



Restructuring in Europe 2008

A review of EU action to anticipate and manage employment change



Restructuring in Europe 2008

A review of EU action to anticipate
and manage employment change

European Commission
Directorate-General for Employment, Social Affairs and Equal Opportunities
Unit F3

Manuscript completed in December 2008

Document drawn up on the basis of SEC (2008) 3103 final.

This report was financed by and prepared for the use of the European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities. It does not necessarily represent the Commission's official position.

© Photos (cover + inside pages): Carl Cordonnier / Dailylife

For any use or reproduction of photos which are not under European Communities copyright, permission must be sought directly from the copyright holder(s).

**Europe Direct is a service to help you find answers to your
questions about the European Union**

Freephone number (*):

00 800 6 7 8 9 10 11

(*): Certain mobile telephone operators do not allow access to 00 800 numbers or these calls may be billed.

A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (<http://europa.eu>).

© European Communities, 2009

Reproduction is authorised provided the source is acknowledged.

Cataloguing data as well as an abstract can be found at the end of this publication.

Luxembourg: Office for Official Publications of the European Communities, 2009

ISBN 978-92-79-10570-8

doi 10.2767/8159

Printed in Luxembourg

PRINTED ON WHITE CHLORINE-FREE PAPER



Foreword

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*



Contents

Executive summary	7
Chapter 1. Europe in a changing world	15
1 - Globalisation and the European Union	18
2 - Enlargement and restructuring	23
3 - The transition to a knowledge-based economy	26
4 - Towards an older population	29
5 - Facing climate change	32
Chapter 2. Measuring restructuring at European level	37
1 - A general overview	39
2 - The European Restructuring Monitor	43
Chapter 3. Evolving conceptions and EU policies over the last ten years	51
1 - Ten years ago	53
2 - The Commission Communication of 31 March 2005	60
3 - Future developments	62
Chapter 4. Preparing Europe for change, the Lisbon Strategy	67
1 - The reformed Lisbon Strategy	69
2 - The European Employment Strategy	72
3 - Flexicurity and restructuring in Europe	76
4 - The development of the European Research Area	81
5 - Lifelong learning promotion in the European Union: recent developments	83
6 - Industrial policy: Increasing the capacity of enterprises and industry to adapt to structural change	88
7 - Competition policy and restructuring	98

Chapter 5. Setting the rules	101
1 - Community labour law and restructuring	103
2 - European social dialogue and restructuring	106
3 - Common texts on anticipating and managing change concluded in transnational companies	114
Chapter 6. Proactive solidarity through financial instruments	119
1 - European Structural Funds and restructuring	121
2 - The European Social Fund and the anticipation and management of change	126
3 - Support from the European Regional Development Fund for restructuring and economic change	133
4 - Structural Funds and relocation	137
5 - The European Globalisation Adjustment Fund	139
Chapter 7. Stepping up coordination, disseminating innovations and developing partnerships	143
1 - Coordinating the EU's objectives, policies and action in the field of change and restructuring: the Commission Taskforce	145
2 - Capitalising best practices and fostering a multi-actor approach to change and restructuring: Restructuring Forums	149
3 - Reinforced sectoral monitoring	166
4 - Initiatives under way	171
Bibliography	178
Contributors	182



Executive summary

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

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

A European database on 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.

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.

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.



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

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

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

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 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.

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.

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.



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

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

... industrial policy...

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.

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.

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.

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 legislation also ensures that rescue aid is justified and non-distortive. Firms to which the aid is granted must be in serious difficulty. Rescue aid is limited to temporary support and enables the ailing company to buy time to come up with a restructuring plan. The Commission regularly checks the implementation of these rules.

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.

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

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 overviewing 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 Europe¹. 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**. They will thus be contributing to the next version of the **Restructuring in Europe** report.

¹ See list of contributors at the end

Chapter 1:



Europe in a changing world:

- 1 - Globalisation and the European Union*
- 2 - Enlargement and restructuring*
- 3 - The transition to a knowledge-based economy*
- 4 - Towards an older population*
- 5 - Facing climate change*

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 action²». 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.»

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:

1. 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-ups 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**.»

² COM(2008) 706 final

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 globalisation³.

Social Europe can take on globalisation

- *Going by a recent study «Is social Europe fit for globalisation?»⁴ 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.*

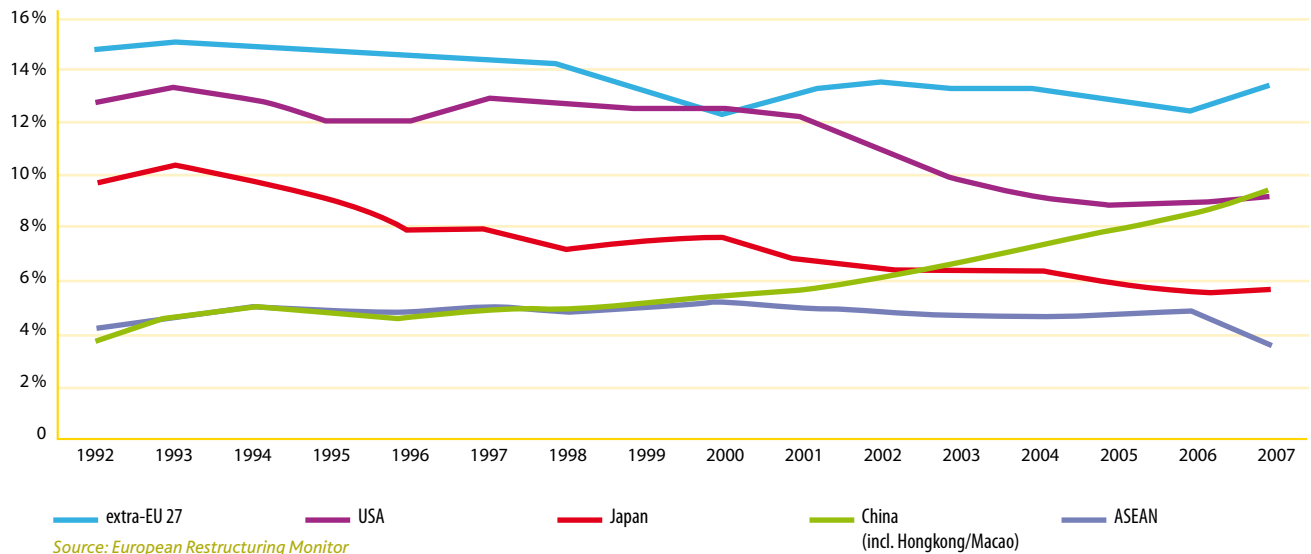
³ Source: EU Economy: 2005 Review, «Rising international economic integration. Opportunities and challenges», European Economy No. 6, European Commission, January 2005.

⁴ 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.

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.

Fig 1: Total planned job reduction and job creation in ERM data, 2002-08



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.

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.

