in these countries compared to the older EU-15 Member States. GDP growth in the EU-12 averaged 2.8 % compared to 1.9% in the EU-15 o the period 2002-07.

Fig 4.

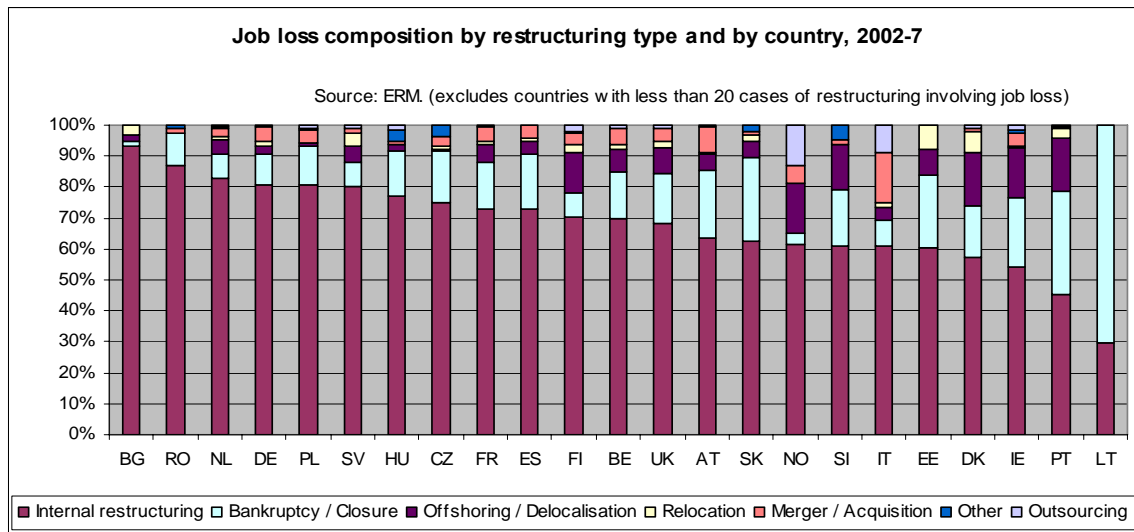


Source: *European Restructuring Monitor*

The ERM dataset captures this contrast between the older and newer Member States in terms of types of restructuring. The dominant, indeed almost exclusive, source of positive job creations in the dataset is cases of ‘business expansion’. This is clearly the predominant form of restructuring in most of the new Member States while the predominant form in the older Member States is ‘internal restructuring’, largely a source of job loss.

Looking exclusively at cases of restructuring involving job loss, it is clear that the great majority of job losses arise as a consequence of internal restructuring (73% of total). The second most important category of restructuring type for announced job loss is company bankruptcy or closure (14% of total). This accounts for the majority of job losses in Lithuania (from a small sample) and significant shares in Portugal, Austria, Ireland, Estonia and Slovakia.

**Fig 5.**



Source: European Restructuring Monitor

### **Annex: Measuring the employment effects of restructuring, the ERM methodology**

The information contained in the ERM comes from correspondents in each of the EU Member States, together with Norway, who obtain it from reports of enterprise restructuring in their country's national newspapers and business press, defined as cases which:

- affect at least one EU Member State;
- entail an announced or actual reduction of at least 100 jobs; or
- involve sites employing more than 250 people and affecting at least 10% of workforce; or
- create at least 100 jobs.

In principle, all instances of restructuring which meet these criteria should be included in the ERM, though how far this is the case in practice depends on both the diligence of the national correspondents concerned in reviewing the sources in question and the extent to which the latter actually report relevant cases. Both may vary between Member States, partly with the size of the country, since a case of restructuring involving the loss of, say, 30 jobs at a worksite employing 250 people is likely to be more newsworthy in a small country than a large one.

The cases excluded because they do not meet the criteria defined because of either the worksite concerned or the job losses involved being too small, are also likely to vary between countries. Here the cases excluded might be expected to vary inversely with the size of the country, but this is not necessarily so, since the typical size of enterprise itself tends to vary across countries, there being a much larger number of small and medium-sized enterprises in the southern Member States in particular than in other parts of the EU<sup>23</sup>.

There is an acute lack of solid evidence on the employment effects of restructuring at European level. While the ERM is not fully representative of the employment effects of restructuring, it is the only EU-wide attempt to measure restructuring directly. Moreover, the ERM is a very timely and, indeed to some degree, anticipatory measure. This characteristic, together with the fact that it identifies the companies and establishments undergoing restructuring, makes the ERM a particularly useful tool from a policy perspective.

Regarding the information collected, the sample ERM fact sheet below illustrates the basic data that the system is designed to capture.

<sup>23</sup> According to the Structural Business Statistics, large manufacturing enterprises in Italy and Portugal employing 250 or more people account for just over 20% of the sector's workforce, compared with an average for the EU as a whole of just over 40%. By contrast, the percentage is over half in Finland, a much smaller country, and it is 60% in Luxembourg.

**Fig 1.1. Sample ERM fact sheet**

<b>Company:</b>	Unipath	<b>Geographic location:</b>		<b>Country:</b>	United Kingdom
<b>Region:</b>	East of England ; Bedfordshire and Hertfordshire				
<b>Affected unit(s):</b>	Bedford				
<b>Company:</b>	<b>Group :</b> Inverness Medical Innovations				
<b>Sector:</b>	Chemical - Manufacture of pharmaceutical preparations				
<b>Number employed:</b>	555				
<b>Employment effects:</b>	<b>Announcement Date:</b> 2008-02-28				
<b>Planned job reductions (min.):</b>	500				
<b>Planned job reductions (max.):</b>	555				
<b>Type of restructuring:</b>	Offshoring/Delocalisation				
<b>Employment effect start:</b>					
<b>Employment effect timeline:</b>	2009-12-31				
<b>Direct dismissals:</b>					
<b>Other job reduction measures:</b>					
<b>Planned job creation:</b>					
<b>Additional information:</b>	Unipath, a medical company known for its home pregnancy testing kits plans to close its Bedford base with the loss of 500 jobs. The firm's parent company Inverness Medical Innovations (IMI) has said that it intends to transfer its operations to China where it has low cost operations. The company has stated its intention to consult with employee representatives over the next 90 days.				
<b>Sources:</b>	BBC Website, 2008-02-28				
<b>Links:</b>	<a href="http://news.bbc.co.uk/1/hi/england/beds/bucks/herts/7269216.stm">http://news.bbc.co.uk/1/hi/england/beds/bucks/herts/7269216.stm</a> <a href="http://www.bedsonsunday.com/bedsonsunday-news/DisplayArticle.asp?ID=260589">http://www.bedsonsunday.com/bedsonsunday-news/DisplayArticle.asp?ID=260589</a>				

## **Chapter 3. Evolving conceptions and EU policies over the last ten years**

Restructuring is not a new feature of economic life. What has changed in recent years is its pace and intensity and the fact that it now covers all sectors of the economy and all regions of Europe and the world.

The policy debate on restructuring has evolved in line with the change in the nature of the phenomenon. Until the 1990s, the prevailing view was that the authorities, be they European, national, regional or local, should play an interventionist role in company decisions on restructuring. The systems for public verification of the economic and social justifications for collective redundancies that applied throughout the EU until the early 1990s illustrate that view. Such systems have gradually been abandoned over the last two decades and have only survived on a general scale in the Netherlands.

Nonetheless, there is still a role for the State. Provisions enshrined in EU law since the mid-1970s (see Chapter 5 on the Collective Redundancies Directive) state that no collective redundancy can take place lawfully without prior notification of the relevant public authority (in addition, of course, to compliance with the obligations concerning the involvement of worker' representatives). Such notification allows the authorities to contribute to alleviating the social consequences of particular restructuring operations by various support measures targeting the workers affected.

The nature and type of such support measures have also evolved from protective, passive measures (unemployment benefit, redundancy compensation, etc.) to a combination of these and active labour market action to help the workers affected to get back into the labour market as quickly as possible (through training and retraining, support for redeployment, occupational guidance, etc.).

The public intervention and planning in sectoral and company development that was a feature of all developed countries and indeed of the EU when it was first established some decades ago has generally been limited to very specific economic sectors, such as defence and other strategic sectors. The role of the public authorities is now generally confined to creating favourable (regulatory etc.) framework conditions allowing companies to exploit their competitiveness potential fully. That is the main remit of the modern industrial policy carried out at European and national level.

However, public authorities in Europe continue to give focused support to less-developed regions and those in economic decline. The Structural Funds illustrate the importance that the Member States attribute to economic and social cohesion justifying such intervention.

Policy papers adopted in recent years, in particular since 1998, illustrate this development and have contributed to a fresh European approach to restructuring. They include Commission communications, high-level group reports, Parliament resolutions and opinions of the Committee of the Regions and European Economic and Social Committee (via the CCMI)

and work carried out by the European Monitoring Centre on Change in the European Foundation for the Improvement of Living and Working Conditions.

All these documents agree on the need to prepare the European Union as a whole, EU workers, economic sectors and regions to cope better with the challenges of globalisation and to promote social management of change and restructuring. Such management must offer new opportunities to workers and regions affected by restructuring, must allow the workers access to training or retraining, and must demonstrate real solidarity with them. Many European policies contribute to the objectives of adaptation to change and anticipation of and support for restructuring operations.

A number of actions under way demonstrate the benefit of a wider partnership and will continue in the future with a view to developing this approach and encouraging social management of restructuring operations. The main aim of such actions is to step up sharing of good practice in the management of restructuring by emphasising in particular the major role of anticipation, which is complementary to that of partnership.

The European Union's action with regard to the management of restructuring operations can only supplement that of the other actors, and in particular the Member States, the regions and, naturally, the companies and employees themselves.

Cooperation with the national authorities is another key area for the management of restructuring operations. Clearly, it is the job of the Member State governments to simplify the regulatory framework, take action to promote and support investments in production, research and innovation activities, ensure the development of a qualified workforce and use the Structural Funds to anticipate and manage restructuring.

Good practice has demonstrated that it is for the regional and local authorities to carry out continuous monitoring of changes in economic activities of significance to their region in close cooperation with the economic players involved. Their participation in putting in place and strengthening mechanisms for the adaptation of companies and staff and in boosting the competitiveness of the region's economic and social fabric is a major challenge.

Restructuring is a necessary phenomenon which accompanies structural change thus most often underpinning economic and social progress. However, to offset the possible short-term consequences of restructuring, structural changes need to be correctly anticipated. The concerned firms have to take corrective measures and manage the necessary change quickly and effectively, and the authorities help to create the right conditions for managing change smoothly. Anticipation, preparation and accompanying measures are thus essential.

## **1 - Ten years ago**

**At the end of 1998**, the 'Managing Change'<sup>24</sup> report (known as the Gyllenhammar Report) was probably the first to present a comprehensive view on restructuring issues, re-situating

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<sup>24</sup> Managing Change, High level group on economic and social implications of industrial change, Final Report, European Commission, Directorate-General for Employment, Industrial Relations and Social Affairs, Unit V/D.3, Manuscript completed in November, 1998  
[http://ec.europa.eu/employment\\_social/soc-dial/csr/gyllen\\_en.pdf](http://ec.europa.eu/employment_social/soc-dial/csr/gyllen_en.pdf).

them in the broader framework of change, and to propose an integrated response relying on multi-actors' ability to act (see box below).

**High level group on economic and social implications of industrial change Managing change final report (excerpt)**

**The Challenge**

Industrial change, which can be gradual or sudden, is driven by political and financial upheaval, new technologies, worldwide competition and consumer preferences. It provides opportunities but also has economic implications and an impact on employment and social cohesion. Europe must face these changes by combining innovation with social cohesion and improving its capacity to manage change. (...).

**Dialogue**

Industrial change represents an opportunity –and it must be anticipated, prepared for and managed. The foundation for this is dialogue– at all levels and with full and transparent information as its basis.

**Preparing for tomorrow's economy**

Prevention is better than cure. Preparation to change is more effective than dealing with crises. The Group believes that preparation for tomorrow's economy relies on the essentials of

- Renewing and upgrading infrastructure
- Fostering growth sectors
- Encouraging focussed research and development
- Accelerating adaptability and new skills

**Employability**

(...) The employability of an individual is her/his ability to find a niche in the labour market.

Employability encompasses more than just training: it also provides individuals with a better understanding of change, of the need for mobility and of the means to upgrade skills. In short, it means that individuals have confidence in their own ability to adapt to change. (...)

**Role of actors**

Each actor –government, enterprises, employees and their representatives– has its role and responsibility in times of crises. These roles must be clear and should be rehearsed in advance so that implementation runs smoothly and efficiently. Public authorities, at all levels, must not stand in the way of change. One of their main roles is to lay down the rules of the game and to help organise cooperation and partnerships at local level. (...) The Group recommends that the management of change at territorial level be achieved through a joint effort on the part of all those active in the territory, under the aegis of local authorities. The objectives of the authorities must be to enable all those involved to act coherently, in a way that anticipates change, and to transform an overt crisis into a sustainable strategy for redevelopment. The guiding principle for companies is to be competitive and profitable while living up to their social responsibilities. (Full report may be found at: [http://ec.europa.eu/employment\\_social/soc-dial/csr/gyllen\\_en.pdf](http://ec.europa.eu/employment_social/soc-dial/csr/gyllen_en.pdf)).

The report also proposed to set up a permanent evaluation process by suggesting that European companies of more than 1000 employees should prepare a 'Managing Change' Report providing information on what structural changes are foreseen, how they will be managed and describing the company's policies and programme of training employees to maintain their employability and adaptability to new demands. It also suggested increasing the capacity to anticipate, by proposing that a European observatory should be set up to gather and disseminate information (over the Internet) on current industrial change.

**In February 2001**, the 'European Parliament Resolution on the social consequences of industrial restructuring' (see box) called for a more proactive approach to industrial restructuring and its social consequences, stressing the need for continuous social dialogue and recalling the provisions of the Treaty stating that the objective of employment must be taken into consideration in all Community policies and activities.

**'European Parliament resolution on the social consequences of industrial restructuring' (excerpt)**

The European Parliament,  
(...)

- Believes that the current climate of industrial change necessitates a review and an updating of existing legislation, and calls therefore:

- On the Commission to bring forward urgently before the end of 2001 a revision of the European works councils directive, with particular attention to the need for sanctions for non-compliance with the directive;
- On the Commission to proceed immediately with the publication of its review of the collective redundancies directive, as announced in the European Social Agenda agreed at Nice, with a view to amending the directive if it is found not to have been effective in protecting workers;
- On the Council to adopt without further delay its common position on the framework directive on informing and consulting employees, taking into account the amendments adopted by Parliament at first reading;
- On the Commission to carry out a review of the directive on transfers of undertakings, on the basis of which a proposal for amendment to the directive should be presented which provides for sanctions for non-compliance with the directive;

- Calls on the Commission and the European social partners to come to an agreement on the introduction by large European companies of annual 'managing change reports' on employment and working conditions, prepared in cooperation with the employees' representatives;

- Believes that all Community provisions laying down practical arrangements for informing and consulting employees must allow for information and consultation at the planning stage of any proposed restructuring so as to ensure that the consultation is effective and an influence can be exerted on the decision-making process;

Full text may be found at:

<http://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B5-2001-0089&language=EN>

#### **Main EP's recommendations linked with restructuring**

The European Parliament has periodically underlined its concern about restructuring issues:

[The economic and social consequences of companies](#), 6 July 2006 (P6\_TA-PROV(2006)0315)  
[Restructuring and Employment](#), 15 March 2006 (P6\_TA-PROV(2006)0088)  
[Relocation in the context of regional development](#), 14 March 2006 (P6\_TA-PROV(2006)0077)  
[State Aid Reform](#), 14 February 2006 (P6\_TA-PROV(2006)0054)  
[Globalisation and the internal market](#), 14 February 2006 (P6\_TA-PROV(2006)0055)  
[Restructuring the sugar industry](#), 19 January 2006 (P6\_TA-PROV(2006)0025)  
[Direct State aid as a tool of regional development](#), 15 December 2005 (P6\_TA-PROV(2005)0527)  
[Social dimension of globalisation](#), 15 November 2005 (P6\_TA-PROV(2005)0427)  
[Lifelong learning](#), 25 October 2005, (P6\_TA-PROV(2005)0395)  
[Education as the cornerstone of the Lisbon process](#), 13 October 2005 (P6\_TA-PROV(2005)0384)  
[Territorial cohesion in regional development](#), 28 September 2005 (P6\_TA-PROV(2005)0358)  
[Revision of the financial perspective 2000 - 2006](#), 7 September 2005 (P6\_TA-PROV(2005)0325)  
[Textiles and clothing after 2005](#), 6 September 2005 (P6\_TA-PROV(2005)0321)  
[ERDF, ESF and Cohesion Fund](#), 6 July 2005 (P6\_TA-PROV(2005)0277)  
[Employment and productivity](#), 9 June 2005 (P6\_TA(2005)0240)  
[Strengthening European competitiveness](#), 9 June 2005 (P6\_TA(2005)0230)  
[Social Agenda \(2006-2010\)](#), 26 May 2005 (P6\_TA(2005)0210)  
[The internal market in the new Member States](#), 28 April 2005 (P6\_TA(2005)0149)  
[Reform of the common market in sugar](#), 10 March 2005 (P6\_TA-PROV(2005)0079)  
[Future of the steel sector](#), 24 February 2005 (P6\_TA-PROV(2005)0050)  
[Modernising company law and enhancing corporate governance](#), 21 April 2004 (P5\_TA(2004)0346)  
[Crisis in the steel sector](#), 12 February 2004 (P5\_TA(2004)0095)  
[Future of the textiles and clothing sector in the EU](#), 29 January 2004 (P5\_TA(2004)0055)  
[Takeover bids](#), 16 December 2003 (P5\_TA(2003)0571)  
[Industrial policy in an enlarged Europe](#), 23 October 2003 (P5\_TA(2003)0464)  
[Impact of EU fisheries restructuring](#) (COM(2002) 600 - 2003/2039(INI)), 4 June 2003 (P5\_TA(2003)0240)  
[Closure of undertakings after receiving EU financial aid](#), 13 March 2003 (P5\_TA(2003)0106)  
[Crisis in the steel sector](#), 13 February 2003 (P5\_TA(2003)0067)  
[European Area of Lifelong Learning](#), 5 September 2002 (P5\_TA(2002)0403)  
[Corporate social responsibility](#), 30 May 2002 (P5\_TA(2002)0278)  
[European defence related industries](#), 10 April 2002 (P5\_TA(2002)0172)  
[Management of regional policy and structural funds](#), 7 February 2002 (P5\_TA(2002)0059)  
[Economic an employment situation in the air transport sector and in the industrial and related service sectors](#), 15 November 2001 (B5-0687/2001)

[Chemicals strategy](#), 15 November 2001 (A5-0356/2001)  
[European works Councils](#), 4 September 2001 (A5-0282/2001)  
[Integrating environmental issues with economic policy](#), 31 May 2001 (A5-0172/2001)  
[Industrial restructuring and mergers](#), 15 February 2001 (B5-0089/2001)  
[Telecommunications mergers](#), 7 September 2000 (B5-0654/2000)  
[Company restructuring in Europe](#), 17 February 2000 (B5-0124/2000)  
[Restructuring of firms in the face of globalization](#), 28 October 1999 (B5-0185/1999)

In 2001 and further to the recommendations of the 'Managing Change' report, the European Monitoring Centre on Change (EMCC) was created within the European Foundation for the Improvement of Living and Working Conditions, Dublin, with the full support of the European Parliament, the European Commission and the social partners. The EMCC is an information resource established to promote an understanding of how to anticipate and manage change. The EMCC's mission is to cast a spotlight on the economic and social developments that drive change in the European economy. It highlights changes resulting from developments and shifts in technologies, work organisation, production and business models, legislation, working practices and the labour market. More specifically, EMCC

- identifies, collects and processes relevant information on the major trends and drivers of change in the European economy;
- provides up-to-date news and analysis on company restructuring in Europe through its [European Restructuring Monitor \(ERM\)](#);
- conducts research and in-depth studies on change processes in specific economic sectors (see box below);
- helps to build up knowledge by sharing experience on the management of change in companies and regions;
- raises awareness of the information available and facilitates access to a wide variety of data and knowledge sources for its target audiences through a single entry point;
- acts as a catalyst by linking different sources of data and information and building synergies to create new perspectives.