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



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),⁵ 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 Strategy⁶ and renewed social agenda⁷.*
- *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 actions⁸. 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 to 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 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.

⁵ The European Consensus», COM(2005) 311 final of 12 April 2005.

⁶ 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).

⁷ 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>

⁸ 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.



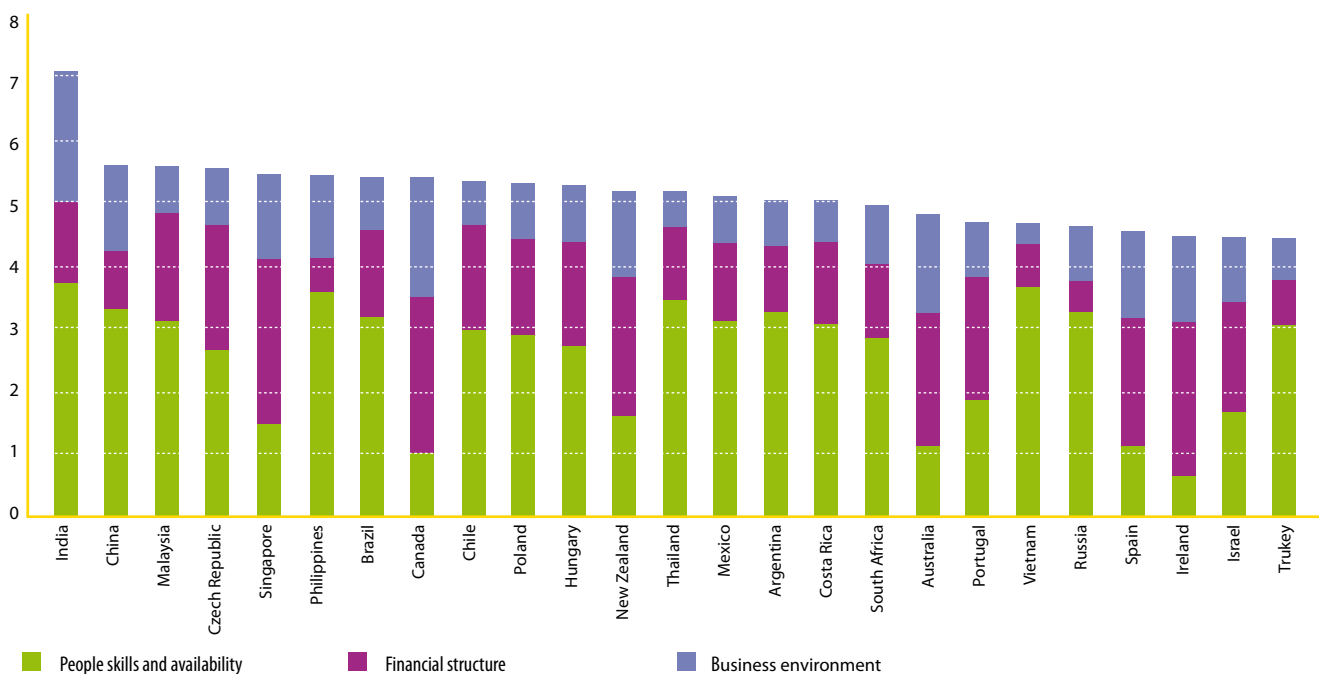
Examples of European analytical works on Globalisation and Structural Change

- «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
- «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
- «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
- «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

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 2006⁹, which concentrates on factor mobility in the global economy.

The report 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



Source: A.T. Kearney's 2004 'Off-shore location attractiveness index'.

Relations between private equity funds and industrial change¹⁰

- 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.

⁹The report is available at: http://ec.europa.eu/economy_finance/epc/documents/2006/globalisation_en.pdf

¹⁰http://www.eesc.europa.eu/sections/ccmi/Hearingsandconferences/Thepast/Private_equity/index_en.asp.

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 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.

The economic outcome of enlargement 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%)¹¹.

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).



¹¹ Enlargement: Two years after: http://ec.europa.eu/economy_finance/publications/publication7548_en.pdf.

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-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.¹² 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 adaptation. 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*

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.¹³

¹² Mary O' Sullivan, EU's R&D Deficit & Innovation Policy, http://ec.europa.eu/invest-in-research/monitoring/knowledge_en.htm

¹³ OECD, New perspectives on ICT skills and employment, 2005

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.¹⁴ 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).

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.



¹⁴ For instance see European Commission (2006), Employment in Europe. Chapter 4

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"**.¹⁵ This communication followed a major public debate launched by the Green Paper **'Confronting demographic change: a new solidarity between the generations'** of March 2005¹⁶ 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).

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.



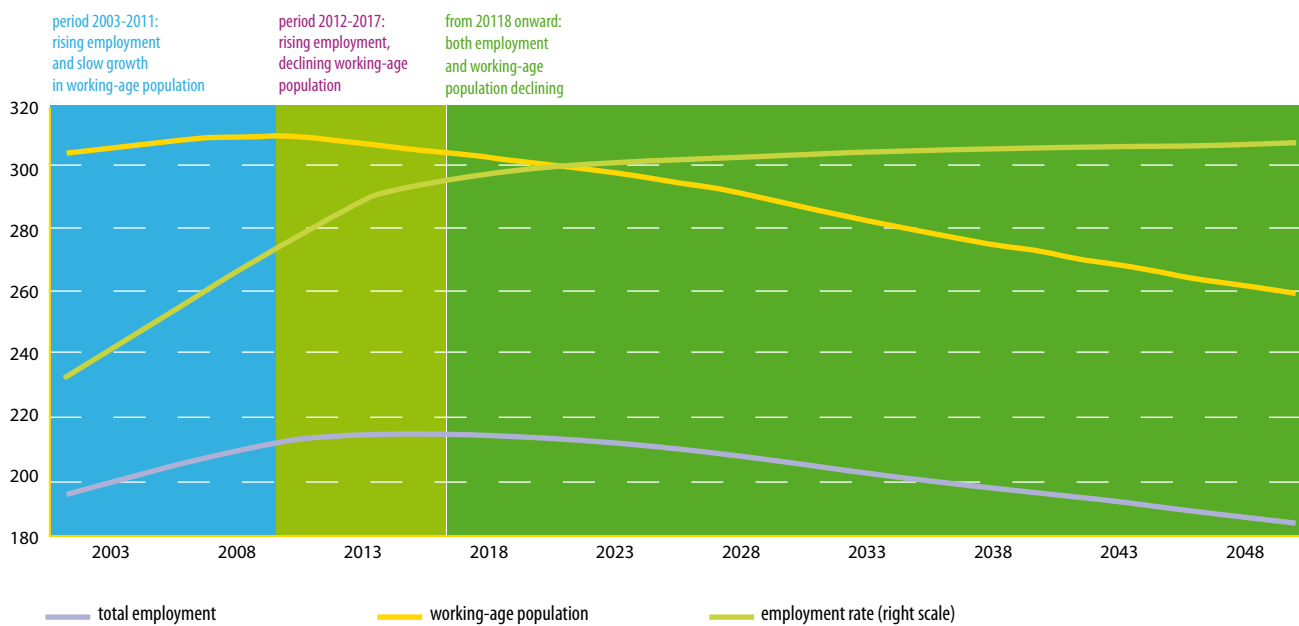
¹⁵ COM(2006) 571, adopted on 12 October 2006.

¹⁶ COM(2005) 94, adopted on 16 March 2005.

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.

Fig 3: Projected working age population and total employment, EU-25



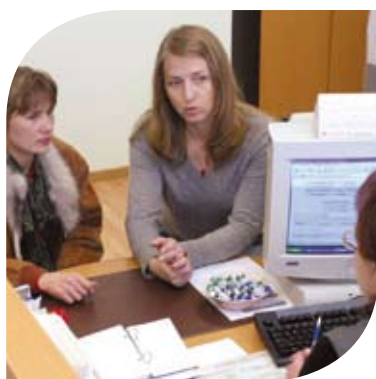
Source: 2007 Demography report SEC(2007) 638.

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 way¹⁷ and then to have sufficient productivity gains.

¹⁷ 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

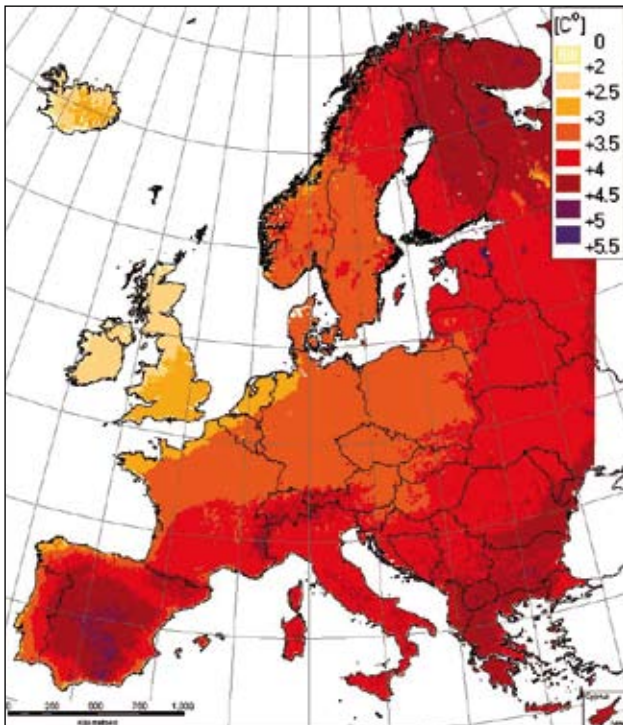
5 | FACING CLIMATE CHANGE

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.

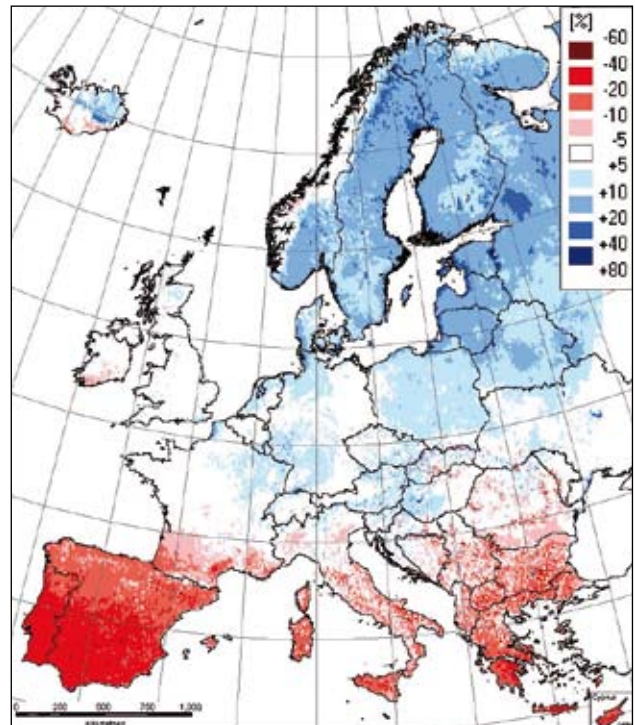
Kyoto is only a first step. Ambitious action to reduce global emissions is needed after 2012, when Kyoto’s targets expire, in order to limit global warming to 2°C. In January 2007 the European Commission set out proposals and options for achieving this in its *Communication «Limiting Global Climate Change 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 century¹⁸



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]

Fig 5: Change in mean annual precipitation by the end of this century



¹⁸ 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>).

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.

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.



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 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'.

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 7th 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-) schoolage, 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 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

1 - A general overview

2 - The European Restructuring Monitor

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)¹⁹ 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.

¹⁹ 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>).

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.

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 (%)

Year	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	18.0	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 restaurant	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	3.0	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 OECD²⁰ 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.

²⁰ OECD, Trade and Structural Adjustment, Paris, OECD, 2005.

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

Reason for leaving previous job											
Country	Dismissal	Temporary jobs end	Personal or family reasons	Illness or disability	Education or training	Early retirement	Retirement	Military service	Other	Missing	Total
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	0.01	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

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 biases²¹, 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 data²² 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.

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).

²¹ Cf. box with main caveats about ERM biases in Annex.

²² Cf. description of ERM factsheets in Annex.

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%

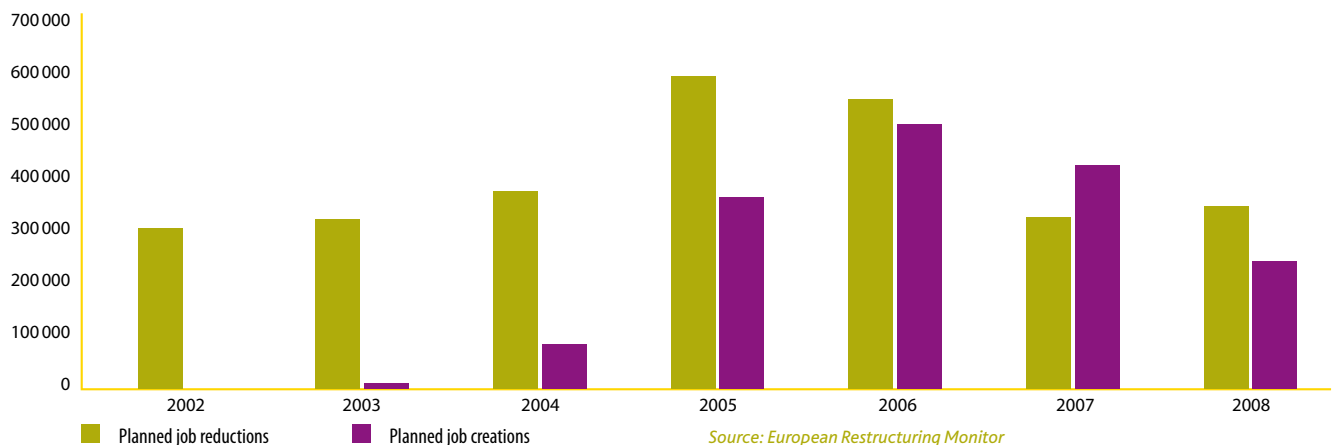
Source: European Restructuring Monitor

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: Total planned job reduction and job creation in ERM data, 2002-08



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 reductions	Sector	Planned job reductions
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?