#### EMCC's sector research

Focusing on the trends and drivers of change in selected sectors of the economy, EMCC presents a series of forward-looking features. Three separate articles are published for each sector. The first paints a broad picture of the changing dynamic of the sector, the second presents future scenarios and the third draws out key policy issues. The reports are based on findings from existing foresight studies, scenario work, innovation studies and reliable data sources (see [http://www.eurofound.europa.eu/emcc/sector\\_futures.htm](http://www.eurofound.europa.eu/emcc/sector_futures.htm)).

These studies concern the following sectors:

[Automotive](#) (2004)  
[Biomedical healthcare](#) (2008)  
[Biomedical healthcare](#) (2006)  
[Chemicals\(excluding pharmaceuticals\)](#) (2005)  
[Childcare services](#) (2006)  
[Commerce](#) (2008)  
[Defence industry](#) (2006)  
[Energy](#) (2008)  
[Financial services](#) (2003)  
[Food and drink](#) (2004)  
[Health and social services](#) (2003)  
[Hotels and catering](#) (2005)  
[Information and communication technologies](#) (2003)  
[Knowledge-intensive business services \(KIBS\)](#) (2005)  
[Performing arts](#) (2006)  
[Publishing and media](#) (2003)  
[Textiles and clothing](#) (2008)  
[Textiles and leather](#) (2004)  
[Transport and logistics](#) (2008)  
[Transport](#) (2005)



**At the beginning of 2002**, the ‘Industrial Relations and Change’<sup>25</sup> report (see box below) focuses on industrial relations and ways to improve them at European level. Considering that in a context of unprecedented internal and external challenges good industrial relations were an asset it suggested ways to enhance the effectiveness and efficiency of the industrial relations process, foster social dialogue and encourage agreements at all levels.

**‘Report of the high level group on industrial relations and change in the European Union’ (excerpt)**

The role of industrial relations at European level has been highlighted by the need for both social partners and governments to address problems with a European dimension. This has been the case with the European single market and the single currency and their implications for re-regulating labour markets. This need will increase further with globalisation, enlargement and with the new strategy adopted in Lisbon to create a more competitive knowledge economy which also promotes social inclusion. Three critical issues must be addressed in order to improve the role of the European level of industrial relations:

- First, it is necessary to enhance its interaction with the national and local level. On the one hand, national and local problems should be taken into account more in European discussions and, on the other hand, the European level can contribute to identifying strategic issues to be addressed at national and local levels. Diversity in Europe should be treated as an asset and the European level must take account of diverse forms of national practices
- Second, the interaction between bipartite and tripartite processes at European level should also be encouraged by enhancing both processes. The more bipartite processes are enhanced the more they will become relevant for tripartite processes and vice-versa.
- Third, the interaction between the sectoral and inter-professional levels should be recognised. European sectoral social dialogue is proving to be a good complement to the European cross-industry social dialogue because it is coping with many sectoral specific issues. Recognising the wide range of questions and instruments the sectoral level is dealing with, the Group considers that a mutual learning process should be encouraged between sectoral social dialogue committees, especially in the context of the enlargement.

The full report may be found at:

[http://ec.europa.eu/employment\\_social/publications/2002/ke4202472\\_en.pdf](http://ec.europa.eu/employment_social/publications/2002/ke4202472_en.pdf)

**In January 2002**, the Commission based its Communication ‘Anticipating and managing change: A dynamic approach to the social aspects of corporate restructuring’<sup>26</sup> on points highlighted in the Managing Change report and connected to the Lisbon Strategy. The Communication sought to stimulate dialogue between the social partners with a view to identifying and developing best practice in anticipating and managing restructuring. It took as a starting point the observation that corporate restructuring operations are an important element of the process of change. Forward-thinking human resources planning and better qualifications are fundamental in this context, while the introduction of mechanisms to support the latter calls for active partnership between the social partners.

In accordance with Article 138 of the EC Treaty, the Communication called on the social partners to express their opinions on the advisability of laying down certain principles at Community level for action to support good practice in companies undergoing restructuring,

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<sup>25</sup> Report of the high level group on Industrial Relations and Change in the European Union, Directorate-General for Employment and Social Affairs, European Commission, Manuscript completed in January 2002

[http://ec.europa.eu/employment\\_social/publications/2002/ke4202472\\_en.pdf](http://ec.europa.eu/employment_social/publications/2002/ke4202472_en.pdf)

<sup>26</sup> COM(2002) ‘Anticipating and managing change: a dynamic approach to the social aspects of corporate restructuring’, First phase of consultation of the Community cross-industry and sectoral social partners

[http://ec.europa.eu/employment\\_social/social\\_dialogue/docs/changement\\_I\\_en.pdf](http://ec.europa.eu/employment_social/social_dialogue/docs/changement_I_en.pdf)

and on the way such principles should be developed and laid down. The Communication asked the European social partners to say whether they regarded agreements between the social partners at inter-branch or sector level as the right way to proceed.

**In October 2003**, the cross-industry social partners responded to this request by presenting a document entitled ‘Orientations for reference in managing change and its social consequences’<sup>27</sup>. Their contribution contained an in-depth analysis of the phenomenon and identified key factors in the sound management of a restructuring operation. The social partners agreed that the existence of good social dialogue in a climate of trust and a positive attitude to change were important factors in preventing and limiting its negative consequences (see Chapter 5).

**At the end of 2002**, the Consultative Commission on Industrial Change (referred to in all languages by the French acronym CCMI) was set up as a body within the European Economic and Social Committee (EESC). The first CCMI own-initiative opinion aimed at highlighting its role in furthering direct dialogue between stakeholders affected by industrial change with a view to presenting European policy-makers with a variety of options. Specifically, the opinion outlines a holistic approach to restructuring (see box below).

**Opinion of the European Economic and Social Committee on ‘Industrial change: current situation and prospects - An overall approach’ (excerpt)**

The EESC considers that future work of the CCMI should be related to the following:

- Analysing industrial change and its causes from the economic, social, territorial and environmental points of view, as well as assessing the impact of industrial change on sectors, firms, workforces, territories and the environment.
- Seeking positive common approaches to anticipating and managing industrial change and seeking ways in which the EU and the Member States can improve firms' competitiveness and profitability, encouraged by social dialogue and cooperation between all the parties concerned.
- Seeking common approaches to promoting sustainable development and improving social and territorial cohesion, in order to give an impetus to the Lisbon Strategy, and promoting a framework and conditions allowing industrial change to take place in a way compatible both with firms' need for competitiveness and with economic, social and territorial cohesion.
- Promoting the coordination and coherence of Community action in relation to the main industrial changes in the context of enlargement: research, economic, competition, social, regional, environmental, transport, etc.

Full text may be found at

[http://eescopinions.eesc.europa.eu/viewdoc.aspx?doc=\\esppub1\esp\\_public\ces\ccmi\ccmi002\en\ces1180-2003\\_ac\\_en.doc](http://eescopinions.eesc.europa.eu/viewdoc.aspx?doc=\\esppub1\esp_public\ces\ccmi\ccmi002\en\ces1180-2003_ac_en.doc)

As the end of the European Coal and Steel Community (ECSC) Treaty approached (signed in 1952 for fifty years), the Member States called on the European Commission to present its ideas on the future of structured dialogue. The rationale behind the CCMI was to build upon the work done by the ECSC Consultative Committee in the steel and coal sectors. Throughout the European integration process the ECSC Consultative Committee provided a model for consultation of the relevant stakeholders with a view to designing a tailored industrial policy. The main result of that consultation was the examination of the root causes and the conditions of industrial restructuring in the coal and steel sectors so as to propose appropriate programmes and initiatives, such as those designed for regions particularly hard hit by unavoidable

<sup>27</sup> Orientations for reference in managing change and its social consequences, October 2003  
[http://ec.europa.eu/employment\\_social/social\\_dialogue/docs/300\\_20031016\\_orientations\\_restructuring\\_en.pdf](http://ec.europa.eu/employment_social/social_dialogue/docs/300_20031016_orientations_restructuring_en.pdf)

restructuring, Community R&D and training programmes, financial schemes for restructuring in the coal and steel sectors, the launch of social programmes (payments in respect of loss of employment and early retirement) and other achievements (notably a joint committee for the harmonisation of working conditions). The CCMI therefore combines over 50 years of experience of consultative dialogue with a wide-ranging composition and remit to produce a body unique to the European institutions. It is a new kind of model for discussion/dialogue of policy issues between different actors in the field of industrial change.

The CCMI looks at industrial change issues across a wide spectrum of sectors. As such, it offers added value to the work of the EESC as a whole. It is of particular value to those new Member States currently undergoing the process of industrial change and its new composition, created at the end of 2004, reflects this fact in the form of significant representation from these countries. The CCMI is more than just a repository of lessons learnt in the past. In keeping with the subjects it treats, the role of the CCMI is to look to the future. The emphasis is on anticipation, pre-emption and analysis so as to ensure positive common approaches to the management of industrial change from an economic, social, territorial and environmental point of view. The CCMI promotes coordination and coherence of Community action in relation to the main industrial changes in the context of the enlarged EU and advocates balance between the need for socially acceptable change, environmentally sustainable production and the retention of a competitive edge for EU industry.

#### **CCMI's Activities**

Since its establishment, the CCMI has issued nearly fifty opinions, supplementary opinions or information reports (see [http://www.eesc.europa.eu/sections/ccmi/index\\_en.asp](http://www.eesc.europa.eu/sections/ccmi/index_en.asp)):

- CCMI/051 - **Coal and steel research**
- CCMI/046 - **The automotive sector in Europe: current situation and prospects**
- CCMI/045 - **The impact of European environmental rules on industrial change**
- CCMI/044 - **The impact of the territoriality of tax law on industrial change**
- CCMI/043 - **Global trade integration and outsourcing: How to cope with the new challenges**
- CCMI/042 - **Simplification - machinery sector**
- CCMI/041 - **The development of the European textile and footwear industry**
- CCMI/040 - **The Development of the European Cement Industry**
- CCMI/039 - **Evolution of the European chemical industrial sector**
- CCMI/038 - **Innovation: impact on industrial change and the role of the EIB**
- CCMI/037 - **Value and supply chain development**
- CCMI/036 - **European Globalisation Adjustment Fund**
- CCMI/035 - **Interactions between services and European manufacturing industries**
- CCMI/034 - **IT-supported lifelong learning and industrial change**
- CCMI/032 - **Modern industrial policy**
- CCMI/031 - **Territorial governance of industrial change**
- CCMI/030 - **A sectoral survey of relocation**
- CCMI/029 - **Sustainable development and industrial change**
- CCMI/028 - **Supply of raw materials**
- CCMI/027 - **Restructuring and employment**
- CCMI/025 - **Technology parks and industrial change**
- CCMI/024 - **Greenhouse gas emissions and industrial change**
- CCMI/023 - **Industrial change in cross-border regions**
- CCMI/021 - **Industrial change - China**
- CCMI/020 - **Industrial change in the mechanical engineering sector**
- CCMI/019 - **Social dialogue and industrial change**
- CCMI/018 - **Coal and steel research**
- CCMI/017 - **Structural change**
- CCMI/015 - **Science and technology**
- CCMI/014 - **Company relocations**
- CCMI/013 - **Industrial change and economic, social and territorial cohesion**

CCMI/012 - State aid in the steel sector  
CCMI/011 - LeaderSHIP 2015  
CCMI/010 - Legislation on Chemical Products (REACH)  
CCMI/009 - Future of textiles  
CCMI/008 - Road to Sustainable Production – Progress in implementing Council Directive 96/61/EC concerning integrated pollution prevention and control  
CCMI/007 - Trade policy and industrial change  
CCMI/006 - SMEs, the social economy and industrial change  
CCMI/005 - European defence  
CCMI/002 - Industrial change: current situation and prospects  
CCMI/001 - Annual steel statistics

## 2 - The Commission Communication of 31 March 2005

**In March 2005** the Commission Communication *Restructuring and employment: Anticipating and accompanying restructuring in order to develop employment — The role of the European Union*<sup>28</sup> fitted in fully with the relaunch of the Lisbon Strategy. Its aim was to identify and promote the mobilisation of resources that would allow the economic actors and the workers to adapt quickly to the changes underway. The Commission emphasised that a combination of different instruments and policies would make it possible to fully exploit the opportunities offered by current processes of change and to tackle the problematic aspects, in particular by supporting transitions in the labour market.

Many EU policies contribute to the objectives of adaptation to change, and of anticipating and supporting restructuring operations: one may cite policies on competition and innovation, those aimed at improving the environment in which European companies operate and at facilitating the reallocation of resources, the employment, education and training policies, directives on informing and consulting workers, European social dialogue, cohesion policy, financial support instruments, rural development policy, etc. The Union is also developing sectoral policies geared to anticipating change and strengthening the competitive position of Europe's economy.

At the same time, in 2005, in accordance with Article 138 of the Treaty, the Commission called on the European social partners to continue working to identify good practice for anticipating and providing support for restructuring operations and, above all, to find ways of ensuring these practices were followed. It also encouraged the social partners to be more proactive in the management of restructuring and to cooperate more closely in:

- promoting the application of and follow-up to their guidelines on restructuring activities, and a discussion on the way forward;
- encouraging the adoption, where applicable, of best practice set out in the existing guidelines on restructuring;
- promoting best practice in the way that European works councils operate with a view to making them more effective, in particular as regards their role as a driving force for change;
- developing a common approach to the other points in the Communication of concern to them, and in particular training, mobility, the sectoral dimension and anticipation.

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<sup>28</sup> COM(2005) 120 "Restructuring and employment: Anticipating and accompanying restructuring in order to develop employment — The role of the European Union", March 2005. [repetition of title]  
[http://ec.europa.eu/employment\\_social/news/2005/apr/com\\_restruct\\_en.pdf](http://ec.europa.eu/employment_social/news/2005/apr/com_restruct_en.pdf)

### Proposed measures in the Communication of 31 March 2005

Review of the European Employment Strategy, focusing on three priorities: boosting the employment rate, increasing the adaptability of workers and companies, investing more in human capital.

Reform of the financial instruments, in particular to strengthen the contribution to the Lisbon strategy of the cohesion policy, the ESF and the European education and lifelong learning programmes.

Establishment of a growth adjustment fund (costing €1 000 million) and of contingency reserves as part of cohesion policy (costing 1% of 'Convergence' funding and 3% of 'Competitiveness' funding) to deal with unforeseen events.

Promotion of fundamental social standards, decent working conditions and social dialogue in external policies.

Closer monitoring of restructuring by the European Restructuring Monitor.

Enhanced sectoral and regional monitoring of sectors likely to undergo significant changes in their short-term competitive situation.

Greater involvement of sectoral social dialogue committees in restructuring issues.

Setting-up of an internal Commission Task force on restructuring.

Establishment of a 'Restructuring' Forum.

Green Paper on the development of labour law.

Facilitation of intra-Community worker mobility.

Launch of the second phase of the consultation of the social partners on restructuring and European works councils, in particular with a view to encouraging the adoption of their best-practice guidelines on restructuring and European works councils.

**In 2007 the Committee of the Regions (CoR)<sup>29</sup>** adopted a resolution on the Commission Communication of 31 March 2005, which stated that 'the restructuring process in cities and regions is a constant phenomenon accompanying our socio-economic lives. Restructuring should be treated as an opportunity for tackling existing and future economic problems' and recommends 'the constant monitoring of these processes across the whole European Union [...]. The European Union and the Member States ought to encourage the creation of local and regional partnerships between administrative authorities, businesses and the social partners, thereby promoting cooperation for local development in a globalised world, particularly in peripheral areas, where there is a danger of a loss of cultural heritage. Local and regional level restructuring must ensure that objectives can be achieved which are in line with EU policies, whilst at the same time maintaining high levels of employment to secure an appropriate standard of living. The current restructuring process should also be a first step in a modernisation process which seeks to create an economy focused on the future and based on knowledge and innovation. An integrated approach to the restructuring of rural areas ensures (or should ensure) a minimum level of access to services of general economic interest, in order to attract business and skilled workers and stem depopulation. It is also imperative that ERDF, ESF and an EAFRD funding should be used to support innovative action rather than to prop up the status quo.'

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<sup>29</sup> Outlook Opinion of the Committee of the Regions on success factors for local and regional restructuring strategies: [http://coropinions.cor.europa.eu/CORopinionDocument.aspx?identifier=cdre\ecos-iv\dossiers\ecos-iv-010\cdr340-2006\\_fin\\_ac.doc&language=EN](http://coropinions.cor.europa.eu/CORopinionDocument.aspx?identifier=cdre\ecos-iv\dossiers\ecos-iv-010\cdr340-2006_fin_ac.doc&language=EN).

### 3 – Future developments

In 2008 a ‘restructuring package’ was presented as part of the renewed Social Agenda<sup>30</sup>. This ‘package’ consists of several elements covering different aspects of the restructuring process and using various tools available at EU level (legislation, financial support, exchange of good practice, etc.). The main elements of this "restructuring package" are:

- European Globalisation Adjustment Fund – Review and Prospects (see Chapter 6)
- European Works Councils – Review of the existing Directive (see Chapter 5)
- Transnational Company Agreements – The role of these agreements in the context of increasing international integration (see Chapter 5)
- Restructuring and Employment – The contribution of the European Union.

The last element, a Commission staff working document<sup>31</sup>, takes stock of the main advances in the area of restructuring in the wake of the two Communications on the management of restructuring presented in January 2002 and March 2005. This document identifies some lessons and proposes a new action plan.

#### 3.1. Lessons

The intensity of factors driving change has been significant in the last ten years (climate change, changes in corporate governance due to the ‘financiarisation’ of the economy, growing disintegration of the value chain and demographic changes).

The need for ownership, political visibility, efficiency and rapidity of decision-making processes, including during actual restructuring operations, justifies reinforcing the role of the Commission Taskforce on restructuring<sup>32</sup>. EU policies, which have an influence on processes of change and restructuring, must continue to be tightly coordinated internally.

Sharing the results of anticipation activities should also provide useful information and food for thought for each actor. To that end, a worthwhile avenue for the EU to explore might be the Canadian experience of sectoral employment and skills councils bringing together experts from public, economic, social and training areas to analyse and share information on employment prospects and qualifications in a specific sector. Such arrangements could give the members of sectoral social dialogue committees the opportunity to analyse at greater depth and address more effectively issues relating to employment and qualifications in the future.

More quantitative information on restructuring is also needed because the ERM's inherent limitations prevent it from giving a full picture of the phenomenon. Restructuring operations in SMEs, which account for 75% of all jobs, are currently not recorded, so the silence in this area is all the deeper.

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<sup>30</sup> COM(2008) 412 "Renewed social agenda: Opportunities, access and solidarity in 21st century Europe, July 2008: <http://ec.europa.eu/social/main.jsp?catId=547&langId=en>.

<sup>31</sup> SEC(2008)2154 "Restructuring and employment the contribution of the European Union", July 2008: <http://ec.europa.eu/social/main.jsp?catId=103&langId=en>.

<sup>32</sup> See chapter 7 section 1 for more detailed information on the restructuring taskforce

A further observation shows that it is crucial for small enterprises to have anticipation and lifelong training tools that are suited to their specific characteristics.

The usefulness of the Structural Funds has been celebrated on several occasions, but analysis shows that neither the Funds nor the EGF have been mobilised sufficiently to provide support for adaptation to change and accompany restructuring. A decision is still pending on stepping up support — at sectoral or European horizontal level — for social policy measures, such as those designed to fight climate change. These considerations will be tackled in the discussions over EU budget revisions.

The benefits accruing from ESF Article 6 and Equal projects must be disseminated as widely as possible. And we need a deeper analysis of the issues revealed such as the link between restructuring and health.

It is clear that industrial policy can make a vital contribution to competitiveness and anticipation of change. Its principal role, at European level, is the proactive creation of a favourable environment for enterprises and innovation to develop. Both horizontal and sectoral initiatives aim at reinforcing a dynamic of constant and linear adaptation. Horizontal initiatives of industrial policy might include, for example, simplifying the regulatory environment to reduce charges and administrative costs, promoting promising markets or boosting the role of standards as a force for innovation.

Sectoral initiatives are pursued when the challenges in the sector call for a more focused response. Given the complexity and the vast extent of structural change, all political responses must be based on a good knowledge and deep understanding of processes and dynamics. In this context, high level groups (HLG) are important instruments to help identify challenges and political needs.

Anticipation of change must form part of an open and constructive dialogue. Enterprises have a central role to play in the process of change and this fact strengthens the appeal made to the social partners in the 2005 Communication.

The vast majority of experiences show that, given the complexity of restructuring processes, cooperation between all participants is an intrinsic precondition. It is even more effective when it has been established prior to actual restructuring. All governance levels (European, national, regional) and all economic and social actors must play their part, according to their responsibilities and in a joined-up way so work can be done in partnership and all parties are reinforced.

In this process the role of national governments should be to simplify the regulatory framework, to simulate and support productive investments and research and development activities, to ensure that skilled work is supported and that Structural Funds are utilised for the anticipation and management of change. Other key domains for national governments in the future should be encouraging development and boosting programmes in the domains of life long learning and employability, in order to support the transitions to new jobs and occupations.

The role of regional and local authorities is to permanently monitor trends in the economic activities that are important for the region, working closely with economic stakeholders. It is essential that they participate in the creation, and reinforcement, of adaptation mechanisms in

both the corporate and the workers' camps. Regional and local authorities are encouraged to step up their efforts to boost the region's economic and social competitiveness by means of specialisation, diversification or reorientation, as necessary, whilst maximising the use of European Funds to this end.

In view of the central part played in restructuring by companies, especially large companies, it would be useful to compile a specific report analysing practices and policies in the management of change and restructuring, in order to help disseminate best practices. Overt analysis of performances would encourage and help all enterprises to enhance their policies and procedures. In the same time, local and national public authorities could be better prepared for future challenges and questions raised by industrial and technological changes.

Finally, at local level, companies are the front line at which restructuring takes place. It is crucial therefore that:

- on the one hand, conditions should be created to allow businesses to adapt fast and remain competitive in a rapidly changing economic environment;
- on the other hand, businesses should recognise that they have a social, societal and local responsibilities to anticipate new developments, important information efficiently and in advance, and develop mechanisms for workers and regions to prepare for restructuring.

For this process there should be a set of ground rules to be observed by enterprises and workers' representatives and a follow-up mechanism so that the rules become an integral part of restructuring companies' everyday routines. Some inspiration for these ground rules could be drawn from the 'reference orientations' which were elaborated by the social partners in 2003, but did not make any headway owing to lack of visibility at the time.

### **3.2. A new action plan**

Taking as a basis a review of the last ten years, and the lessons which can be drawn from it, the main players in the management of restructuring processes are invited to press ahead with and to step up cooperation. In particular, the contribution of the social partners following the adoption of the 2005 Communication is eagerly awaited. For its part, the Commission intends to continue its work and intensify its efforts to encourage anticipation of coming changes and the development of partnerships between the players.

Over the last decade, the number of factors contributing to change has multiplied (e.g. acceleration of globalisation, climate change, changes in the way companies are run as a result of the 'financiarisation' of the economy, technological development, changing tastes of consumers and demographic trends). The Commission, the European social partners and the other players, who have taken a large number of initiatives to optimise the management of change, should therefore press on with them and step up their efforts in the future.

#### **Action Plan**

- A joint approach by the social partners to the anticipation and management of change is important. The Tripartite Social Summit for Growth and Employment to be held in March 2009 could be the right time to present a first assessment of their work in this field. On the basis of that contribution, thought could be given to the advisability of presenting new initiatives to promote principles shared at European level.
- Considering the key role played by business in the management of change, a possibility for the future is to encourage companies to include management of change and restructuring in the reports many of them produce on a voluntary basis in connection with corporate social responsibility, including details of the relations in their immediate environment (such as with regions or subcontractors). Inclusion of restructuring



in these reports would encourage the sharing of good practice and could help the public authorities to gain a better grasp of the issues raised by industrial and technological change.

- Continuation of ‘restructuring forums’: topics to be addressed include climate change, the contribution of the European Social Fund, transnational company agreements, the ‘financiarisation’ of the economy, the results of sectoral studies as a tool for anticipation, the defence industry and the link between health and restructuring.
- Continuation and widening the scope of the monitoring of certain sectors and certain regions likely to experience significant changes in economic and employment conditions. This monitoring will be based on partnerships like those developed in the automobile sector, which are necessary in view of the complexity of restructuring processes. Cooperation between all players, particularly upstream of a restructuring project, is an essential condition for sound management of change. Authorities at all levels (European, national and regional) and all economic and social actors need to play their part in line with their own roles and responsibilities. All players, and in particular the social partners, should develop long-term views and education and training systems and practice should be adapted to those perspectives.
- Launch during the next few months of an interactive site called ‘ANTICIPEDIA’, which will be a collection, exchange, dissemination and networking tool for the actors involved in change.
- Dissemination of results of prospective sectoral analyses, in particular through the organisation of national seminars and support for sectoral social dialogue committees wishing to contribute to such forward planning work.
- Publication of a guide collating good practice on training and the adaptation of skills in SMEs before the end of 2008.
- Possible establishment of sectoral employment and qualifications councils. In the economic sectors facing profound changes in employment structures, consideration will be given to setting up such councils as a practical tool for following up the sectoral analyses. Canada’s experience with sectoral employment and qualifications councils, involving public, economic, social and training actors with the aim of analysing and exchanging information on the long-term trends in jobs and skills in a given sector, including the impact of IT, could provide a worthwhile area for action for the Union’s sectoral social dialogue and provide a measure of response to concerns about identifying job shortages. A communication addressing the possibility of setting up such councils is planned for 2009.
- Cooperation with national authorities is another key area for the management of restructuring operations. Clearly, it is the job of national governments to simplify the regulatory framework, take action to promote and support investments in production and research and innovation activities, ensure the development of a qualified workforce and use the Structural Funds to anticipate and manage restructuring. In the context of efforts to press ahead with the cohesion policy and create new, sustainable jobs, the importance of paying special attention to issues relating to the anticipation, preparation and management of restructuring through the ESF’s Adaptability priority and the Regions for Economic Change initiative has been underlined on numerous occasions.
- Further, stronger coherent action in the fields of continuous training and employability to facilitate transitions to new jobs is another key area for action by the public authorities. This constitutes a major strand for the application of the principles of flexicurity.
- The EMCC recently launched an appeal for voluntary cooperation between the Member States for the improved collection of data on restructuring operations, based on notifications of mass redundancies. Given the importance of having available the most complete and reliable data possible, this appeal should be passed on by the Commission.
- Good practice has demonstrated that it is for the regional and local authorities to carry out permanent monitoring of changes in economic activities of significance to their region, in close cooperation with the economic players involved. Their participation in putting in place and strengthening mechanisms for the adaptation of companies and staff and in boosting the competitiveness of the region’s economic and social fabric is a major challenge.
- In addition to the role of the Taskforce within the Commission, which is to improve coordination of the various Community policies with an impact on the processes of change and restructuring, better evaluation of the social impact of Community policies could be an additional factor in anticipating the effects of Community interventions. In addition, the visibility of action at European level also needs to be increased. To achieve this, the services of the Commission will publish a regular report on restructuring in Europe. The first of these, to be adopted before the end of 2008 (this document constitutes the first issue), will outline the main Community policies incorporating a specific dimension on adaptation to change.

## **Chapter 4. Preparing Europe for change: the Lisbon Strategy**

Restructuring is not a new phenomenon. The Union has been developing policies and instruments in this area for a long time. In the past, it played an essential role in restructuring the steel industry and, more recently, shipbuilding and textiles. Nowadays many EU policies contribute to the objectives of adaptation to change and anticipation of and support for restructuring operations: one may cite the EU's competition and innovation policies and those designed to improve the environment in which European companies operate and to facilitate the reallocation of resources, as well as employment, education and training policies. The Union is also developing sectoral policies geared to anticipating change and strengthening the competitive position of Europe's economy.

In 2005 the Commission proposed relaunching the Lisbon strategy to focus on stronger, lasting growth and the creation of more and better jobs. To achieve those objectives, all national and Community resources need to be mobilised through an enhanced partnership not only between the Union and the Member States but also with the social partners, civil society and all players concerned. It is therefore essential to ensure that restructuring is managed well if it is to meet a twofold economic and social requirement. It is vital for enterprises to adapt to change: if enterprises conduct restructuring operations swiftly, their competitiveness can be preserved and enhanced. There is also an economic impact of preserving the employability of workers and facilitating their transition to another job of equivalent quality, in that exploiting one of the EU's main competitive assets - the quality of its workforce - is the guarantee of future growth. In addition, restructuring needs to be inspired by a long-term view of the European economy's development and direction in order to ensure that the changes really are a way of strengthening its competitiveness. The work of anticipating and accompanying such operations is therefore fully in keeping with the Lisbon Strategy and is the collective responsibility of the public authorities, enterprises and social partners.

The European Employment Strategy (EES) fits into the wider context of the Lisbon Strategy, which concentrates on stronger, sustainable growth and more and better jobs. The Strategy's relaunch has led to a comprehensive review of the EES aimed at making it more effective by fully exploiting the synergy between measures taken at national level and Community action. The Lisbon Strategy is a key instrument for managing restructuring operations as it aims to step up the competitiveness of Europe's economies and thus to strengthen their ability to respond to current and future adaptations. The integrated guidelines endorse the importance given to the priorities relating to anticipation and management of change and the contribution of active employment policies under the EES. More recently, in their national reform programmes the Member States were asked to give substance to the principles for implementing a flexicurity strategy, which has a key role to play in securing career paths by combining a flexible workforce capable of adapting to new markets and new technologies with a suitable compensation system and active employment policies.

As the chance of firms to adjust to changes and to compete on the world markets depends largely on their potential to innovate, it needs an increase in mobility of researchers, both within Europe and between private and public research institutions. The better the circulation

of frontier knowledge and ideas in Europe the more European firms will be able to compete on the world market, providing further employment for the less skilled workers.

Education and training programmes play a key role in fostering the creation of a competitive and dynamic knowledge-based economy which encourages mobility. This aspect will also be reinforced by the adoption of the new integrated programme for lifelong learning for the period 2007-13.

European industry has to deal with a process of structural change that is beneficial overall and should be encouraged, in particular by policies facilitating the development and use of knowledge. Europe's competitiveness depends to a large extent on its industry. European industrial policy contributes to this goal by creating a favourable environment for business. The combination of different horizontal and sectoral actions contributes to meeting the challenges of structural change successfully.

Company restructuring is a creative destruction process with economic consequences that affect capital as well as labour. As a result, effective management of change relies on the possibility of providing state aid when it becomes necessary (i.e. when the sudden collapse of a particular company could harm the competitiveness of a region's or Member State's economy). Measures providing state aid to individual companies obviously play an important part in this respect. However, such measures also distort competition as they discriminate between those companies receiving assistance and the others. They may therefore present a threat to the proper functioning of the internal market. This has induced the Community to introduce arrangements for granting such aid only in exceptional circumstances.

This Chapter starts with a section on the Lisbon Strategy as reformed in 2005. Sections 2 and 3 review the EES and one of its main components, flexicurity, while Section 4 introduces the role and objectives of the European Research Area. Section 5 outlines the lifelong learning policy and Section 6 presents elements of industrial policy that are important for change management. This section presents some initiatives to help companies, especially SMEs, to anticipate and cope with failure and bankruptcy in accordance with the principle of fair competition. The final section gives a brief but comprehensive presentation of restructuring and rescue aid and the conditions for granting it.

## **1 – The reformed Lisbon Strategy**

At the March 2000 Lisbon Council, the EU leaders set out a new strategy, based on a consensus among Member States, to modernise Europe. This became known as the Lisbon Strategy. It is the major instrument for promoting a more prosperous, environmentally responsible and socially inclusive European Union, in partnership with Member States. The Lisbon Strategy was simplified and reformed in 2005 to focus on growth and jobs. It includes an integrated guidelines package (see box), which lays out a comprehensive strategy of macro-economic, micro-economic and employment policies designed to address the objective of full employment and economic growth. As part of this, a set of employment guidelines for the period 2005–08 was also adopted by the Council, in July 2005. It reflects the renewed focus on creating ‘more and better jobs’. These integrated guidelines were adopted by the Spring European Council for the second three-year cycle of the Growth and Jobs Strategy

(2008-10)<sup>33</sup>. The objectives of the Growth and Jobs Strategy is to ensure that our economies are well positioned to take advantage of the opportunities offered by the globalisation process and to put Europe in a strong position to cope with the demographic changes it faces. The reformed Lisbon Strategy constitutes the framework for European policies aimed at managing present and future changes.

During the 2006 and 2007 Spring European Councils, Member States agreed on four priority areas:

- Investing more in knowledge and innovation;
- Creating a more dynamic business environment by unlocking the business potential; particularly of SMEs;
- Investing in people;
- Moving towards an efficient and integrated EU energy policy.

#### **INTEGRATED GUIDELINES FOR GROWTH AND JOBS (2008-10)**<sup>34</sup>

##### **Macroeconomic guidelines**

- (1) To secure economic stability for sustainable growth.
- (2) To safeguard economic and financial sustainability as a basis for increased employment.
- (3) To promote a growth and employment-orientated efficient allocation of resources.
- (4) To ensure that wage developments contribute to macroeconomic stability and growth.
- (5) To promote greater coherence between macroeconomic, structural and employment policies.
- (6) To contribute to a dynamic and well-functioning EMU.

##### **Microeconomic guidelines**

- (7) To increase and improve investment in R&D, in particular by private business.
- (8) To facilitate all forms of innovation.
- (9) To facilitate the spread and effective use of ICT and build a fully inclusive information society.
- (10) To strengthen the competitive advantages of its industrial base.
- (11) To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.
- (12) To extend and deepen the internal market.
- (13) To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation.
- (14) To create a more competitive business environment and encourage private initiative through better regulation.
- (15) To promote a more entrepreneurial culture and create a supportive environment for SMEs.
- (16) To expand, improve and link up European infrastructure and complete priority crossborder projects.

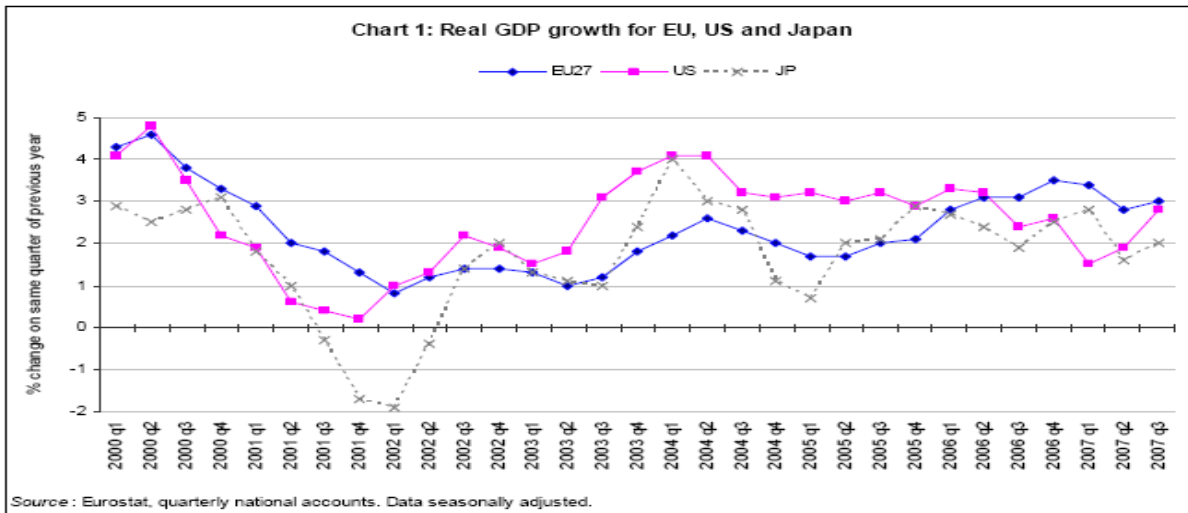
##### **Employment guidelines**

See § section 2 on employment policy

<sup>33</sup> Presidency Conclusions – Brussels, 13/14 March 2008:

[http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/99410.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/99410.pdf).

<sup>34</sup> COM(2007) 803 final, Part V.



As part of the Spring 2008 Council conclusions, the good performance of the European Economy was underlined, in particular the robust growth and the number of jobs created (see graph). Despite these, efforts remain to be pursued and it is in that context that the four priorities areas of the Lisbon Strategy were reconfirmed.

Concerning the area ‘**investing in people and modernising labour markets**’, the European Council called for the adoption of a new Social Agenda which addresses social challenges such as social exclusion and inequality, demographic changes, the need to increase labour force participation, the situation of young people in particular early-school leavers and illiteracy, the importance of education as part of the education-research-innovation triangle to move towards a knowledge-based economy, migration and intercultural dialogue. It also called for implementation of the common principles of flexicurity at the national level and for detailed plans for implementing the principles to be included in national development programmes for 2008. The European Council also announced a review of knowledge and competences up to the year 2020 with a view to adapting education and training programmes to the future needs of employers and to equip the labour force with the right skills to bring added value to the EU’s economy.

As a response to the second area of priority, ‘investing more in **knowledge and innovation**’ and to secure the success of its broad-based innovation strategy, the Council underlined the need to reap the full benefits of European citizens' creativity and culture through more investment in research, development and education particularly in the private sector to reach the target of investing 3% of GDP in R&D and to prevent the ‘brain drain’ of European talent. The European Council advocates the introduction of the ‘Fifth Freedom’, i.e. the freedom of movement of knowledge, and a number of Community initiatives have been launched, amongst other things to support the career prospects of researchers and to improve the mobility of researchers, students and university staff. Scientific e-infrastructure and high-speed internet use should be substantially upgraded to facilitate high-speed internet access for all schools by 2010. The Council also draws attention to the need for development of the EU venture capital market for financing innovative small and medium-sized enterprises.

On the **creation of a more dynamic business environment by unlocking the business potential**, greater attention will be focused on SMEs, innovative ones in particular, through incentives to support their growth phase and various forms of financing. Efforts to reduce administrative burdens must also be continued. To that end the rapid implementation of the Services Directive will be vital.

The Council calls for further guidelines and tools for monitoring the implementation of the single market and, for the external dimension of the Lisbon Strategy, better monitoring of foreign market access. The Council also highlighted the importance of economic, regional and social cohesion as well as macro-economic stability within the Stability and Growth Pact.

As regards the issue of **energy and climate change**, the European Council confirmed the commitment with which the EU a year ago established its position as a leading force in the fight against climate change and set an ambitious schedule for the adoption of the package. Furthermore, the European Council reviewed the progress made in the field of further liberalisation of the internal market for electricity and gas and endorsed the European Strategic Energy Technology Plan.

### **Lisbon Strategy – the four priority areas<sup>35</sup>**

#### **Investing more in knowledge and innovation**

The EU performs particularly weakly in comparison to its competitors over the number of patent applications and the amount of business spending on R&D. The 'innovation gap' reflects weaknesses in areas such as links between research and industry, the availability of early stage finance, education and the business environment.

As part of the 2005 relaunch of the Lisbon Strategy, a major headline target remains for Member States in the area of research: to have total (public and private) investment of 3% of Europe's GDP in research and development by 2010. By redirecting public expenditure towards R&D, Member States can foster competitiveness, regional cohesion and benefits for SMEs in particular.

#### **Creating a more dynamic business environment by unlocking the business potential, particularly of SMEs.**

Boosting growth and jobs depends on increasing Europe's attractiveness as a place to invest and work. The European Union and the Member States must focus their actions on key levers. We need a better environment for SMEs which constitute 99% of all enterprises and two thirds of employment. There are too many obstacles to becoming an entrepreneur or starting a business, and, Europe is therefore missing opportunities. Encouraging more entrepreneurial initiative implies promoting more entrepreneurial attitudes. The balance between risk and reward associated with entrepreneurship should be reviewed. The stigma of failure complicates a fresh start and even deters many from starting a business in the first place. Finally, in Europe, despite progress in the last few years, there is still insufficient risk capital available to start up innovative young businesses and current tax rules discourage the retention of profits to build up equity.