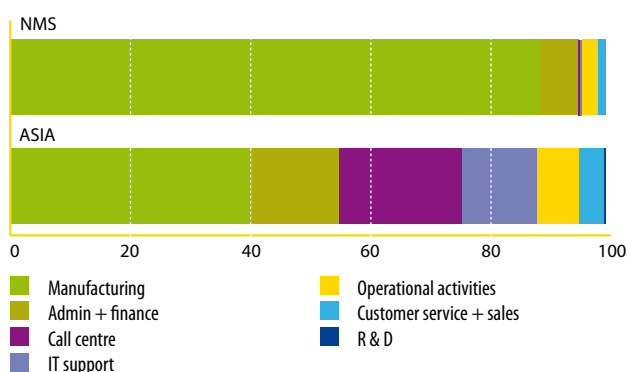
- Over the period covered, 2003-06, delocalisation accounted for approximately 10% of cases of restructuring involving job loss and 8% of announced job losses.
- Total jobs off shored and captured by the ERM amounted to just under 200,000 jobs over the four-year period.
- There was no sign of an upward 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: Cases of restructuring involving job losses and delocalisation in the EU, 2003-2006

Year	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
2003	745	525,389	55	47,011	7.4	8.9
2004	745	662,986	89	45,241	11.9	6.8
2005	1,049	657,072	112	63,894	10.7	9.7
2006	936	600,346	100	38,144	10.7	6.4
2003-2006	3,475	2,445,793	356	194,290	10.2	7.9

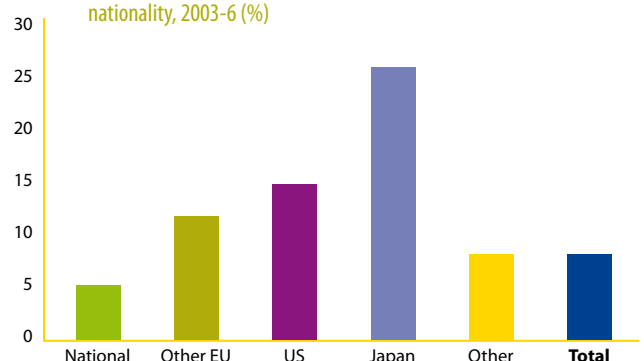
Source: European Restructuring Monitor

Fig 2: Breakdown by type of activity of jobs offshored to Asia and the NMS, 2003-6



Source: European Restructuring Monitor

Fig 3.3: Job offshored relative to all jobs lost by restructuring by enterprise nationality, 2003-6 (%)



Source: European Restructuring Monitor

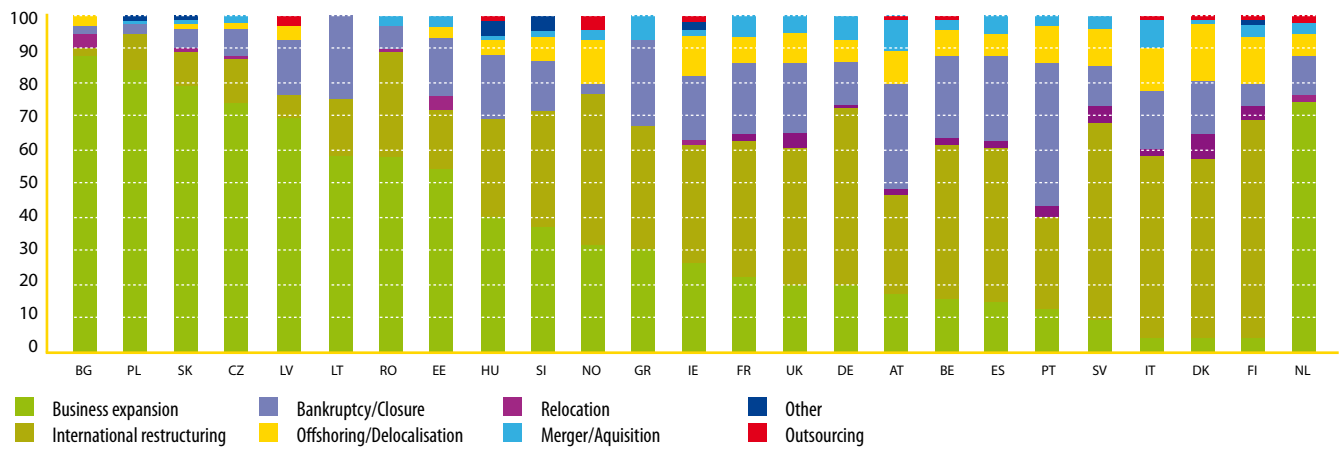
A smaller proportion of restructuring job losses involved offshoring in the case of domestically-owned companies than in the case of foreign-owned companies.

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 on the period 2002-07.

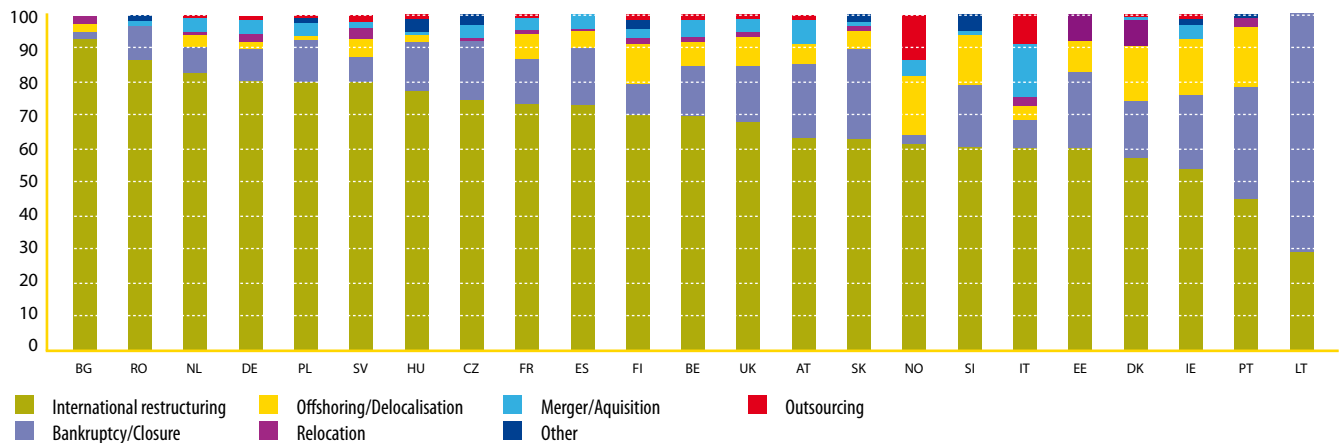


Source: European Restructuring Monitor

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: Job loss composition by restructuring type and by country, 2002-7



Source: European Restructuring Monitor

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 EU²³.