#### **Investing in people and modernising labour markets**

The way European citizens live and work is rapidly changing for various reasons - European and international economic integration; the development of new technologies, particularly in the information and communication areas; the demographic ageing of European societies, together with still relatively low average employment rates and high long-term unemployment, which put at risk the sustainability of social protection systems; and the development of segmented labour markets in many countries where both relatively protected and unprotected workers coexist.

In order to achieve the Lisbon objectives of more and better jobs as well as the target of an employment rate (the proportion of Europe's working-age population in employment) of 70% by 2010, new forms of flexibility and security are needed, for individuals and companies as well as for Member States and the Union. Individuals increasingly need employment security rather than job security, as fewer have the same job for life. Companies, especially SMEs, need to be able to adapt their workforce to changes in economic conditions. They should be able to recruit staff with a better skills match, who will be more productive and adaptable, leading to greater innovation and competitiveness.

#### **Moving towards an efficient and integrated EU energy policy**

All EU Member States face the challenges of climate change, increasing dependence on imports and higher energy prices. A common European response is necessary to deliver sustainable, secure and competitive energy. The 2007 Spring European Council agreed on a set of ambitious but realistic targets which will support global efforts to contain climate change and its most dire consequences. The agreement includes a series of ambitious targets on greenhouse gas emissions and renewable energy and aims to create a true internal market for energy and strengthen effective regulation. The objective is to help develop a low carbon economy by creating a

<sup>35</sup> COM(2007) 803 final, Part I.

working internal market, promoting a clean and efficient energy mix and making the right choices in research and development.

The Lisbon strategy should endow the EU with greater capacities to seize new opportunities brought about by change and ease its ability to cope with change by bringing new answers.

There is strong commitment to delivering on the Lisbon's strategy renewed focus on creating 'more and better jobs': The programming of the Structural Funds for the period 2007-13 shows a substantial increase, compared to the past, in investments supporting the growth and jobs agenda, especially in the areas of innovation, research, skills and human capital. In the less-developed regions in EU-27, under the Convergence Objective, 65% of the funds are intended for Lisbon-related expenditure, while the more-developed regions, under the Regional Competitiveness and Employment Objective, plan to invest 82% of the funds in Lisbon-related priorities.

## **2 – The European Employment Strategy**

Globalisation is beneficial for growth and employment, but the change it brings requires rapid responses from enterprises and workers. Employment has been increasing in the EU and unemployment is declining steadily. However, adaptation requires a more flexible labour market combined with levels of security that simultaneously address the new needs of employers and employees. Europe must create more and better jobs, to manage change and new social risks. It must reduce segmented labour markets and precarious jobs, and promote sustained integration and accumulation of skills. Women, the young and migrants are already over-represented among labour market outsiders, and older workers face a number of difficulties in keeping or finding a job. Even those on open-ended contracts can feel threatened because, if they are made redundant, they face the same difficulties moving on to good quality jobs.

Getting more people into work is crucial to increase growth, improve social inclusion and help finance welfare systems as the population ages. The wealth of nations always relies on its working population.

To respond to the demographic challenge, the EU has set, as part of the Lisbon Growth and Jobs Strategy, a target employment rate (proportion of people aged 15-64 in work) target of 70% by 2010. Achieving this will require among other things boosting innovation, reducing red tape, tackling discrimination, providing targeted help for job seekers strengthening education systems and increasing training opportunities for workers of all ages.

There is a growing consensus in Europe that applying 'flexicurity' principles is essential to make labour markets work better. Flexicurity (see Section 3 in this chapter) aims at balancing flexible contractual arrangements with strong social protection and lifelong learning. Investment in 'human capital' is key to increasing opportunities for individuals and to tackling social exclusion by equipping people for change and better jobs.

In order to address those challenges, the European Union has developed a European Employment Strategy (EES) based on a three-year reporting cycle. It uses an 'open method of

coordination', which means that objectives, priorities and targets are agreed at EU level. Governments then coordinate their efforts to promote employment.

The strategy uses quantified measurements, targets and benchmarks, to allow for proper monitoring and evaluation of progress. In this context, indicators are used to assess the performance and efforts by Member States in the field of employment policies and are a support for the analysis of the National Reform Programmes and in the EU annual progress report which will integrate the Joint Employment Report.

The EES is built around the Employment Guidelines which were proposed by the Commission following the Spring European Council conclusions, and adopted by the Council. They set out common priorities for Member States' employment policies.

On the basis of these guidelines, every Member State draws up a programme describing how these Guidelines are to be designed and implemented nationally in what is called the National Reform Programmes. On an annual basis, a Progress Report, the Joint Employment Report for the employment chapter of that report, to be adopted by the Council, reviews progress made at both national and Community levels, based on regular monitoring and on evaluation of the implementation of the Member States' national programmes. The Council may decide, by qualified majority, to issue country-specific Recommendations upon a proposal by the Commission.

The eight employment guidelines fall under three broad areas for action, namely to:

- Attract and retain more people in employment, increase the labour supply and modernise social protection systems;
- Improve adaptability of workers and enterprises;
- Increase investment in human capital through better education and skills.

They are all relevant to anticipating and managing change and restructuring. In this respect Guideline 20 focuses on the need to 'Improve matching of labour market needs through: (...) better anticipation of skill needs, labour market shortages and bottlenecks (...)'. Guideline 21 is particularly relevant for anticipation and restructuring: 'Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners, through:(...) better anticipation and positive management of change, including economic restructuring, notably changes linked to trade opening, so as to minimise their social costs and facilitating adaptation (...)'

#### **Employment guidelines included in the Integrated Guidelines for Growth and Jobs (2008-10)**

- (17) Implement employment policies aimed at achieving full employment, improving equality and productivity at work, and strengthening social and territorial cohesion.
- (18) Promote a lifecycle approach to work.
- (19) Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job seekers, including disadvantaged people and the inactive.
- (20) Improve matching of labour market needs.
- (21) Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.
- (22) Ensure employment-friendly labour cost developments and wage setting mechanisms.
- (23) Expand and improve investment in human capital.
- (24) Adapt education and training systems in response to new competence requirements.

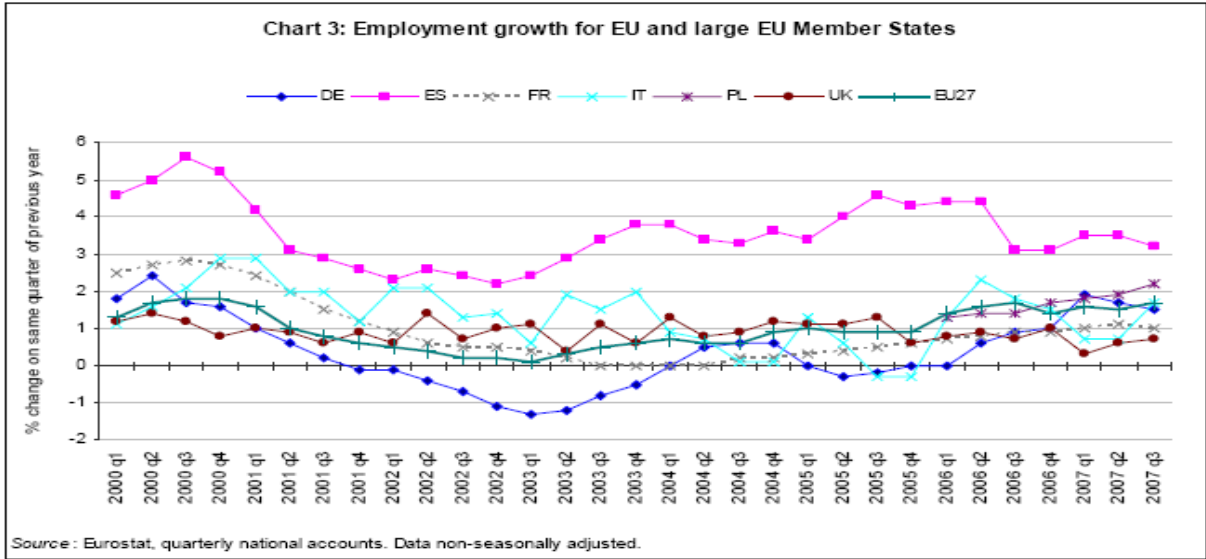
The main financial instrument to implement the EES is the European Social Fund (ESF). To reach the target of a 70% employment rate, the 2007-13 ESF programmes allocate some EUR



19 billion to assist in removing barriers to employment, in particular targeting unemployed and inactive people often with a special focus on women, young people, older and low-skilled workers. A large part of the ESF investment in this area goes to regions falling under the Competitiveness Objective, showing the added value the ESF can provide even in labour markets with relatively high employment rates. The ESF also supports interventions more directly related to restructuring. EUR 13.5 billion will be invested to help strengthen the ability of companies and workers to anticipate and manage change (for more on this see also Chapter 6).

Since 2005, a general improvement has been observed in Europe. Over more recent years, the economy has been performing much better than it was in 2005. Almost 6.5 million new jobs have been created in the last two years. The employment rate, currently at 66%, has moved much closer to the overall Lisbon target of 70%. For the first time in a decade, strong increases in employment have gone hand in hand with robust productivity growth. Standards of living in the Member States that recently joined the EU have been visibly rising. The structural reforms advocated in the Lisbon Strategy and implemented by Member States in the last few years have made a difference although it is clear that some of the current upturn is cyclical.

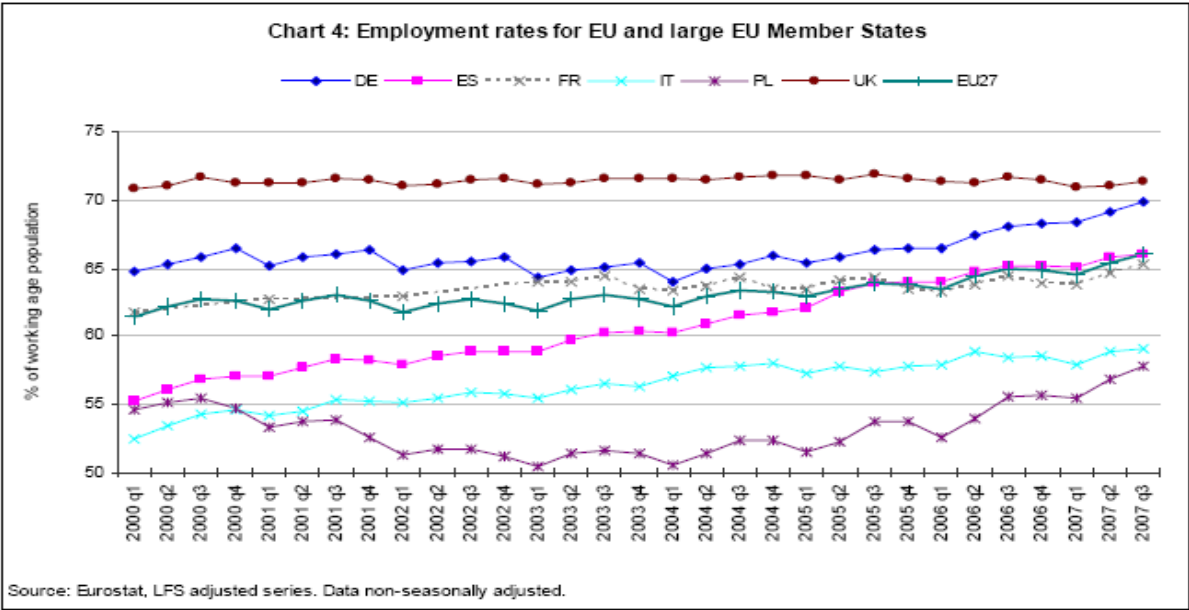
It has also contributed to a large and sustained increase in the employment rate of older workers, although the 50% target set by at the Stockholm European Council is still some way off. The employment rate for women has increased significantly (at 57.2%, it is approaching the 60% target).



However, in 2008 the context has become much less favourable as a result of a global economic slowdown, financial turmoil and higher commodity prices, which are starting to have negative impact on economic growth and employment creation. The financial crisis deepened and broadened in autumn 2008. Notwithstanding the important policy measures which have been undertaken by the EU governments as well as by central banks to restore financial stability, the EU economies are beaten by the negative effects of the financial distress and of severe housing-market corrections. These shocks have put a brake on domestic demand at a time when external demand is fading. Several EU countries are forecast to

experience a technical recession in 2009. For 2010, a slow recovery is foreseen for most, but not all, economies.<sup>36</sup>

The slowdown has started to affect the labour market as well, which has performed very well in recent years. The labour market situation is expected to deteriorate sharply next year. Employment is expected to increase by a meagre ¼ million jobs in the EU and ½ million in the euro area over the period 2009-2010, compared with the 6 million new jobs that were created in 2007-2008 in the EU. As a result of the decline in employment, the unemployment rate is expected to increase by about 1 percentage point in the next two years, to some 8% in the EU and 8,75% in the euro area by 2010, with increasing differences across Member States.



In this situation of extreme economic uncertainty, it will be of particular importance to pursue structural policies and reform priorities as set out in the Lisbon Strategy in the context of adaptation to change and anticipation of restructuring not least to make EU economies more resilient to external factors and to reach the employment targets. The situation is likely to be particularly difficult at the lower end of the labour market, making it particularly important to ease the unavoidable restructuring and provide income and targeted social protection support. Indeed, change often affects first and most directly the most vulnerable, causing them to miss new opportunities. Early anticipative investment and activity can greatly mitigate the difficulties for vulnerable groups, providing a firm foundation for strong communities, lasting growth and more and better jobs. In the end, adaptation and restructuring will bring many opportunities including new jobs and markets; for example through the early adoption of innovative new technology – providing new opportunities to place European companies ahead of global competitors that are slower to anticipate change.

As an integrated response to the economic downturn, on 26 November 2008 the Commission proposed a detailed EU recovery framework under the umbrella of the Lisbon Strategy for growth and jobs, bringing together a series of targeted short term initiatives designed to help

<sup>36</sup> Economic Forecast autumn 2008, DG ECFIN, European Economy 7/2008

counter adverse effects on the wider economy and adapting the medium to long term measures of the Lisbon Strategy to take account of the crisis.<sup>37</sup>

### **3 – Flexicurity and restructuring in Europe**

As indicated in Section 1, the EU's overall policy response to the challenges and opportunities of globalisation is the Lisbon Strategy for Growth and Jobs. The Lisbon objectives are goals that Member State governments have set themselves to achieve by 2010 through national reform programmes to promote job creation and economic growth. In order to achieve these objectives, new forms of flexibility and security are needed, for individuals and companies as well as for the Member States and the Union. The basic idea behind this statement is that protecting people by merely protecting jobs may reveal itself insufficient or even counterproductive. Shifting the emphasis from job protection to employment and labour market protection means improving the global adaptability of firms, people and markets, through new arrangements ensuring that flexibility and security are compatible and even mutually supportive.

Therefore, the European Council called on the Member States *‘to develop more systematically in the National Reform Programmes comprehensive policy strategies to improve the adaptability of workers and enterprises’*. The Commission, jointly with Member States and Social Partners, was then asked to *‘explore the development of a set of common principles on flexicurity’*, as a useful reference in achieving more open and responsive labour markets and more productive workplaces.

The rationale for a flexicurity approach is that in order to achieve the objectives of the Growth and Jobs Strategy, and at the same time to preserve and modernise the European Social Model and its values in times of globalisation, technological and demographic change, and economic restructuring, it is essential to design policies that address simultaneously the flexibility of labour markets, work organisation and labour relations, employment security, and social security.

Such an approach is all the more relevant for policies dealing with restructuring and displaced workers. Before the disappearance of their jobs, these workers often had the benefit of good social protection, directly or indirectly connected to their job, and they enjoyed the stable prospect of a long career. This does not prepare them for intensive job search and re-training. The difficulty is compounded by the fact that they soon lose most of the social protection they enjoyed. Flexicurity policies are useful on both sides: by connecting social protection to persons rather than to jobs, and by organising more and better labour market opportunities, they contribute to helping these workers make good transitions.

However establishing a flexicurity agenda for Europe is not a simple task. First, because there are numerous components of flexibility, for firms as well as for people: internal/external flexibility, functional/numerical flexibility, etc and numerous components of security: job security, labour market security, income security, and what may be called *‘combination security’*, i.e. the ability to combine different income sources and different activity modes such as part-time work and training activities. Second, the combinations of flexibility and

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<sup>37</sup> Commission Communication COM(2008) 800 of 26 November 2008, "A European Economic Recovery plan", see also Chapter 1

security are even more numerous, and some of them may enter into conflict, or may work in one given national and institutional environment, but not in another. This section first presents the process that led the EU to propose a common set of components and principles of flexicurity; then it examines how they contribute to policies coping with restructuring; lastly, it gives some examples of national practices in this domain.

### 3.1. Flexicurity and the Lisbon Strategy

The Commission and the Member States, drawing on experience and analytical evidence, have reached a consensus that flexicurity policies can be designed and implemented across four policy components (See also the Commission Communication of July 2007) and the Common Principles of Flexicurity adopted by the EPSCO Council in December 2007):

- *Flexible and reliable contractual arrangements;*
- *Comprehensive lifelong learning (LLL) strategies;*
- *Effective active labour market policies (ALMP);*
- *Modern, adequate and sustainable social security systems.*

These four components form a critical part of the priorities of the EES. They are covered in several of the employment guidelines which form the backbone of the Lisbon Strategy and of the EES. These guidelines reflect common priorities for Member States' employment policies. As shown below, these four components are explicitly referred to in particular in four of the employment guidelines:

- The first component in Guideline 21 aims to '*promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners*', specifically through '*the adaptation of employment legislation, reviewing where necessary the different contractual and working time arrangements*';
- The second component in Guideline 23 aims to '*Expand and improve investment in human capital*' through '*efficient lifelong learning strategies*';
- The third component in Guideline 19 aims to '*Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive*' through '*active and preventive labour market measures*';
- The fourth component in Guideline 18 aims to '*promote a life-cycle approach to work*' through '*modern social protection systems*'.

These references to the four components across the employment priorities and guidelines of the EES show that an integrated flexicurity approach aims to offering a comprehensive and coherent strategy to tackle the employment challenges as well as progress on the modernisation of labour markets as spelled out in the Lisbon Strategy.

Member States can use ESF support in the 2007-13 programming period to give life to the concept of flexicurity. The ESF can fund interventions for all four components of flexicurity, with a (traditional) focus on the second and third component.

In line with the Strategy for Growth and Jobs, flexicurity should be seen in a wider context. Sound and financially sustainable macro-economic and effective microeconomic policies, as well as open and competitive market for products, services and capital create an environment where firms can seize emerging opportunities, fund new commercial ideas and create jobs.

Similarly, flexicurity must be complemented by social policies aimed at the underprivileged and those furthest away from the labour market.

In its analysis of the Lisbon national reform programmes, the Commission provided in 2007 initial comments on the way Member States could benefit from common principles and pathways of flexicurity to design their own specific policies. At the 2008 Spring European Council, almost half of the Member States received specific recommendations related to their implementation of flexicurity policies. The 2008 Joint Employment Report focussed its analysis on the extent to which Member States are developing comprehensive policy strategies covering the four components of flexicurity.

In addition, the 2008 Spring European Council agreed, in its discussions of the Second Lisbon Cycle and some revisions to the Integrated Guidelines, to partly modify the narrative text surrounding Integrated Guideline 21 so that the contribution of flexicurity policies is shown in more detail. This led to a fuller description of the components of flexicurity and enabled the latest progress made, especially the Council adoption of the common principles of flexicurity, to be taken into account.

Throughout the next cycle of the Integrated Guidelines, Member States will be invited to use their national reform programmes to report explicitly on their flexicurity strategies. The Commission will monitor these strategies in the Annual Progress Reports, and report on progress made in flexicurity strategies at the end of the Lisbon cycle. The Commission will also propose a strengthened and more focused mutual learning programme, to ensure that Member States benefit from flexicurity policies that work.

#### **The mission for flexicurity**

In December 2007, the Council invited the Commission *'to launch a public initiative in close cooperation with the European social partners in order to facilitate the ownership of the principles by the relevant stakeholders on the labour market, and to raise the awareness of citizens of flexicurity, its underlying logic, its main elements and its implications, and to keep the Council fully informed of its actions in this respect.'*

This public initiative has taken the form of a 'Mission for Flexicurity', established by the Commission in partnership with the Slovenian and French presidencies in order to ensure the full integration of the Common Principles of Flexicurity in Community processes. The Mission, which is composed of seven members representing the Slovene and French Presidencies, the Social Partners and the European Commission, is co-chaired by Commissioner Vladimir Špidla and the former French Minister for Labour Gérard Larcher.

Taking the agreed Common Principles as its starting point, the Mission, in consultation with Member States and social partners, will help promote the practical implementation of the principles in the different national contexts. On the basis of the results of its consultations (notably in Member States which have been willing to host a visit of the Mission), and in the context of the mutual learning exercise, the Mission will report to the EPSCO Council in December 2008.

### **3.2. How can flexicurity policies contribute to proactive management of restructuring?**

#### **a. Adaptation of workers and enterprises to restructuring**

Flexicurity can be defined as an integrated strategy to enhance both flexibility and security in the labour markets. Flexicurity strategies can help modernise European labour markets and better address the opportunities and challenges of globalisation. They can mitigate the negative effects of restructuring and reduce the social costs of adjustments to minimum, contributing to the social cohesion of the European Social Model.

Flexicurity has an important role to play in ensuring that restructuring processes can take place smoothly and without overly disruptive consequences for the labour market. Europe must indeed improve its capacity to anticipate, trigger and absorb economic and social change. This calls for employment-friendly labour costs, modern forms of work organisation and well-functioning labour markets allowing greater flexibility combined with employment security to meet the needs of companies and workers. This should also contribute to preventing the emergence of segmented labour markets and reducing undeclared work.

In today's increasingly global economy with market opening and the constant introduction of new technologies, companies and workers are confronted with the need and the opportunity to adapt. While this process of structural changes is overall beneficial to growth and employment, it also brings about transformations which are disruptive to some workers and enterprises. Companies must become more flexible to respond to sudden changes in demand for their goods and services, adapt to new technologies and be in a position to innovate constantly in order to remain competitive.

They must also respond to the increasing demand for job quality which is related to workers' personal preferences and family changes, and they will have to cope with an ageing workforce and fewer young recruits. For workers, working life is becoming more complex as working patterns become more diverse and irregular and an increasing number of transitions need to be managed successfully throughout the life cycle. With rapidly changing economies and attendant restructuring, they must cope with new ways of working, including greater use of information and communication technologies (ICT) and changes in their working status, and be prepared for lifelong learning. Geographical mobility is also needed to access job opportunities more widely and in the EU as a whole.

## **b. From the Common Principles of Flexicurity to the Flexicurity Pathways**

Under the revamped Lisbon Strategy, in June 2007, the European Commission adopted a Communication 'Towards Common Principles of Flexicurity: More and better jobs through flexibility and security'<sup>38</sup>. In December 2007, on the basis of the Commission's Communication the European Council adopted the Common Principles of Flexicurity<sup>39</sup>. The European Parliament, the European Social Partners, the Economic and Social Committee and the Committee of the Regions have all contributed to the development of the common principles.

The common principles were defined on the basis of the successful examples of flexicurity policies implemented by several Member States. They include the need to balance rights and responsibilities for employers, workers, jobseekers and public authorities, to reduce the divide between insiders and outsiders on the labour market, to promote internal (within the enterprise) as well as external flexicurity, to promote gender equality, to promote trust and social dialogue, and the need for costs to be contained and distributed fairly. They constitute the framework that will help the Member States design their own flexicurity policies, adjusted to their national traditions, systems and cultures. Indeed, flexicurity is not about one single model. A one-size-fits-all solution is not an option.

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<sup>38</sup> COM(2007) 359 final.

<sup>39</sup> European Council Conclusions 14/2/2008 No 16616/1/07.

The Commission in its Communication identified four typical pathways of flexicurity in order to help Member States implement their national flexicurity policies.

They describe four typical starting situations and challenges that need to be addressed. This includes:

- Reducing contractual segmentation;
- Organising transitional security for workers previously benefiting from high job security;
- Reducing skills and opportunity gaps;
- Improving opportunities for benefit recipients and informally employed workers.

The second typical situation and challenge is especially relevant for displaced workers, because it corresponds to labour markets in old industrial regions for example, characterised by relatively limited dynamism with a large share of workers with high job security, and lacking sufficient opportunities to find new employment in the event of redundancy. Other situations also concern displaced workers but less specifically: they may face unstable short-term contracts with little prospect of promotion, they may suffer from insufficient or diminished human capital, and they may be trapped in informal work or welfare dependency. According to the Communication, in each typical situation, different priorities should be set up for each flexicurity component.

The typical pathways sketched out should be seen as an instrument for mutual learning among the Member States. They are not prescriptive, but at the same time they could serve as a useful inspiration for the Member States seeking to tackle the concrete challenges they are confronted with. Any even Member State may use more than one pathway.

### **c. How can flexicurity policy contribute to securing the process of restructuring?**

As has been said, flexicurity involves a deliberate combination of four components: flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective labour market policies and modern, adequate and sustainable social protection systems. This is the key element of flexicurity policies. It implies an integrated approach to the challenges of the labour markets.

Flexible and reliable contractual arrangements mean that the companies are given the opportunity to continuously try to achieve the best possible match between jobs and qualifications. They can afford to take risks when hiring new staff needed for development of a new project. Such a situation provides an incentive to be more innovative or to adopt a new technology. In this way restructuring may become a better prepared continuous process rather than a last-resort emergency decision.

Lifelong learning strategies and active labour market policies contribute to smooth restructuring. They increase the employability of workers by providing the education and training needed to find a new job after redundancy. They also ensure that enterprises have access to a workforce with the right qualifications.

Moreover, effective active labour market policies, tailored to the needs of each individual, help people cope with rapid change, reduce spells of unemployment spells and ease transitions to new jobs.

Finally, modern, adequate and sustainable social security systems provide an adequate income for laid-off workers, encouraging employment and facilitating labour market mobility by offering the transferability of accumulated rights.

One of the common principles of flexicurity underlines the importance of social dialogue and collective bargaining. The active involvement of social partners in the design and implementation of flexicurity policies is of crucial importance and the key to the success of flexicurity policies. Social dialogue can include negotiations, consultations or simply the exchange of information between the social partners on issues of common interest relating to economic and social policy. The main goal is to promote consensus building and democratic involvement among the social partners. Successful social dialogue structures and processes can resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress. It has an even more important role to play in case of restructuring because it may be a necessary condition for obtaining the active involvement of the workers affected.

#### **Examples of flexicurity policies in case of restructuring<sup>40</sup>**

In Europe good examples of flexicurity policies that anticipate and reduce the costs of restructuring, and contribute to successful labour market transitions, already exist.

For example, **Austria** introduced a new system of severance pay in 2003. Up until then, severance payment to redundant workers depended on the length of the employment relationship. This meant that workers, when moving from one employer to another, would lose their accumulated rights. The new system obliges the employer to pay a fixed monthly sum into a personalised account held by the worker. Workers may draw from this account in the case of dismissal. The new system means that workers will no longer be put off changing jobs by fear of losing out financially and that they will not lose out if they choose to hand in their notice to an employer.

**Sweden** has introduced Career Transition Agreements to support workers in the case of redundancies. The agreements, which allow for such things as support for counselling, guidance and career reorientation, education and training and helping workers set up their own business, exist in many collective bargaining sectors. The surveys show that these have had beneficial effects at the individual level.

In **Finland**, the concept of ‘change security’ was introduced, providing dismissed workers with greater financial security during the stage of transitions between jobs and fostering more efficient cooperation between employers, employees and labour authorities. The aim of the new system is to make cooperation efficient both at workplaces and with the labour authorities, and to provide as swift reemployment as possible for dismissed employees.

In **France**, the ‘contrat de transition professionnelle’ (CTP) is offered to workers who face redundancy for economic reasons and for whom the employer does not have a legal duty to contribute to their re-employment. The contract aims to offer a sequence of supporting measures tailored to the jobseeker's needs, such as training and traineeships with public and private enterprises. In the months during which the worker does not perform paid work, he or she is paid a salary of 80% of the average previous gross wage.

The new legislation in **Luxembourg** introduces a legal obligation on employers to notify the Committee for the Economy (Comité de Conjoncture) of any lay-offs for reasons that do not relate specifically to the individual in question. The committee can then invite the social partners to negotiate a job retention plan. Instead of carrying out redundancies, the job retention plan introduces the idea of temporarily reorganising working hours by means of partial unemployment, part-time work and reduced working hours, provided that the workers concerned attend training sessions. Other elements of the job retention plan involve the temporary lending of human resources to other companies and individual support with career changes. The measures concerned quality for support from state funding.

<sup>40</sup> ‘Flexicurity practices’ compiled by Ton Wilthagen, Rapporteur of the European Expert Group on Flexicurity, Brussels, 24 May 2007.



As indicated at the beginning of this section, effective active labour market policies (ALMP) are one of the four components of flexicurity. It is especially useful to check and improve their effectiveness by evaluating ALMP tools and arrangements and their relevance in managing change and restructuring. The reader will find in the annex for this chapter an in-depth presentation on how such evaluations can and should be conducted and what conclusions from ALMP evaluations in general may be applicable to the particular circumstances of displaced workers.

#### **4- The development of the European Research Area**

In 2000, the EU decided to create the European Research Area (ERA). The creation of ERA has become a central pillar of the EU 'Lisbon Strategy' for growth and jobs, together with the completion of the Single Market, the European 'broad-based innovation strategy' and the creation of a European Higher Education Area. Creating the ERA means creating a unified area all across Europe, in which we should:

- Enable researchers to move and interact seamlessly, benefit from world-class infrastructures and work with excellent networks of research institutions;
- Share, teach, value and use knowledge effectively for social, business and policy purposes;
- Optimise and open European, national and regional research programmes in order to support the best research throughout Europe and coordinate these programmes to address major challenges together;
- Develop strong links with partners around the world so that Europe benefits from the worldwide progress of knowledge, contributes to global development and takes a leading role in international initiatives to solve global issues.

Such an ERA should inspire the best talents to enter research careers in Europe, incite industry to invest more in European research – contributing to the EU objective to devote 3% of GDP for research, and strongly contribute to the creation of sustainable growth and jobs.

#### **The importance of Service R&D**

The increase of the service R&D activity can have an important impact on growth. The role and significance of R&D in services has been growing and a closer attention is dedicated to this sector, where much of its innovative activity is of non-technological nature. Once solved some of the remaining questions related with the measurements of service R&D, the improvement of them will not only be a way to increase progress to the Barcelona targets (accounting for the hidden R&D) but also providing a better understanding of all the vectors contributing to a knowledge based society and enhancing innovation processes of all kinds.

In 2008, the Commission has launched five initiatives to develop the ERA, improve the efficiency of the European research system and better address common economic and societal challenges.

The five ERA initiatives correspond to the axes for which Europeans favoured priority action to be undertaken at the European level. They are shaped and implemented in partnership with

Member States. They are a matter of mutual concern, which implies shared responsibilities. These 5 initiatives are:

- The **European partnership for Researchers for mobility and career development**. Improving the mobility of researchers will enhance the diffusion of knowledge throughout Europe, balance demand and supply for researchers at European level, help create centres of excellence and improve the skills of researchers in Europe. Improving career prospects for researchers in Europe will stimulate more young people to embark on a research career, help retain researchers in Europe and attract more talented non-European researchers. The partnership aims to accelerate progress in key areas including social security, competition based trans-national recruitment and portability of funding, employment and working conditions and training and skills.
- The **Recommendation on the management of Intellectual Property Rights** in knowledge transfer activities and a **Code of Practice for universities and other public research organisations**. The objective is to facilitate and promote the optimal use of intellectual property created in public research organisations to increase both knowledge transfer to industry and the socio-economic benefits resulting from publicly funded research. The Recommendation includes a Code of Practice to promote the professional management of intellectual property in the ERA within research organisations and to become a reference for cooperation and/or negotiation between research organisations and industry.
- The **Joint Programming initiative**. This initiative facilitates more joint programming and programmes as currently most EU research is implemented independently by national or regional programmes. The objective is to develop a more strategic and better structured approach to future joint programming between Member States, allowing groups of countries or regions to combine their efforts and build critical mass that would not be possible for individual programmes in areas of strategic importance for solving societal problems or improving competitiveness. The Joint Programming Communication presents an analysis of the framework conditions and criteria determining the success of joint programming taking into account the full life cycle of research programming (from foresight to evaluation), and proposes a roadmap leading to agreement to specific joint programmes for participating countries and regions.
- The **Community legal framework for a European Research Infrastructure**. This initiative considers providing a legal framework to assist Member States to develop and fund pan-European research infrastructures which their national legal instruments might not be able to facilitate. In order to stay at the leading edge of knowledge creation, Europe will need many new research infrastructures in the coming years. Many of these have already been identified through the ESFRI process. The role of the Member States will remain central to the development and financing of major new infrastructures. But national legal instruments are unlikely to provide an adequate basis for establishing future pan-European research infrastructures. The implementation of such infrastructures will therefore be facilitated by bringing forward a proposal to establish a legal framework for their construction and operation.
- A **Strategic Framework for EU International S&T Cooperation**. This initiative brings forward a proposal on a policy framework for both the Community and Member States to foster and facilitate coherent international science and technology

cooperation activities. One of the overriding features of the research landscape is the increasing globalisation of R&D. Cooperation based on mutual benefit with third countries is crucial to the Community's scientific, political and economic objectives. However, the efforts of the Member States and the Commission are often not well coordinated and lead to duplication of activities. It is therefore necessary to agree on and implement a common policy framework for international S&T cooperation.

The 5 ERA initiative contribute by their synergetic effect to increase the efficiency of the European Research system and constitute therefore a key element to the competitive adaptation of the European research system.

## **5– Lifelong learning promotion in the European Union: recent developments**

Lifelong learning is the second major component of flexicurity and a key element of the Lisbon Strategy. This section concentrates on recent developments in promoting lifelong learning at European level, keeping in mind its contribution to managing change and restructuring.

Education and training is the key to economic and social development. Structural changes and demographic trends generate the need for high-level skills with full economic and social participation of all citizens. Although unemployment rates have been decreasing in recent years, there are still around 17 million people out of jobs. At the same time, we face skills shortages in certain sectors and industries. To cope with these challenges, it is necessary to ensure that all people acquire key competences and update their skills throughout their lives.

The Lisbon Strategy in 2000 and subsequently the Education and Training 2010 Work programme in 2002 set the framework for European cooperation in education and training. It has three ambitious strategic goals:

- Improving the quality and effectiveness of education and training systems;
- Facilitating the access of all to education and training, and
- Opening up education and training systems to the wider world.<sup>41</sup>

This overarching framework also encompasses cooperation in higher education (Bologna Process) and an enhanced European cooperation in vocational education and training (Copenhagen Process). The new Lisbon cycle for 2008-10 with its reinforced social agenda and the revised Lisbon integrated guidelines for jobs and growth emphasise the need for investment in human capital and skills development, thus strengthening the role of education and training (see Guidelines 23 and 24 in box page 66). The contribution of education and training to boosting growth and jobs and to coping with Europe's challenges such as social exclusion, demographic downturns and migration, increasing globalisation, technological progress, environmental hazards and sustainable development is also underlined in the Council Resolution on education and training as a key driver of the Lisbon strategy

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<sup>41</sup> Detailed work programme on the follow-up of the objectives of Education and training systems in Europe. Work programme of the Education Council in cooperation with the Commission (February 2002) OJ C 142/1 of 14.6.2002.

(November 2007)<sup>42</sup>. In this context, the Commission will come forward in December 2008 with a Communication on an updated strategic framework for European cooperation in education and training.

ESF programming for the 2007-13 period reflects this strongly. Almost €26 billion has been allocated to increase the quality and availability of education and training, with the focus on comprehensive life-long learning systems, fighting early school leaving and ensuring high-quality education for all. Over three-quarters of this sum is allocated in Convergence regions where the improvement of education and training is a key driver for further development.

The Lifelong Learning Programme with its objective of contributing to these Community goals supports the education and training policy agenda.<sup>43</sup> The policy paradigm central to the education and training policy framework in the recent years has been lifelong learning. Lifelong learning must be understood as all learning activity undertaken throughout life, with the aim of improving knowledge, skills and competences within a personal, civic, social and/or employment-related perspective.<sup>44</sup> The EU Member States have committed themselves to designing and implementing comprehensive and coherent lifelong learning strategies by 2006 which cover the whole spectrum of learning activities from pre-school age to post-retirement. The systems should enable flexible learning pathways, smooth transitions between different education and training sectors and levels (between general, higher and vocational education, between initial and continuing education and training or between formal, non-formal and informal learning). To translate lifelong learning strategies into reality, it is important to make people aware that continuous skills updating is essential. It is also crucial to devise efficient funding systems and incentives which motivate all people and enterprises, in particular non-traditional learners and SMEs, to engage in learning activities.

### **5.1. The role of education and training in the restructuring process**

Comprehensive lifelong learning strategies and better investment in human resources are necessary to respond to rapid change and innovation. High-quality initial education, broad key competences and continuous investments in skills improve enterprises' opportunities to cope with economic change and workers' chances of staying employed or finding new employment.<sup>45</sup> For education and training to reflect the needs of the labour market, there should be strong links between education and training and enterprises, especially in vocational training and in higher education. This is particularly important given the high share of SMEs in Europe, which account for the highest job creation and job re-allocation rates but provide limited opportunities for skills development; also lower-skilled people and older workers are usually less likely to get access to training than highly-skilled and younger workers.

The *knowledge triangle* between education, research and innovation plays a key role in boosting jobs and growth. It is, therefore, important to ensure that all sectors of education and training play their full role in promoting *creativity and innovation*.

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<sup>42</sup> Council Resolution on education and training as a key driver of the Lisbon strategy (OJ C 300, 12.12.2007, p. 1).

<sup>43</sup> Decision of the European Parliament and of the Council establishing an action programme in the field of lifelong learning, (OJ L 327, 24.11.2006, p. 45).

<sup>44</sup> Council Resolution of 27 June 2002 on lifelong learning (2002/C 163/01).

<sup>45</sup> Commission Communication 'Towards Common Principles of Flexicurity: more and better jobs through flexibility and security.' (COM (2007) 359).

Given the need for flexibility and adaptability of the workforce in restructuring processes, transitions between school and job and from job to job are critical for efficient functioning of the economic and labour markets, and for occupational and geographical mobility.

For example, *guidance* can provide significant support to individuals during their transition between levels and sectors of education and training and from school to adult and working life, to young people re-entering education or training after leaving school early, to persons re-entering the labour market after periods of voluntary or involuntary unemployment, or homemaking, to workers where sectoral restructuring requires them to change the nature of their employment, and to older workers and migrants. *Geographical and occupational mobility* are often hampered by the fact that competences and skills are not easily comparable, understandable and transferable across borders and sectors, and systems or mechanisms to validate non-formal and informal learning do not exist.

In this respect, a number of initiatives have been developed at European level within the framework of the Education and Training 2010 agenda and its Copenhagen Process. A Council Resolution adopted in 2004 called for high-quality, efficient and equitable lifelong guidance and counselling services<sup>46</sup>. To support the implementation of this holistic approach, a European network has been set up. The need to ensure quality in education and training, not least as a base for mutual trust between Member States to make cross-border mobility easier and reduce barriers to lifelong learning, has led to a common quality assurance framework<sup>47</sup> and the creation of a European network for quality in vocational education and training.