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.

Fig 1.1: Sample ERM fact sheet

Company: Unipath

Geographic location:

Country: United Kingdom

Region: East of England;
Bedfordshire and Hertfordshire

Affected unit(s): Bedford

Company:

Group : Inverness Medical Innovations

Sector: Chemical - Manufacture
of pharmaceutical preparations

Number employed: 555

Employment effects:

Announcement Date: 2008-02-28

Planned job reductions (min.): 500

Planned job reductions (max.): 555

Type of restructuring: Offshoring/Delocalisation

Employment effect start:

Employment effect timeline: 2009-12-31

Direct dismissals:

Other job reduction measures:

Planned job creation:

Additional information: 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.

Sources: BBC Website, 2008-02-28

Links: <http://news.bbc.co.uk/1/hi/england/beds/bucks/herts/7269216.stm>

<http://www.bedsonsunday.com/bedsonsunday-news/DisplayArticle.asp?ID=260589>

²³ 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.



Chapter 3:

Evolving conceptions and EU policies over the last ten years

- 1 - Ten years ago*
- 2 - The Commission of Communication of 31 March 2005*
- 3 - Future developments*

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'²⁴ report (known as the Gyllenhammar Report) was probably the first to present a comprehensive view on restructuring issues, re-situating

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).

²⁴ 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.

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.

At the beginning of 2002, the 'Industrial Relations and Change'²⁵ 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.

In January 2002, the Commission based its Communication 'Anticipating and managing change: A dynamic approach to the social aspects of corporate restructuring'²⁶ 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

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).

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)

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, 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.

²⁵ 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.

²⁶ 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_1_en.pdf

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

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'²⁷. 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).

²⁷ 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

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

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 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):

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*²⁸ 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.

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.*

²⁸ 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

*In 2007 the Committee of the Regions (CoR)*²⁹ 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.’



²⁹ 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=cd\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 Agenda³⁰. 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 document³¹, 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 restructuring³². 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.

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.

³⁰ 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>.

³¹ 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>.

³² See chapter 7 section 1 for more detailed information on the restructuring taskforce.

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 stimulate 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

- 1 - The reformed Lisbon Strategy*
- 2 - The European Employment Strategy*
- 3 - Flexicurity and restructuring in Europe*
- 4 - The development
of the European Research Area*
- 5 - Lifelong learning promotion
in the European Union:
recent developments*
- 6 - Industrial policy: Increasing the capacity
of enterprises and industry to adapt to
structural change*
- 7 - Competition policy and restructuring*

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)³³. 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)³⁴

• **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.

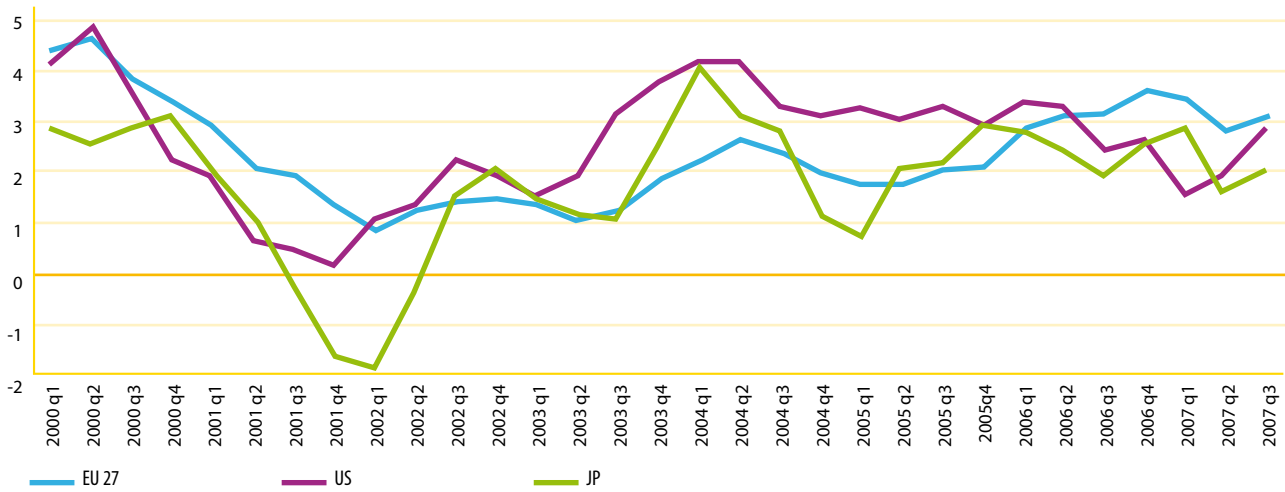
• **Employment guidelines**

See box page 73.

³³ Presidency Conclusions – Brussels, 13/14 March 2008: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/99410.pdf.

³⁴ COM(2007) 803 final, Part V.

Fig 1: Real GDP growth for EU, US and Japan



Source: Eurostat, quarterly national accounts. Data seasonally adjusted

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 areas³⁵

• 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 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.

³⁵ COM(2007) 803 final, Part I.

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 (...)'.



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.

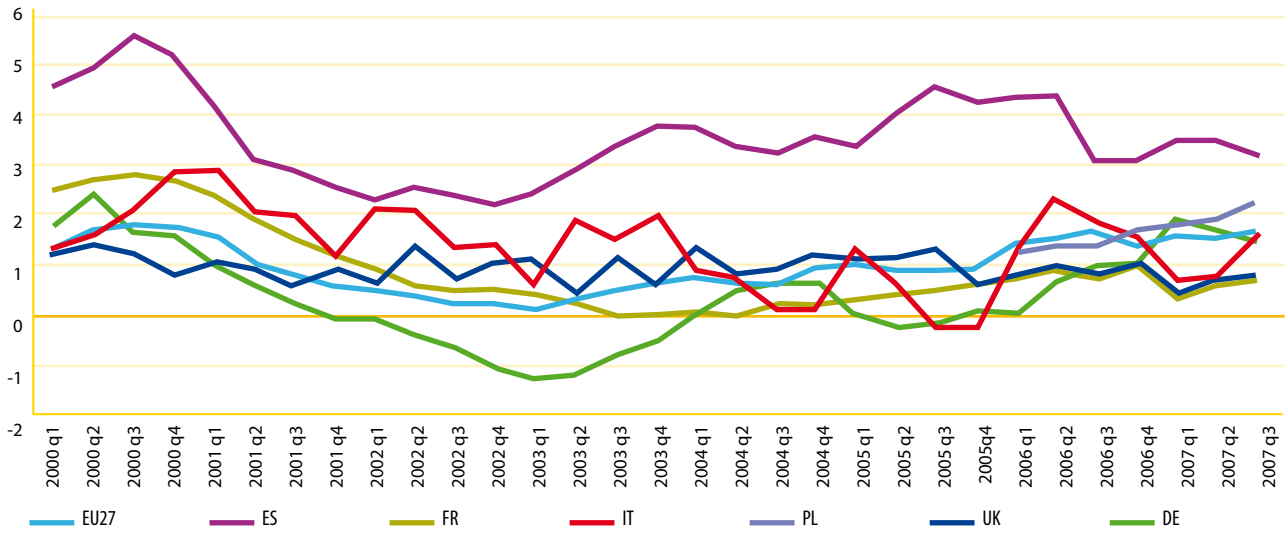
It has also contributed to a large and sustained increase in the employment rate of older workers, although the 50% target set by at the Stockholm European Council is still some way off. The employment rate for women has increased significantly (at 57.2%, it is approaching the 60% target).