A European Qualification Framework (EQF), which will serve as a translation device for national qualifications for all levels and sectors of education, is currently currently implemented.<sup>48</sup> In the field of ICT, the European e-Competence Framework, consisting of 32 ICT practitioner and manager competences, which are identified to be needed on the workplace, has recently been set up<sup>49</sup>. More and more countries are developing standards and redefining their qualifications with a focus on learning outcomes. National Qualification Frameworks are developing rapidly. Matching Europass, as a single Community framework to help making people's qualifications and competences visible and transparent, has been in place since 2005.<sup>50</sup> The future European Credit System for Vocational Education and Training (ECVET) ([http://ec.europa.eu/education/policies/educ/ecvt/index\\_en.html](http://ec.europa.eu/education/policies/educ/ecvt/index_en.html)) will make it easier to transfer knowledge, skills and competences between institutions, systems and countries. Increasingly, countries are developing and implementing systems and mechanisms to validate outcomes of non-formal and informal learning<sup>51</sup>.

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<sup>46</sup> Resolution of the Council and of the representatives of the Member States meeting within the Council on strengthening policies, systems and practices in the field of guidance throughout life in Europe (May 2004).

<sup>47</sup> Council Conclusions on Quality Assurance in Vocational Education and Training, 18 May 2004, and Proposal for a Recommendation of the European Parliament and of the Council on the establishment of a European Quality Assurance Reference Framework for Vocational Education and Training (2007).

<sup>48</sup> Recommendation of the European Parliament and of the Council on the establishment of a European qualifications framework for lifelong learning (3662/07) adopted by the Council on 14.2.2008. OJ C 111/1 of 6.5.2008

<sup>49</sup> <http://www.ecompetences.eu/>

<sup>50</sup> Decision No 2241/2004/EC of the European Parliament and of the Council of 15 December 2004 on a single Community framework for the transparency of qualifications and competences (Europass), OJ L 390 of 31.12.2004, p. 6.

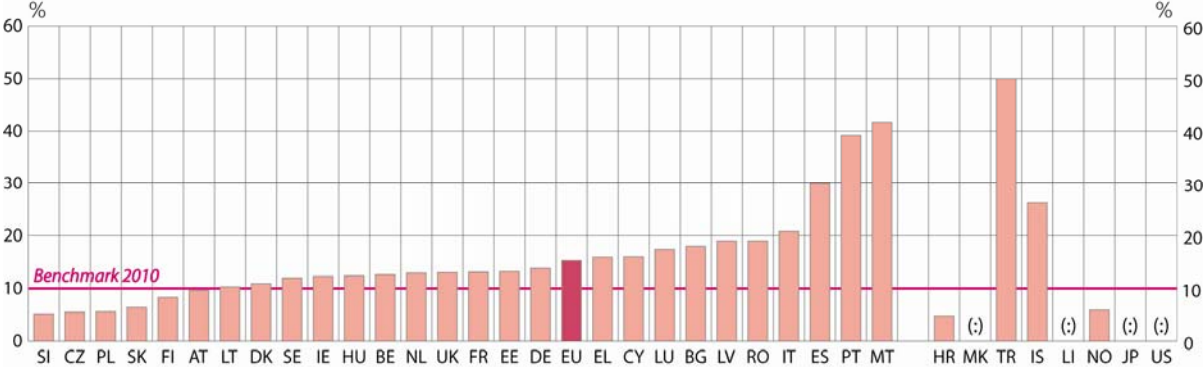
<sup>51</sup> European Commission Proposal for a Recommendation of the European Parliament and of the Council on ECVET (April 2008).

Cedefop has supported the European Commission and the Member States in the development of these policies, tools and coordination mechanisms and in mutual learning initiatives. The ESF and the Lifelong Learning Programme play an important role in facilitating education and training reforms. The latter also supports learner mobility, which not only helps to develop knowledge, skills and competences but can also encourage later labour market mobility and active citizenship. The Leonardo da Vinci strand supports several skills development projects. A specific thematic group on the development of skills and competences within companies, in particular SMEs, and at sectoral level (including anticipation of skills needs) has been set up. Targeting policy makers and other stakeholders, its purpose is to monitor and inform on innovative projects and approaches which could be mainstreamed or used for policy learning.

**5.2. Facing skills challenges**

To be able to cope with structural changes and demographic development, it is absolutely crucial to raise skill levels. 30% of the EU-27 working age population are considered low-skilled. People with low skill levels are at risk of economic and possibly also social exclusion. This is particularly relevant with the emergence of precarious jobs with low income security and poor career prospects for low-skilled workers. Continued high levels of early school leavers (see Fig 1.), low participation in lifelong learning by older and low-skilled workers (see Fig 2.) and poor skill achievement among migrants cause concern in most countries. The more so, as future labour markets will demand ever higher skill levels from a shrinking work force. Low skills will become an ever greater challenge.<sup>52</sup>

**Fig 1. Early school leavers, 2006**  
(Percentage of the population aged 18-24 with only lower secondary education or less and not in education or training, 2006)

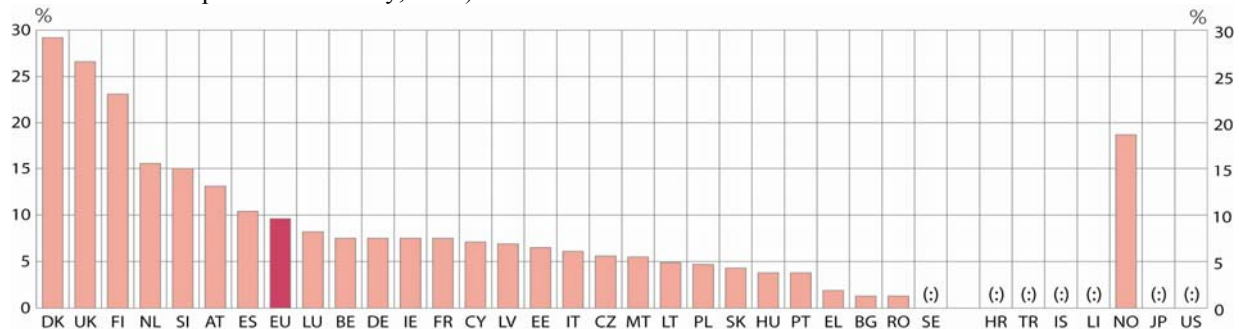


Data source: Eurostat (Labour Force Survey), 2006  
 Additional notes:  
 2006: provisional data for LV, PT, FI and IS. SI (all indicators) and EE and LT (indicators by gender): unreliable because of the small sample size. In DK, LU, IS, NO, EE, LV, LT, CY, MT and SI the high degree of variation of results over time is partly influenced by the low sample size. Due to the implementation of harmonised concepts and definitions in the survey, there are breaks in series in the majority of countries, especially in 2003 and 2004. CY: Pupils studying abroad are not covered by the survey; this indicator is therefore overestimated. The EU aggregates are calculated using the closest available year result in case of missing country data.

<sup>52</sup> ‘Delivering lifelong learning for knowledge, creativity and innovation’. 2008 Joint progress report of the Council and the Commission on the implementation of the ‘Education & Training 2010 work programme’. OJ C 86/1 of 5.4.2008

**Fig 2. Participation by adults in lifelong learning**

(Percentage of population aged 25-64 participating in education and training in the four weeks prior to the survey, 2006)



Data source: Eurostat (EU-Labour Force Survey) From 2006, this indicator is based on the annual averages of the quarterly data.

Additional notes:

Due to introduction of harmonised concepts and definitions in the survey, there are breaks in the time series for: CZ, DK, EL, FR, IE, CY, LU, HU, AT, SI, SK, FI, SE, IS, NO (2003), BE, LT, MT, PL, PT, RO (2004) and ES (2005). BE, LT, LT, PT, UK: Provisional data.

Education and training which is relevant to labour market needs is therefore crucial. A recent Council Resolution ‘New Skills for New Jobs’ invites the Commission to analyse, in the context of the Copenhagen process and cooperation in higher education, the need to establish advisory mechanisms to identify new types of jobs and skills needs at the European level.<sup>53</sup>

The Commission is launching the **"New Skills for New Jobs" initiative**, described in the Commission Communication of 16 December 2008 "New Skills for New Jobs: Anticipation and matching labour market and skills needs". The purpose of the initiative is to promote skills upgrading and better matching of skills needs through the development of anticipation capacities. The Communication and its accompanying Staff Working Document provide a first assessment of labour market and skills needs up to 2020 and a mapping of existing anticipation instruments at national and European level. The initiative aims at improving anticipation capacities at EU and national, and matching between labour demand and supply through synergies between employment, training and education policies. . In this regard, it will present several propositions for action, organized under four strands

- strengthening Union'sn capacity for forecasting and anticipation
- tools and actions to address mismatches
- deepening international cooperation in this field
- mobilising Community instruments and funds along the objectives of the New Skills for New Jobs initiative

Cedefop intends to contribute to improving the capacity to anticipate EU-wide labour market trends and to developing a set of tools which will help to reliably and regularly identify future needs for occupations, skills, competences and qualifications. One of the common objectives is to enrich the knowledge-base on skills needs in the European labour market to provide evidence for policy-making, improve and modernise labour market intelligence and inform guidance and counselling services. Ideally, as also underlined in the Council resolution, forecasts should not remain stand-alone exercises but be linked to instruments and mechanisms that already exist at sectoral, national and European level. Relating information on skills gaps to EQF reference levels and key competences would help to better link education and employment. To support job seekers in a targeted way, guidance and counselling should combine this information with skills assessment and validation and/or personal training plans. Europass and credit systems (ECVET and ECTS) can make these processes more effective and efficient.

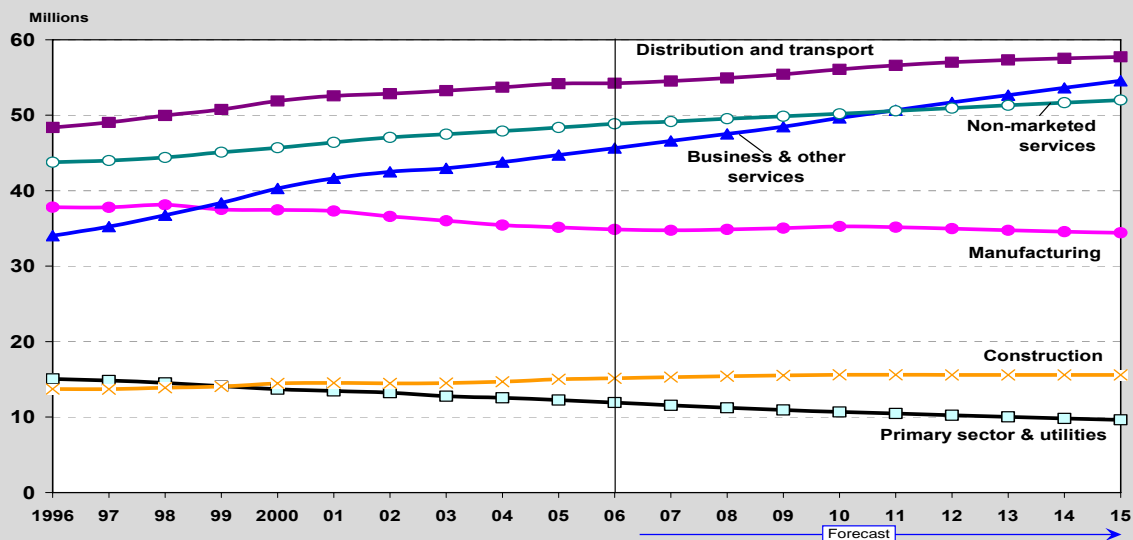
<sup>53</sup> Council Resolution of 15 November 2007 on the new skills for new jobs. (2007/C 290/01)

## Cedefop and its Skillsnet initiative

As early as 2001, Cedefop recognised the need to improve the transparency of European activities to identify skills needs by launching the 'Early identification of skill needs in Europe'. Its purpose was to present and discuss these activities with researchers, policy-makers and practitioners. Subsequently, Cedefop set up an international network on early identification of skill needs called 'Skillsnet', in 2004.

In 2007, Cedefop carried out a first pan-European medium-term forecast of occupational skills needs in Europe. It used the data available in all EU Member States plus Norway and Switzerland (Eurostat data). The forecast is based on a multi-sectoral macroeconomic model. It develops robust and consistent econometric projections which indicate the demand by occupation, sector and qualifications across Europe by 2015. It also looks into likely replacement demand by occupation and implications for qualifications by education level. All this is done in three alternative scenarios. The main aim of this European forecast is to provide the various actors and participants in the labour market, including policy-makers, with useful evidence on future labour-market demand for skills and occupations. The forecast shows that the transition of European economies away from primary and manufacturing sectors towards the service sector is continuing but not yet complete. New jobs will be created mainly in the service sector. But also in the traditional sectors, where employment is expected to fall, replacement needs will still account for significant numbers of job openings. However, the nature of these jobs and their skills requirements will change. The qualification requirements across most jobs will increase dramatically. Today, even jobs for unskilled manual workers and elementary occupations demand higher qualifications.

### Employment trends by broad sector, in millions, 1996-2015 (EU-25, Norway and Switzerland)



Source: Cedefop, 2008.

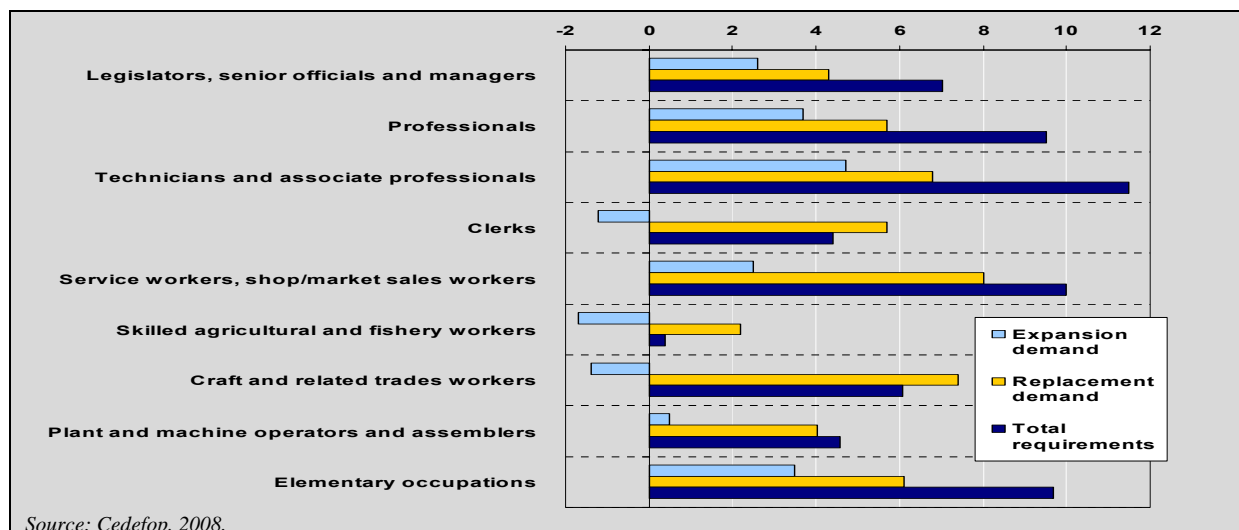
To anticipate possible future imbalances in European labour markets, and to inform policy-makers and other actors in time, it is necessary to complement the demand forecast by a supply-side projection of the skills that the European labour force is likely to have in the future. In response to this need, Cedefop launched a supply-side forecast and a study to comparing skills supply and demand to indicate possible imbalances on the labour market. Cedefop has also published in October 2008 a working paper on "Systems for anticipation of skills needs in the EU Member States"<sup>54</sup>. To broaden and validate the knowledge base, it is also necessary to complement the data gathered through forecasts by other (more qualitative) information. Therefore, a new Cedefop initiative, carried out in cooperation with its network Skillsnet, aims at finding a common European approach to enterprise surveys as a tool to identify skill and occupation needs, gaps and shortages. Cedefop will also continue to examine new and emerging skill needs in specific sectors (health care and environment sectors in 2008)<sup>55</sup>.

### Demand by occupation, change in millions, 2006-15 (EU-25, Norway and Switzerland)

<sup>54</sup> [http://www.trainingvillage.gr/etv/upload/information\\_resources/Bookshop/512/Workingpaper01\\_oct2008.pdf](http://www.trainingvillage.gr/etv/upload/information_resources/Bookshop/512/Workingpaper01_oct2008.pdf)

<sup>55</sup> Cedefop has already covered tourism, nanotechnology and agri-food and forestry-wood chains.





## 6 – Industrial policy: Increasing the capacity of enterprises and industry to adapt to structural change

Industrial policy is another vital part of the Lisbon Strategy, since companies' competitiveness and adaptability is paramount for sustaining and creating employment. The 2007 mid-term review of industrial policy<sup>56</sup> highlights the fact that, whilst industry is currently performing well and so far shows remarkable resistance to negative repercussions of a slowing down US economy, the main challenges requiring proactive structural change are likely to intensify in the coming years. Amongst these challenges are: higher competitive pressure due to closer international and EU market integration, the accelerated pace of technological change and organisational innovation, energy- and climate- change- related challenges, and demographic change.

In this changing environment, competitive advantage lies in the capability to flexibly adapt to change and reallocate resources where they add most value. New manufacturing paradigms are emerging that often call for fundamentally different ways of production in view of increasing technology intensity, scarcity of natural resources, price pressure or environmental concerns. They call for the large-scale adoption of customisation, more and better quality services, more networking and collaboration and can translate into increased specialisation, higher differentiation, (global) disaggregation of production and work processes, changing skills needs, up-take of new technologies and new organisational forms, etc.

Enterprises are the main actors and enablers of this process of change. Creating welfare and jobs, offering satisfactory career opportunities, serving new demand trends and minimising their impact on the environment in line with the Polluter Pays Principle all depend on their capacity to successfully manage change. Their 'adjustment performance' has spillovers across the economy and society. The adaptation capacity of industry, which represents around a fifth of the Community's output and indirectly contributes far more to the EU economy, has a huge impact on the rest of the economy. The performance of industry in adapting to change and

<sup>56</sup> COM(2007)374

proactively stimulating change is, therefore, pivotal for achieving the EU's overall growth and jobs objectives.

As mentioned in the document accompanying the 2007 industrial policy Communication<sup>57</sup>, the EU's capability to adapt to changing market realities and technological developments seems to lag behind those of its key competitors, notably the US, and sometimes also the new global players such as Brazil, Russia, India or China. A number of indicators suggest that in the EU considerable adaptation rigidities exist at company level and in product, labour and capital markets. Moreover the European economy faces a number of important challenges. These include quick uptake of new ICTs, to fostering growth in high-tech sectors, investing more in R&D and innovation, promoting company expansion, boosting labour productivity, labour mobility and less regulated product markets.

#### **Some positive aspects**

According with the 2008 EU Industrial R&D Investment Scoreboard:

- after many years in which the growth of R&D investment by EU companies legged behind US companies, this year's Scoreboard shows that the R&D investment growth of EU has been higher than that of the US companies;
- R&D intensities of EU Scoreboard companies is no longer falling, but have stabilised at 2.7%;
- sector by sector, R&D intensities of EU companies is similar or greater than in non-EU companies

On the other hand, the adjustment required in Europe also seems to be higher than in other regions of the world, as we have to cope with demographic change, the transition of new Member States into market economies and the EU's ambitious unilateral energy and climate change targets.

Against this background, Europe's industrial and enterprise policy aims to create enabling framework conditions for a gradual and beneficial management of change that will support the economy's capacity to absorb and proactively stimulate change and thus avoid large-scale restructurings in the first place.