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.*



Fig 2: Employment growth for EU and large EU Member States



Source: Eurostat, quarterly national accounts. Data seasonally adjusted

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.³⁶

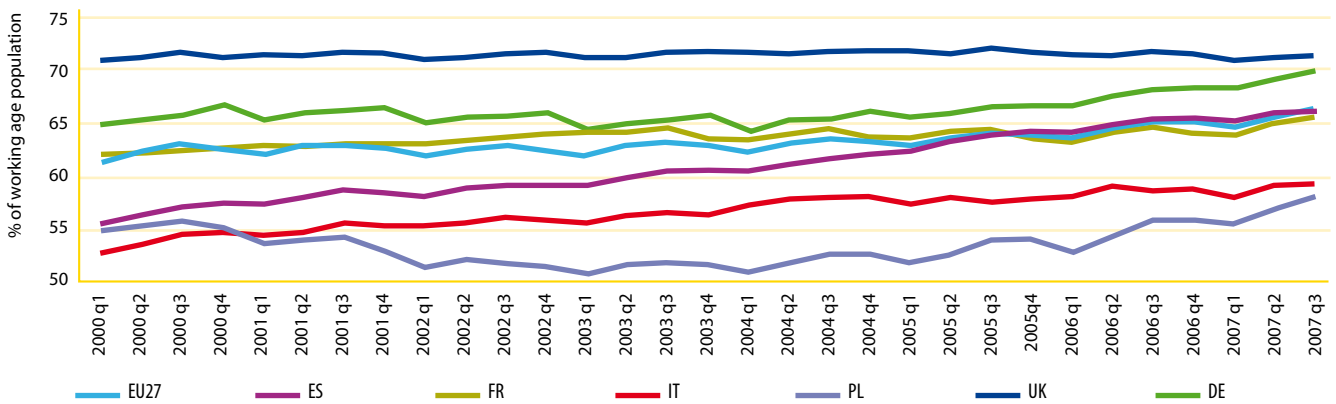
The slowdown has started to affect the labour market as well, which has performed very well in recent years. The labour market situation is expected to deteriorate sharply next year. Employment is expected to increase by a meagre _ million jobs in the EU and _ million in the euro area over the period 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.



³⁶ Economic Forecast autumn 2008, DG ECFIN, European Economy 7/2008.

Fig 2: Employment rates for EU and large EU Member States



Source: Eurostat, LFS adjusted series. Data non-seasonally adjusted

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 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.³⁷



³⁷ Commission Communication COM(2008) 800 of 26 November 2008, «A European Economic Recovery plan», see also Chapter 1

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 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'³⁸. In December 2007, on the basis of the Commission's Communication the European Council adopted the Common Principles of Flexicurity³⁹. 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.

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.

³⁸ COM(2007) 359 final

³⁹ European Council Conclusions 14/2/2008 No 16616/1/07

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 restructuring⁴⁰

- 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.

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.

⁴⁰ Flexicurity practices' compiled by Ton Wilthagen, Rapporteur of the European Expert Group on Flexicurity, Brussels, 24 May 2007.



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:

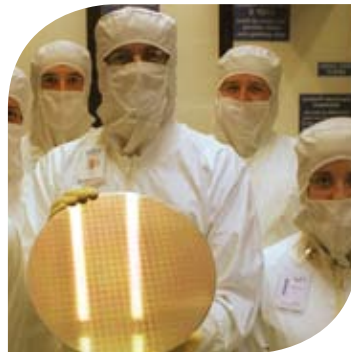
- The **European partnership for Researchers for mobility and career development**. Improving the mobility of researchers will enhance the diffusion of knowledge throughout Europe, balance demand and supply for researchers at European level, help create centres of excellence and improve the skills of 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.⁴¹

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 73). 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 (November 2007)⁴². 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.⁴³ 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.⁴⁴ 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.



⁴¹ 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.

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

⁴³ 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).

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

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 employment⁴⁵. 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*.

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 services⁴⁶. 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 and the creation of a European network for quality in vocational education and training.

A European Qualification Framework⁴⁷ (EQF), which will serve as a translation device for national qualifications for all levels and sectors of education, is currently implemented⁴⁸. 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.⁴⁹ 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 2005⁵⁰. The future European Credit System for Vocational Education and Training (ECVET) (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 learning⁵¹.

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

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

⁴⁶ 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).

⁴⁷ 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).

⁴⁸ 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

⁴⁹ <http://www.ecompetences.eu/>

⁵⁰ 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.

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



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

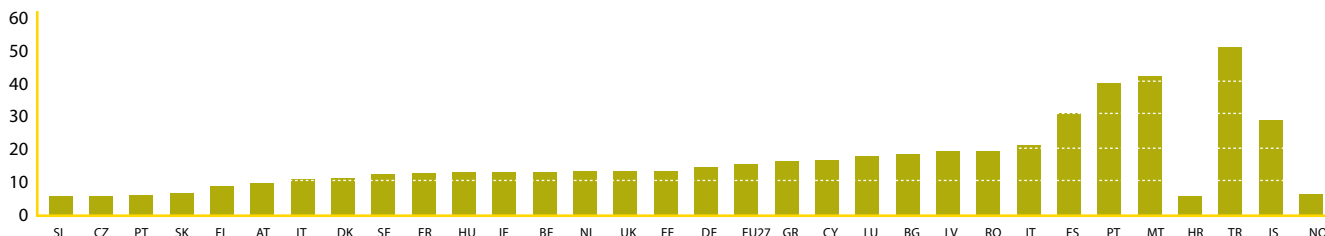
been set up. Targeting policy makers and other stakeholders, its purpose is to monitor and inform on innovative projects and approaches which could be mainstreamed or used for policy learning.