### **6.1. Understanding structural change of EU industry**

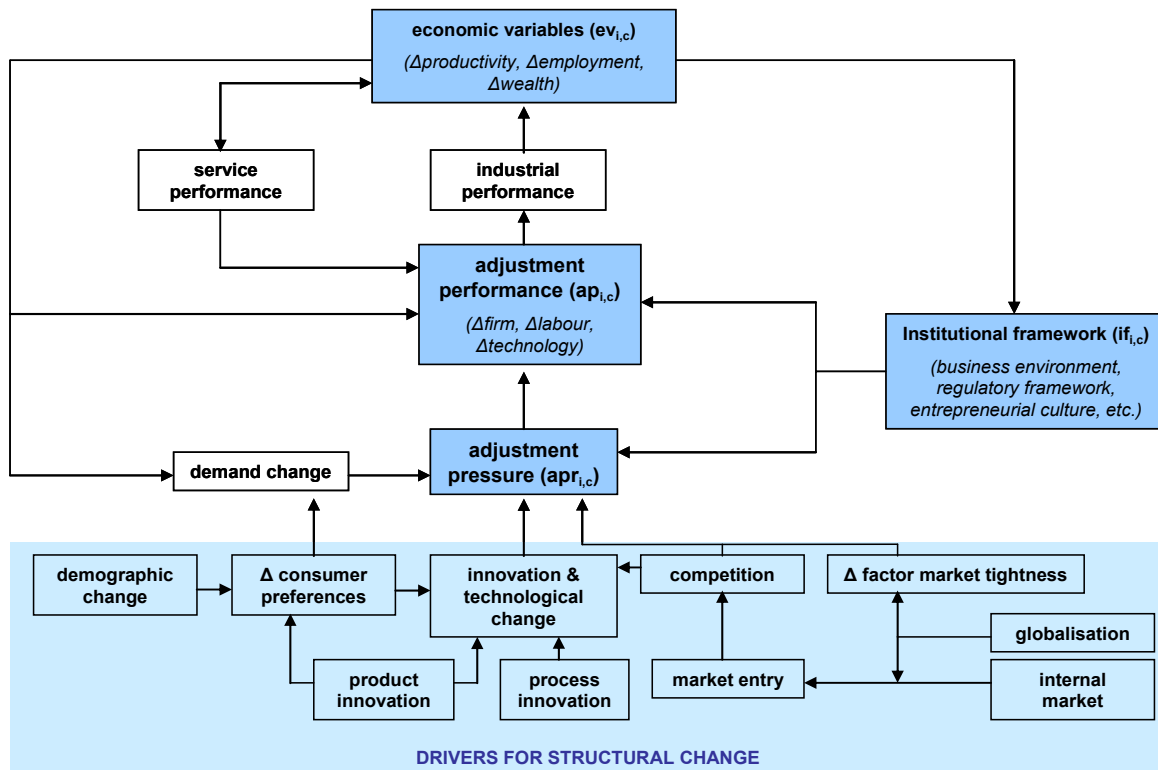
Both the process of structural change and the reaction to it are highly complex and of a multi-dimensional nature. Policy responses therefore need to be based on a thorough understanding of the adjustment pressure that individual sectors experience, the adjustment performance of sectors and countries and the institutional framework that directly affects the need and the ability to change. A combined sectoral/horizontal approach is needed to take simultaneous account of sectoral specificities and cross-sectoral drivers and adjustment mechanisms.

Based on the conceptual framework presented in Fig. 3, the Commission is conducting analytical work to identify adjustment challenges and adaptability assets that characterise sectors (or sub-sectors) and countries in terms of adjustment capability.

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<sup>57</sup> SEC(2007)917

**Fig 3. Conceptual framework for identifying adjustment challenges and adaptability assets**



i: industry  
c: country

Source: Directorate-General Enterprise and Industry (2008) European Commission

### Conceptual framework for identifying adjustment challenges and adaptability assets

**Structural adjustment** is defined as the shift of resources to successfully react to shocks and to seize new product, process and market opportunities. The **adjustment pressure** ( $apr_{i,c}$ ) for a given industry (i) in a given country (c) is supposed to be triggered by fundamental changes in the structure of the economy, such as gradual or sudden technological change, organisational innovation, increased competition and the emergence of new competitors, significant shifts in consumer demand or regulation especially for some sectors (safety, environment, etc) availability of inputs (access to raw materials, pricing), market access, etc.

The **adjustment performance** ( $ap_{i,c}$ ) of a given industry in a given country is captured by three dimensions: the adjustment of firms, the adjustment of the labour market and the uptake of technological progress. The performance in adjusting to change in terms of business behaviour, the labour market and technological up-take is key for value creation and increasing welfare, which is reflected in **economic variables** ( $ev_{i,c}$ ), such as productivity, employment and growth. Thus, increasing  $ap_{i,c}$  is a desirable outcome in this model. The measurement of the adjustment performance of firms builds on a methodology jointly developed by the Organisation for Economic Cooperation and Development (OECD) and the Statistical Office of the European Communities (Eurostat).<sup>58</sup>

The adjustment performance depends on the intensity of the adjustment pressure ( $apr_{i,c}$ ), the overall condition of the economy, reflected in the economic variables ( $ev_{i,c}$ ), and the **institutional framework for adaptability** ( $if_{i,c}$ ),

<sup>58</sup> See for more information: <http://www.entrepreneurship-indicators.eu/>.

such as the regulatory framework, the business environment, conditions for R&D and technological up-take, the entrepreneurial culture, access to finance, etc.<sup>59</sup> The pressure to adjust is to a great extent driven by the pace and magnitude of gradual or abrupt structural change, but also by the overall state of the economy and the institutional framework.

In parallel, specific aspects of structural change that strongly influence the drivers of change and/or adjustment capabilities are assessed individually. As highlighted in the industrial policy communication<sup>60</sup>, the shift in employment towards services and the increased interlinkages of manufacturing and services are one of today's major phenomena of structural changes. It reflects the deepening international division of labour and a disaggregation of previously integrated value chains that blur the traditional boundaries between manufacturing and services activities. Many 'outputs' consist of combined services and manufactured products, that may be supplied by companies coming either from the services sector or manufacturing. The competitiveness of manufacturing is therefore inextricably linked to the performance of firms' internal or external services. The previous section on lifelong learning has emphasised also the importance of qualifications and skills as a key factor for increasing the capacity to adapt to change. They directly influence the capacity of firms to innovate, integrate new technologies and ideas and seize new market opportunities. A strong and competitive skills base also strengthens the human resources component in the process of change.<sup>61</sup>

At sectoral level, the on-going market monitoring exercise by the relevant Directorates-Generals of the Commission and the continuous competitiveness analysis (*sectoral competitiveness studies*) of the Enterprise and Industry DG provide a framework for analysing sectoral competitiveness factors and enablers for structural change in a systematic and comprehensive way.

## **6.2. Policy responses to increase the adjustment capacity of enterprises and industry**

**European industrial policy** aims to create enabling framework conditions for enterprises and industry, thereby increasing their dynamic capabilities and competitiveness in the face of intensified drivers of structural change. Its integrated general and sectoral approach was set out in the 2005 industrial policy communication<sup>62</sup>. The mid-term review of July 2007<sup>63</sup> generally confirmed this approach and refined the policy responses to better react to new or more pressing challenges of structural change, such as energy and environmental challenges.

This industrial policy is designed for all manufacturing or manufacturing related enterprises, taking the specific role of SMEs into account. SMEs play an important role for the competitiveness of the industrial base, especially as sub-contractors in manufacturing value-chains and providers of business services. Also, due to their innovative capacity and potential flexibility, SMEs are vital in adapting to structural changes.

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<sup>59</sup> A broad definition of the institutional framework is used that also includes informal institutions.

<sup>60</sup> COM(2007)374

<sup>61</sup> The key findings of an analysis of the skills contribution to the competitiveness of EU industry have been published in the European Competitiveness Report 2007 (Directorate-General Enterprise and Industry, Staff Working Document), SEC(2007).

<sup>62</sup> COM(2005) 474

<sup>63</sup> COM(2007)374

## Examples of 'horizontal' initiatives of European industrial policy

One 'horizontal' aim of European industrial policy is to promote further **simplification and improvement of the regulatory environment**. A concrete example of how this can be applied in a particular sector is the follow-up to the CARS21 initiative, where the Commission seeks to simplify the regulatory framework for the automotive industry. This includes replacing a number of Community Directives with international regulations and developing legislation to meet ambitious standards for emissions reduction while maintaining the sector's competitiveness.

The aim of the **lead market initiative** is to help unlock market potential for innovative products and services by lifting obstacles to the development of new markets. The instruments include the legal and regulatory framework, standards and public procurement practices.

The **standards initiative** demonstrates how standardisation can contribute to innovation and competitiveness. In its 2008 communication on standardisation and innovation<sup>64</sup>, the Commission proposes to Member States, industry, users, standards bodies and other stakeholders nine key elements for focusing EU standardisation policy on innovation. The aim is to increase the impact of Europe in global standardisation (helping the EU to acquire first-mover advantages in emerging markets), to update standards in the light of new knowledge and make them accessible to all, in particular to SMEs, to accelerate the uptake of standards by users, and to reinforce the infrastructure for European standardisation.

The **clusters initiative** assesses how combined actions of the Member States and the Commission, supporting clusters and cooperation between them, can help the European knowledge area to progressively structure itself as a powerful web of competitive world-class clusters that boost the competitiveness of industry and services.

**Sustainable industrial policy** aims at (1) stimulating the development and commercialisation of low carbon and energy-efficient technologies, products and services, for example by fostering lead markets and creating incentives for frontrunners; (2) creating a dynamic internal market with progressively more ambitious minimum requirements complemented with voluntary lead standards and incentives (such as labelling); and (3) creating global markets for low-carbon and energy-efficient technologies, products and services (development of international standards and first-mover advantages; international sectoral agreements for energy-intensive industries; international or bilateral agreements on the diffusion and use of environmental technologies).

Part of the initiative on **competitiveness and market access** is to encourage international regulatory cooperation to tackle non-tariff barriers, which have gained in importance in recent years due to the progressive dismantling of tariffs. This includes product regulation, foreign direct investment, competition, public procurement, safety and security and the protection of intellectual property rights. The most prominent example of ambitious regulatory cooperation is the EU/US Transatlantic Economic Council. Moreover, the conclusion of on-going negotiations for ambitious bilateral free trade agreements with important trading partners will significantly improve international market opportunities for EU companies. International market access is also directly promoted by international industry and business cooperation, including industrial dialogues and the Annual Business Summits.

The **industry/services initiative** conducts a detailed screening and competitiveness analysis of the service sectors and their impact on industrial competitiveness, and if necessary further sectoral monitoring. The outcome will be the identification of all obstacles to improved competitiveness, and possible market failures, which might justify actions to address specific problems in individual industrial and/or service sectors.

## ETPs –the role of Technology Platforms

- Provide a framework for stakeholders, led by industry, to define research and development priorities, timeframes and action plans on a number of strategically important issues where achieving Europe's future growth, competitiveness and sustainability objectives is dependent upon major research and technological advances in the medium to long term.

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<sup>64</sup> COM(2008) 133

- Play a key role in ensuring an adequate focus of research funding on areas with a high degree of industrial relevance, by covering the whole economic value chain and by mobilising public authorities at national and regional levels. In fostering effective public-private partnerships, technology platforms have the potential to contribute significantly to the renewed Lisbon strategy and to the development of a European Research Area of knowledge for growth. As such, they are proving to be powerful actors in the development of European research policy, in particular in orienting the Seventh Research Framework Programme to better meet the needs of industry.
- Address technological challenges that can potentially contribute to a number of key policy objectives which are essential for Europe's future competitiveness, including the timely development and deployment of new technologies, technology development with a view to sustainable development, new technology-based public goods and services, technological breakthroughs necessary to remain at the leading edge in high technology sectors and the restructuring of traditional industrial sectors.

#### **Examples of sectoral initiatives of European industrial policy**

The 2007 industrial policy Communication launched a number of new sectoral initiatives and stimulated progress with on-going ones. They target sectors that face specific adjustment and competitiveness challenges due for example to fiercer competition, rapid technological development and changes in the market structure or the regulatory environment.

The European food industry has entered a period of adjustment, accelerated by successive reforms of the Common Agricultural Policy, globalisation, commodity price hikes and limitations of access to key raw materials. Low labour productivity, persistent slowness to innovation, changing consumer preferences and a complex regulatory framework are all contributing to the challenges faced by the industry. With the **food sector initiative**, the Commission offers a strategy for more value-added products, targeted uptake of R&D results, innovation in SMEs (including wholesale and retail issues), better market access to third countries, and reduce administrative burdens. This complements the on-going review of food legislation and the initiatives in the domain of novel foods and food labelling.

**ELECTRA** is an industry initiative supported by the Commission which aims to identify the main competitive challenges facing the European electrical engineering sector in the long term, and developing recommendations for concrete measures to tackle those challenges. The initiative explores the potential for increasing the economic viability of energy-efficient technologies, activating new growth areas, lead customer markets and other emerging high-growth potential products and services, and removing existing market and regulatory barriers. Specific challenges include skills shortages, the lack of investment and capital market finance, the EU's complexity of corporate tax systems as well as research and development. Electra views the activation of growth potentials as a way of coping with increasing competitive and delocalisation pressure.

Defence industries in Europe are subject to very different national rules, a situation which has hindered their development, handicapping them in respect to international competitors and giving poor value for money spent on security and defence. Against this background, the Commission has launched a **defence package** consisting of a framework communication setting out an industrial policy for the sector underpinned by two legislative proposals covering defence procurement and the transfers of defence-related material between Member States. The overall objectives of the package are to inject greater transparency into the defence market and reduce the administrative burden faced by the industry (especially SMEs) trying to operate throughout the EU. Only by creating a well-functioning European defence equipment market for defence goods, will Europe have an industry that can continue to operate competitively on the world stage and provide European governments with the technology and means to operate an autonomous European security and defence policy.

The European **pharmaceutical sector** is under threat as investment in pharmaceutical R&D is diverted to the US and, increasingly, to the Far East. The ability of Europe to respond effectively is hampered largely by the lack of an effective single market in pharmaceuticals. To tackle this, the Commission has established a twin-track approach of modernising the European legislative framework through the 2004 Pharmaceutical Review and the ongoing Pharmaceutical Forum, where critical issues affecting competitiveness, such as pricing and reimbursement, are addressed with Member States and key stakeholders. Furthermore the Commission is

currently preparing a communication on the future of medicines in Europe which is going to tackle issues related to public health as well as to competitiveness.

The **LeaderSHIP 2015 initiative** is a pioneering example of industry and Commission working together to deliver proactive solutions to challenges of structural change at sectoral level. On-going work focuses on implementing the 30 relevant recommendations in eight thematic areas: trade; innovation and R&D; financing; transport and environment; naval shipbuilding; intellectual property rights; skills; and industry structure.

The **High Level Group CARS21** brought together the main stakeholders to discuss the sector's development and challenges. Following this, the Commission set out the direction in which it intends to steer future automotive policy. The main priorities are regulatory simplification and reduction of administrative burden (see above), reduction of CO2 emissions, road safety, international market access and R&D.

European industrial policy has to be seen in conjunction with the Lisbon Strategy for Growth and Jobs (cf. Section 1). Its partnership approach strengthens synergies and complementarities of actions at Community and national level. While Member States implement ambitious reforms in the context of their national reform programmes<sup>65</sup> -that are closely monitored by the Commission- the reform agenda at EU level has been set out in the Community Lisbon Programme<sup>66</sup>. The objective of strengthening the industrial base by Community and national actions is laid down in Guideline 10 of the Integrated Guidelines for Growth and Jobs<sup>67</sup>. Through the European Council, the Member States thereby agreed on common priorities for actions or policies targeted towards industrial competitiveness (see Fig.3) and the National Reform Programmes and the Community Lisbon Programme provide the framework for their implementation and progress evaluation.

#### **Integrated Guidelines for Growth and Jobs: Guideline 10 on strengthening the industrial base**

To strengthen the competitive advantages of its industrial base, Europe needs a solid industrial fabric throughout its territory. The necessary pursuit of a modern and active industrial policy means strengthening the competitive advantages of the industrial base, including by contributing to attractive framework conditions for both manufacturing and services, while ensuring the complementarity of the action at national, transnational and European level.

Member States should:

1. Start by identifying the added value and competitiveness factors in key industrial sectors, and addressing the challenges of globalisation; and
2. Focus on the development of new technologies and markets.
  - (a) This implies, in particular, commitment to promote new technological initiatives based on public-private partnerships and cooperation between Member States that help tackle genuine market failures.
  - (b) This also implies the creation and development of networks of regional or local clusters across the EU with greater involvement of SMEs.

#### **a. Innovation policy**

Fiercer international competition, rapidly evolving technology and consumer preferences, and increased environmental concerns raise the need for successful innovation and marketing of new products, technologies and services. Innovation policy is therefore a major tool affecting competitiveness and adaptation to structural change. As part of industrial policy, innovation policy initiatives such as on lead markets, standards and innovation and clusters contribute to this adaptive process (see Fig. 3) as well as other innovation policy initiatives, such as the networking of innovative regions in support of economic change and the removal of obstacles to cross-border investment by venture capital funds. The specific needs of innovative firms

<sup>65</sup> [http://ec.europa.eu/growthandjobs/national-dimension/index\\_en.htm](http://ec.europa.eu/growthandjobs/national-dimension/index_en.htm)

<sup>66</sup> COM(2007) 804

<sup>67</sup> COM(2007) 803

with a high growth potential are recognised and taken into account.<sup>68</sup> The principles of European innovation policy are laid down in the **broad-based innovation strategy**<sup>69</sup> and the strategic priorities are defined by the Competitiveness Council of December 2006 as: (1) improving the framework for the registration and protection of intellectual property rights, (2) promoting standardisation and (3) public procurement in support of innovation, (4) supporting Joint Technology Initiatives (JTIs), (5) setting the right framework conditions for developing lead markets, (6) establishing the European Institute of Technology (EIT), and (7) promoting clusters, (8) innovation in services, and (9) the further development of risk capital markets.

With the **Competitiveness and Innovation Framework Programme**, the Enterprise and Industry DG has an important leverage instrument to support innovation activities (including eco-innovation). It provides better access to finance, especially for SMEs, and delivers business support services, encourages a better take-up and use of information and communications technologies and helps to develop the information society. It also promotes the increased use of renewable energies and energy efficiency. The programme budget amounts to €3.62 billion for the period 2007-13.

## **b. SME policy**

SMEs are the heart and the lifeblood of the European economy, and the most important source of new jobs and sustainable economic growth. They stimulate private ownership and entrepreneurial skills, generate employment and diversify economic activity by encouraging technological development and innovation.

There are 23 million SMEs in Europe, accounting for more than 75 million jobs and over 80% of employment in certain sectors, such as textiles, construction and furniture. Hence the need to be better aware of the restructuring which concerns them so as to help them anticipate and manage the changes that affect them.

The economic and competitive settings which companies operate have changed dramatically with the creation of the EU single market, international economic integration, technological advances and an increased complexity of value chain organisation. Major changes are still to come with regard to more stringent energy and environmental regulation and the ageing workforce. As a result, new instruments and innovative methods are needed to support these companies in coping with the changes and challenges that specifically affect them. A better anticipation of drivers of change affecting SMEs as well as effective systems for monitoring change are a crucial condition for better dealing with restructuring situations.

Moreover, business restructuring is a permanent feature of economic life, reflecting the need for companies to constantly adapt and innovate in order to remain competitive in a changing economic, social and political environment. SMEs are much more affected by the challenges of demographic change, ageing workforce and increasing lack of skilled labour than large companies. The ageing of the population also affects them more closely. Estimates show that in the next ten years one third of entrepreneurs, in particular those at the head of family businesses will retire. Around 700 000 SMEs and 2.8 million jobs will be affected by business closures every year.

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<sup>68</sup>See Presidency paper for the Informal Competitiveness Council on 15 and 16 April 2008 "The "Small Business Act" for Europe (SBA) and SME growth"

<sup>69</sup> COM(2006)502



This is the reason why training and competence development are becoming vital in all the economic sectors. Beside these needs, market developments and technological change, anticipation and monitoring have to address how current demographic changes affect business transfers and entrepreneurship development.

In parallel, anticipation is also necessary for crisis prevention actions. In the current financial turmoil, SMEs are confronted with a lack of flexibility and adaptability, as compared with large companies, in particular with regard to external support and financial resources. Their dependence on large companies, combined with limited financial and personnel resources makes them vulnerable when it comes to anticipating, preparing and managing changing environments, technological progress and increased competition.

Moreover, SMEs often find it more difficult and costly to apply regulatory provisions, in the energy and environment fields for example. To make it easier for SMEs to comply with their obligations and to improve their environmental performance, the European Commission has proposed an Environmental Compliance Assistance Programme<sup>70</sup>. Given the sheer impact of SMEs on economic success and employment development, it is necessary to address the problems and the needs for action to help anticipate change.

The Commission is highly committed to the SME sector, contributing to a better understanding of restructuring trends, and supports the sharing of experience, knowledge and good practices amongst key player in the business arena. In all these activities there is strong proactive involvement of social partners and national public authorities.

Accordingly, SME policy has become one of the pillars of the Lisbon partnership for growth and jobs since its renewal in 2005. Moreover, the European Council of March 2006 defined a series of priority measures to fully exploit the potential of SMEs in Europe, notably the creation of one-stop-shops for setting up a company in a quick and simple way, the reduction of the average time for setting up a business to one week, lowering of start-up fees, providing a single public administration point for the recruitment of a first employee and strengthening of entrepreneurship education and training.

In its approach to restructuring, the ESF in 2007-13 focuses not only on workers, but also on enterprises, in particular SMEs. Some examples of possible ESF support with particular relevance for SMEs include:

- Strengthening the role of business associations, business support organisations and networks, as these can play an important role in adapting and developing appropriate instruments meeting the needs of SMEs
- Upskilling SME workers, including the most vulnerable workers
- Supporting increased internal flexibility of SMEs (multi-skilling, training, flexible working methods and structures and working time arrangements)
- Increasing external flexibility in the form of outplacements
- Fostering entrepreneurship and business strategies: building managerial skills of present or potential entrepreneurs
- Supporting public services such as forecast institutions or observatories that can help SMEs to anticipate change

Moreover, public authorities play an important role in supporting SMEs in managing change and promoting partnerships, cooperation and networking between firms, thus taking advantage of synergies and spill-over effects. In order for the adaptation to change to be a success, it is essential for this process to involve all the key players, i.e. governments, social partners, and everyone working on the ground, such as the Regional Development Agencies,

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<sup>70</sup> [http://ec.europa.eu/environment/sme/index\\_en.htm](http://ec.europa.eu/environment/sme/index_en.htm)

the Chambers of Commerce, the European Business Network centres and the companies themselves.

The **Small Business Act** will contribute to strengthening the position of SMEs, their ability to grow and their capacity to adapt to structural change. The **Enterprise Europe Network** launched in February 2008 offers support and advice to businesses across Europe, for example through access to technology and business cooperation databases and information on EU law, internal market rules and access to EU funding programmes.<sup>71</sup>

See also 2.6 in Chapter 7 on the ‘Restructuring Forum’ dedicated to adaptation of SMEs.

#### **Internal market**

To ensure that markets function well across the EU, thus enabling consumers and businesses to reap the full benefits of economic integration, the Commission decided in 2006 to launch a **Single Market Review** to give the process a new impetus. One of the agreed new approaches towards the single market of the 21st century is a shift away from the initial emphasis on removing barriers to trade to making sure that markets function better and benefit consumers and businesses.

Market monitoring has become a key tool for understanding the obstacles that prevent markets from functioning well. Analysing the barriers to market integration, market access, technological developments and innovation, as well as price and wage adjustment mechanisms in changing market conditions, will enable better solutions for the particular challenges of each sector and market. Furthermore, this approach will help to identify those markets where there are concrete problems and where policies will have maximum impact.

To this effect, a first-stage screening was carried out which identified key sectors showing signs of market malfunctioning and offering scope for policy intervention and its results were published as part of the November 2007 Single Market Review package. In the second stage, during 2008 the Commission has launched a number of in-depth monitoring exercises in selected sectors to more precisely identify the underlying causes of market malfunctioning and contribute to consider remedies. The monitoring exercises focused on electrical engineering, retail distribution and in particular food supply chain, and pharmaceuticals. The Commission has reported on the outcome of the in-depth monitoring on the food supply chain in the recently adopted Communication on Food prices. The reports on the other monitoring exercises will provide further evidence in the course of 2009. This should result in a set of policy proposals to be implemented at both EU and national level, so as to ultimately favour the re-allocation of resources across companies and regions, thus decreasing the costs of economic adjustment.

As part of its entrepreneurial agenda, the Commission started addressing the need for a new policy to tackle the issue of **business at risk and business failure** in 2001 and subsequently embedded it in the Entrepreneurship Action Plan<sup>72</sup>. It renewed this commitment in the Modern SME policy<sup>73</sup>, launched in 2005. In particular, the Commission has flagged the need to improve bankruptcy procedures. Given the limited political and legal Community competencies in the area the Commission has restricted itself to collecting data on the legal and social consequences of business failure, helping to identify and disseminate good practices<sup>74</sup> and recently to working on early warning tools as a means of reducing the stigma of failure<sup>75</sup>. This process benefited from Member States’ experience and practices and, conversely, has helped encourage reforms across the EU: many Member States have already

<sup>71</sup> For more information on the European SME policy: [http://ec.europa.eu/enterprise/sme/index\\_en.htm](http://ec.europa.eu/enterprise/sme/index_en.htm)

<sup>72</sup> The European Agenda for Entrepreneurship, European Commission, COM(2004)70 final, 11.2.2004

<sup>73</sup> Modern SME Policy for Growth and Employment, European Commission, COM(2005)551 final, 10.11.2005

<sup>74</sup> Activities carried out within the Multiannual Programme for Enterprise and Entrepreneurship 2001-2006 (“Best Procedure”, “European Charter for Small Enterprises”). One of the outcomes is the Final report of the expert group of the Best project on Restructuring, Bankruptcy and a Fresh Start, European Commission, 2003.

<sup>75</sup> <http://ec.europa.eu/sme2chance>. In it an expert group assesses the legal and social consequences of business failure based on the conclusions of a 2001 seminar on business failure and a 2002 study on bankruptcy and a fresh start.

drawn some inspiration from the good practices and policy conclusions collected at European level.

Taking stock of past action, the 2007 Commission' Communication on '[Overcoming the stigma of business failure – for a second chance policy](#)',<sup>76</sup> put forward a series of policy conclusions and lessons to be learned in this area:

- Some insolvency is unavoidable, but early support for viable enterprises will reduce unnecessary insolvencies. Support measures should focus on bankruptcy prevention, expert advice and timely intervention.
- Attention needs to be paid to the accessibility of support, as businesses at risk cannot afford expensive advice.
- The networking opportunities offered by the EU<sup>77</sup> and European business organisations should be fully exploited.
- Insolvency laws should provide an option to restructure and rescue rather than focus solely on liquidation.

Many entrepreneurs lack the necessary resources and experience for successful crisis management and many SMEs in financial trouble conceal their problems until it is too late. If mistakes occur at this stage, or if there is no proper advice available in time, bankruptcy can become inevitable. Timely action is crucial to avoid bankruptcy and a rescue is in many cases preferable to liquidation. Adequate streamlined proceedings mean an easier exit for loss-making activities, better re-allocation of resources and a fairer distribution of remaining capital. This is why the legal systems of countries like France, Estonia, Spain, Malta and Italy opt rather for restructuring and business continuity.

Early warning tools can be of many kinds, ranging from on-line resources, through relevant publications, to more direct involvement of those actors who are better equipped to follow the financial situation of businesses. Additional funding to overcome an unstable period can also be crucial. To help entrepreneurs assess their financial health at an early stage, the Commission has a [self-assessment tool on-line](#) on its [website](#) dedicated to creating second chances for entrepreneurs (see box).

#### **A second chance in business**

This website lists some "[golden rules](#)" outlining a number of steps every entrepreneur can take to help them avoid typical mistakes and identify problems early on. It also provides a list of contact details for [start-up advice services](#) in EU countries. And, as risk is unavoidable, entrepreneurs can [learn how to control risks](#) through proper management and contingency planning. The EU has also gathered some [advice from restarters](#) which can be useful at this stage. Moreover, two of them talk about how insolvency marked the real start of their successful business careers in a [video](#). In addition, relevant communications, ranging from downloadable teaching aids to additional videos, are available on-line. When the going gets tough, some EU countries offer [more specific help](#). <http://ec.europa.eu/enterprise/entrepreneurship/sme2chance/>

At national level, several interesting initiatives deserve to be assessed and capitalised upon:

- Denmark recently introduced a pilot 'early warning system' modelled on the Dutch Ondernemersklankbord. With 4-year funding, this system will help viable enterprises

<sup>76</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:DKEY=456594:EN:NOT>

<sup>77</sup> The INTERREG IVC programme under the European Regional Fund is a strong tool to foster the exchange of good practices in the area of business support, [http://www.interreg3c.net/web/fic\\_en](http://www.interreg3c.net/web/fic_en)

that are headed for insolvency owing to temporary problems, by giving them practical know-how and advice<sup>78</sup>.

- In the reminders for VAT non-payment, France includes information on where entrepreneurs who are facing financial problems can seek advice<sup>79</sup>. Also, entrepreneurs can take out an insurance policy covering expenses (legal advice and mediator fees) for settling debts at an early stage.
- Financed by the German lottery and the Citigroup Foundation, the debtors' helpline [Schuldenhelpline](#) is a national call centre and online advice service for consumers and small businesses. Another call centre, [Firmenhilfe Hamburg](#), is available for Hamburg-based small businesses with financial problems.
- The business start-up portal [Existenzgründer](#) contains not only information on starting again in business, but also a forum where experts give advice on dealing with insolvency/debts and an [early warning tool](#).
- In North Rhine-Westphalia, the [Sanierungsberatung](#) site offers struggling small businesses and restarters a free initial consultation and expert support for crisis management. A training course on crisis counselling and insolvency has been developed for consultants.

## 7 – Competition policy and restructuring

Aid for rescue and restructuring operations is one of the most distortive types of aid and has given rise to some of the most controversial state aid cases. It may, nonetheless, be justified in exceptional circumstances where there are countervailing benefits. Such benefits may involve restoring the long-term viability of a firm in difficulty, which may be desirable for strategic, employment or social reasons. To assess a given rescue or restructuring aid measure the Commission has drafted a set of rescue and restructuring guidelines<sup>80</sup> ('R&R guidelines'), which set out clear conditions to be met by the Member States when granting R&R aid. The guidelines require the granting of rescue and restructuring aid to be subject to strict eligibility criteria, the most important being that the beneficiary has to be in difficulty.

Other types of state aid (such as aid for R&D and the environment) can contribute actively to growth and employment. On the whole vigorous application of the competition rules, including controls on state aid, contributes significantly to long-term growth and employment and helps bring better products and services which simultaneously reflect distinctive European values, in particular respect for the environment, as well as acceptable working conditions. The Commission has reformed its policy on controls on state aid to contribute to the implementation of the Lisbon Strategy, and has redirected state aid to the areas that make the greatest contributions to growth and employment.

### 7.1. The Commission guidelines on rescue and restructuring aid

There is no Community definition of what constitutes a firm in difficulty. However, for the purpose of the rescue and restructuring aid (R&R) guidelines, the Commission regards a firm as being in difficulty where it is unable, whether through its own resources or with the funds it

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<sup>78</sup> Contacting the secretariat of the early warning system can be done through the regional *Væksthuse*, <http://www.startvaekst.dk/>

<sup>79</sup> [www.entrepriseprevention.com](http://www.entrepriseprevention.com)

<sup>80</sup> See Community guidelines on state aid for rescuing and restructuring (OJ C 244, 1.10.2004, p. 2).

is able to obtain from its owners/shareholders or creditors, to stem losses which will almost certainly condemn it to going out of business in the short or medium term without outside intervention by the public authorities. The guidelines spell out some specific objective criteria<sup>81</sup>: A firm is regarded as being in difficulty if more than half of its registered capital has disappeared and more than one quarter of that capital has been lost over the preceding 12 months. In the case of a company where at least some members have unlimited liability for the debt of the company, the same criterion is applied to its capital as shown in the company accounts. Whatever the type of company concerned, a firm is considered as being in difficulty where it fulfils the criteria under its domestic law for being the subject of collective insolvency proceedings.

Even when none of the circumstances set out in Point 10 is present, a firm may still be considered to be in difficulties if the usual indicators of difficulty are present. The guidelines<sup>82</sup> mention a number of such signs. They include qualitative criteria such as increasing losses, diminishing turnover, declining cash flow, mounting debt, rising interest charges and falling or nil net asset value. Legally, the Rescue and Restructuring Guidelines lay down the application of Article 87(3)(c)EC in the particular case of firms in difficulty. On the basis of the Guidelines, state support for such firms may be found compatible with the EC Treaty. This concerns first rescue aid in so far as the ailing firm is provided with *ad hoc* short-term liquidity support to overcome acute financial shortcomings or restructuring aid in the form of longer-term support in order to redirect the company's operations. In the case of SMEs, rescue and restructuring aid may also be granted on the basis of business schemes.

**Rescue aid** can be provided for a period of six months to help the company cover its immediate liquidity needs and undertake other urgent structural measures. It is limited to temporary support to enable the ailing company to come up with a restructuring plan.

**Restructuring aid** can be provided on the basis of a comprehensive restructuring plan with the aim to restore long-term viability. The plan must define the restructuring period and the restructuring costs as well as the measures necessary to turn around the company. Such measures should imply operative, industrial and financial restructuring. A sound restructuring plan should aim to ensure that the positive effects of the aid also materialise in the long term, as insufficient restructuring would just delay problems by a few years.

A further condition to the granting of restructuring aid is that the aid must be limited to the minimum necessary. To this end, a predetermined minimum threshold for private co-financing of the restructuring is introduced (the so-called 'significant own contribution'). As this own contribution normally requires the involvement of external financing it also ensures that the capital markets believe in the restructuring project's ability to restore long-term viability. Limiting the aid to the minimum necessary avoids providing the company with surplus cash which could be used for aggressive behaviour in the market which is unrelated to the restructuring process. In order to compensate for the distortion of competition caused by the aid, compensatory measures (e.g. divestment of assets, reductions in capacity or market presence and reduction of entry barriers on the markets concerned) must normally be taken.

Finally, the 'one-time, last-time' principle ensures in cases of both rescue and restructuring aid that a firm that has already received rescue and restructuring aid in the last ten years is no longer eligible for any further aid. A firm thus has only one chance to restructure itself with

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<sup>81</sup> See paragraph 10 of the guidelines

<sup>82</sup> See paragraph 11 of the guidelines.

the help of aid and the principle ensures that unviable firms are not kept afloat by repeated injections of state aid.

## 7.2. Commission decisions on rescue and restructuring aid

The vast majority of aid for rescue and restructuring is awarded on an individual (ad hoc) basis to ailing firms (as opposed to aid schemes). Of the 115 decisions on ad hoc cases between 2000 and 2005, 35 concerned rescue aid and 80 restructuring aid.<sup>83</sup>

**Table 1. Number of decisions on rescue and restructuring cases, 2000-05<sup>84</sup>**

	Rescue Aid	Restructuring Aid	Total R&R aid
<b>EU-15</b>	35	80	115
<b>Belgium</b>	2	1	3
<b>Germany</b>	21	53	74
<b>Greece</b>	0	1	1
<b>Spain</b>	2	5	7
<b>France</b>	4	9	13
<b>Italy</b>	3	6	9
<b>Netherlands</b>	1	1	2
<b>Austria</b>	0	1	1
<b>Portugal</b>	0	2	2
<b>United Kingdom</b>	2	1	3

Source: Competition DG, European Commission

As regards the different Member States, Germany tops the list with 74 decisions; it is important to note that approximately three-quarters of German cases concerned the restructuring of former East German companies for which aid was awarded in the late 1990s, most of the decisions on these cases having been taken in the period 2000 to 2002. Germany is followed by France with 13 decisions, Italy (9) and Spain (7) cases. Five EU-15 Member States (Denmark, Ireland, Luxembourg, Finland and Sweden) did not have a rescue and/or restructuring case at all in the period between 2000 and 2005.

For the period 2000-05, ad hoc rescue and restructuring aid amounted to €24 billion. Excluding the EU-10 Member States for which data are not fully comparable, the EU-15 figure was around €15.5 billion or, on average 65% of total aid. However, this figure only presents part of the picture as, in some cases, it is difficult to quantify the advantage (known as the ‘aid element’) to an ailing firm which has received aid in the form of a loan or guarantee. Such forms of aid account for the majority of rescue and restructuring measures.

The figures per Member State reveal that the five largest EU-15 Member States account for more than 95% of the aid.

<sup>83</sup> For a comprehensive survey of the Commission's decisions within the framework of the R&R guidelines see also the Special focus chapter on Rescue and Restructuring Aid in the State Aid Scoreboard (Autumn 2006): [http://ec.europa.eu/comm/competition/state\\_aid/studies\\_reports/2006\\_autumn\\_en.pdf](http://ec.europa.eu/comm/competition/state_aid/studies_reports/2006_autumn_en.pdf).

<sup>84</sup> See State Aid Scoreboard (Autumn 2006), p. 31.

**Table 2. R&R aid, total expenditure 2000-05, in million €<sup>85</sup>**

	<b>Rescue Aid</b>	<b>Restructuring Aid</b>	<b>Total R&amp;R aid</b>
<b>EU-25</b>	2.257	21.617	23.873
<b>EU-15</b>	2.177	13.371	15.548
<b>EU-10</b>	80	8.246	8.326
<b>Belgium</b>	161	176	337
<b>Germany</b>	480	8.159	8.639
<b>Greece</b>	0	110	110
<b>Spain</b>	0	1.292	1.292
<b>France</b>	573	2.630	3.203
<b>Italy</b>	107	631	738
<b>Netherlands</b>	9	0	9
<b>Austria</b>	0	78	78
<b>Portugal</b>	0	19	19
<b>United Kingdom</b>	847	275	1122

Source: DG COMP European Commission

The overall volume of rescue and restructuring aid tends to be driven by a limited number of large cases such as the Bankgesellschaft Berlin AG in Germany, Alstom and Bull in France, British Energy in the UK, Alitalia in Italy and the Spanish shipyards. Altogether, the ten largest cases in the period between 2000 and 2005 account for more than 90% of total rescue and restructuring aid.

### **7.3. The control of concentrations between undertakings and the involvement of third parties**

According to Community merger control law, third parties considered as having a ‘sufficient interest’ in the Commission’s procedure include customers, suppliers, competitors, members of the administration or management of the undertakings concerned or recognised workers’ representatives of those undertakings. Their important role in the Commission’s procedure is stressed in particular in Article 18(4) of the Merger Regulation<sup>86</sup> and Articles 16(1) and (2) of the Implementing Regulation<sup>87</sup>. The primary way for third parties to contribute to the Commission’s investigation is by means of replies to requests for information. However, the Commission also welcomes any individual submission additional to direct replies to questionnaires, where third parties provide information and comments they consider relevant for the assessment of a given transaction. The Commission may also invite third parties for meetings to discuss specific issues raised. For more details on the involvement of third parties, see Competition DG Best Practices on the Conduct of EC merger proceedings (Point 5.2) which can be viewed under:

<sup>85</sup> See State Aid Scoreboard (Autumn 2006), p. 31.

<sup>86</sup> Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentration between undertakings, OJ L 24/1 of 29.1.2004.

<sup>87</sup> Commission Regulation (EC) No 802/2004 of 7 April 2004, OJ L 133/1 of 30.4.2004.

<http://ec.europa.eu/comm/competition/mergers/legislation/proceedings.pdf>

In addition, the notification form (Form CO) in the annex to the Implementing Regulation contains a paragraph (Point 1.7 Form CO) in which the Commission draws the attention of the notifying party to the obligations to which the parties to a concentration may be subject under Community and /or national rules on information and consultation regarding transactions of a concentrative nature vis-à-vis employees and/or their representatives.

With the support of the Article 6 'innovative measures' of the ESF, the European Metalworkers' Federation, (EMF) published a Handbook in 2006 entitled 'How to deal with transnational company restructuring'<sup>88</sup> with a chapter on the merger and takeover control procedure.

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<sup>88</sup>[http://new.metalworkers.eu/areas\\_of\\_work/company\\_policy/restructuring/emf\\_handbook\\_on\\_how\\_to\\_deal\\_with\\_transnational\\_company\\_restructuring](http://new.metalworkers.eu/areas_of_work/company_policy/restructuring/emf_handbook_on_how_to_deal_with_transnational_company_restructuring).