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.⁵²

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)

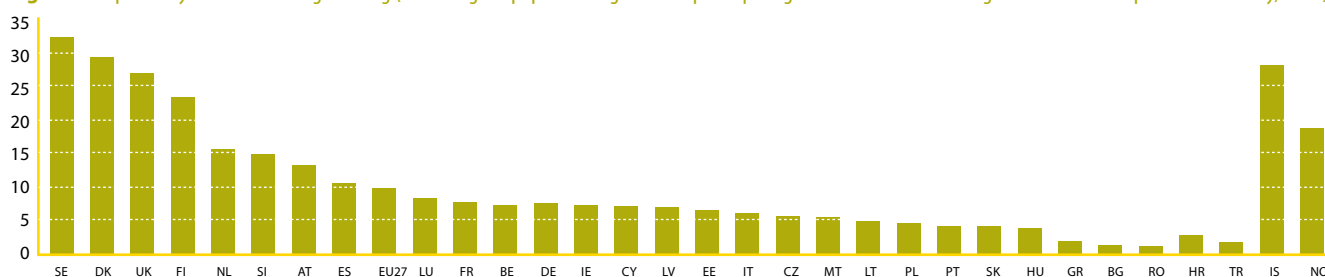


Source: Eurostat (Labour Force Survey), 2006.

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.

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)



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, PI, PT, RO (2004) and ES (2005). BE, LT, LT, PT, UK: Provisional data.

⁵² 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

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.⁵³

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's 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.



Cedefop and its Skillsnet initiative

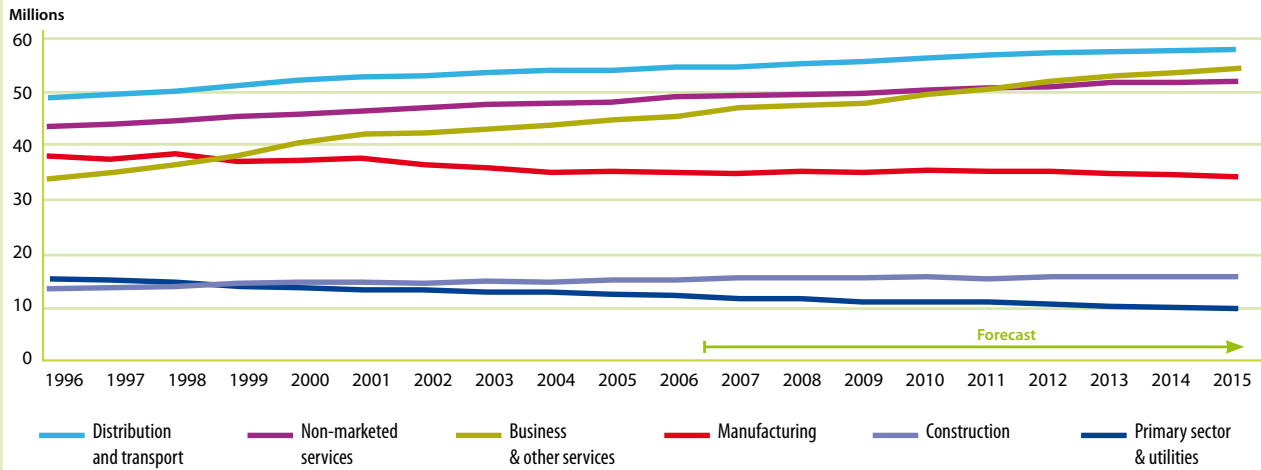
As early as 2001, Cedefop recognised the need to improve the transparency of European activities to identify skills needs by launching the 'Early identification of skill needs in Europe'. Its purpose was to present and discuss these activities with researchers, policy-makers and practitioners. Subsequently,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

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

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

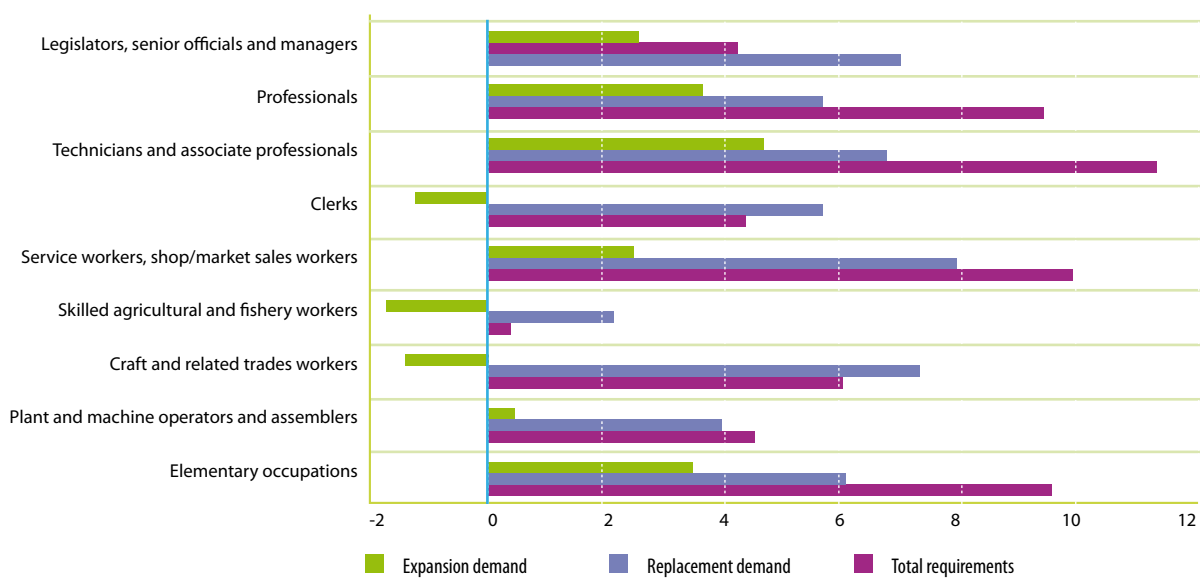


Source: Cedefop, 2008.

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»⁵⁴. 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).⁵⁵

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



Source: Cedefop, 2008.

⁵⁴ http://www.trainingvillage.gr/etv/upload/information_resources/Bookshop/512/Workingpaper01_oct2008.pdf

⁵⁵ 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 policy⁵⁶ 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 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, 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 lagged 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.

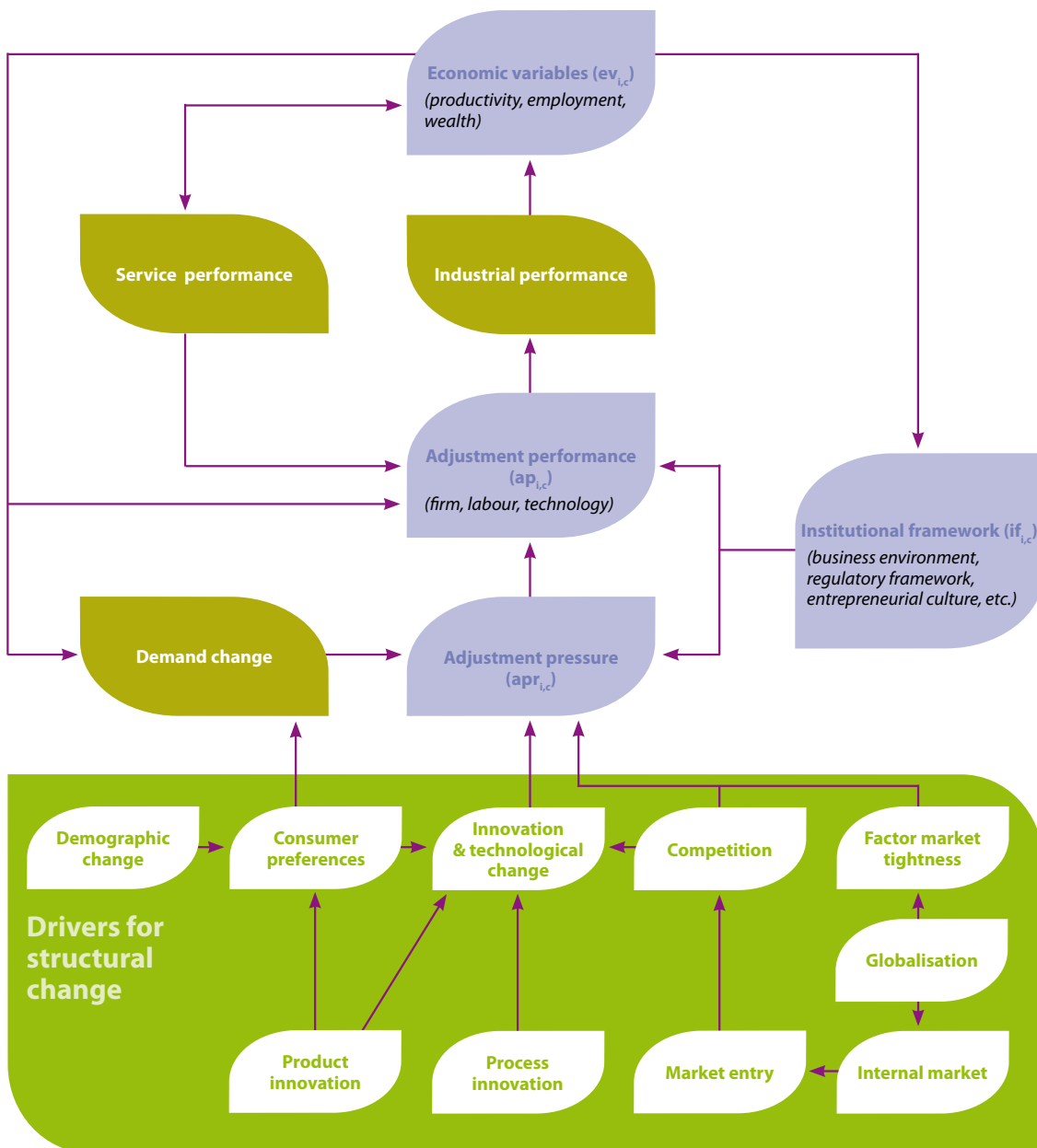
⁵⁶ COM(2007)374

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.

Fig 3: Conceptual framework for identifying adjustment challenges and adaptability assets



i: industry
c: country

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_{ic}) 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_{ic}) 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_{ic}), such as productivity, employment and growth. Thus, increasing ap_{ic} 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).⁵⁸
- The adjustment performance depends on the intensity of the adjustment pressure (apr_{ic}), the overall condition of the economy, reflected in the economic variables (ev_{ic}), and the **institutional framework for adaptability** (if_{ic}), such as the regulatory framework, the business environment, conditions for R&D and technological up-take, the entrepreneurial culture, access to finance, etc.⁵⁹ 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 communication⁶⁰, 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.⁶¹

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.



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

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

⁶⁰ COM(2007)374

⁶¹ 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).

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 communication⁶². The mid-term review of July 2007⁶³ 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.

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 innovation⁶⁴, 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.

⁶² COM(2005) 474

⁶³ COM(2007)374

⁶⁴ COM(2008) 133

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.
- 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 programmes⁶⁵ - that are closely monitored by the Commission - the reform agenda at EU level has been set out in the Community Lisbon Programme.⁶⁶ 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 Jobs⁶⁷. 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:

- Start by identifying the added value and competitiveness factors in key industrial sectors, and addressing the challenges of globalisation; and
 - 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.

⁶⁵ http://ec.europa.eu/growthandjobs/national-dimension/index_en.htm

⁶⁶ COM(2007) 804

⁶⁷ COM(2007) 803

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 with a high growth potential are recognised and taken into account.⁶⁸ The principles of European innovation policy are laid down in the *broad-based innovation strategy*⁶⁹ 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. 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.

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

⁶⁹ COM(2006)502

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 Programme⁷⁰. 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, 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.⁷¹

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

⁷⁰ http://ec.europa.eu/environment/sme/index_en.htm

⁷¹ For more information on the European SME policy: http://ec.europa.eu/enterprise/sme/index_en.htm

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 Plan⁷². It renewed this commitment in the Modern SME policy⁷³, 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 practices⁷⁴ and recently to working on early warning tools as a means of reducing the stigma of failure⁷⁵. This process benefited from Member States' experience and practices and, conversely, has helped encourage reforms across the EU: many Member States have already 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**'⁷⁶ 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 EU⁷⁷ 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.

⁷² The European Agenda for Entrepreneurship, European Commission, COM(2004)70 final, 11.2.2004

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

⁷⁴ 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.

⁷⁵ <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.

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

⁷⁷ 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

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 that are headed for insolvency owing to temporary problems, by giving them practical know-how and advice⁷⁸.
- In the reminders for VAT non-payment, France includes information on where entrepreneurs who are facing financial problems can seek advice⁷⁹. 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.

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

⁷⁹ www.entrepriseprevention.com

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 guidelines⁸⁰ ('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 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 criteria⁸¹: 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 guidelines⁸² 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.

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

⁸¹ See paragraph 10 of the guidelines. - ⁸² See paragraph 11 of the guidelines.

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 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.⁸³

Table 1: Number of decisions on rescue and restructuring cases, 2000-05⁸⁴

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

⁸³ 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.

⁸⁴ See State Aid Scoreboard (Autumn 2006), p. 31.

Table 2: R&R aid, total expenditure 2000-05, in million € ⁸⁵

	Rescue Aid	Restructuring Aid	Total R&R aid
EU-25	2.257	21.617	23.873
EU-15	2.177	13.371	15.548
EU-10	80	8.246	8.326
Belgium	161	176	337
Germany	480	8.159	8.639
Greece	0	110	110
Spain	0	1.292	1.292
France	573	2.630	3.203
Italy	107	631	738
Netherlands	9	0	9
Austria	0	78	78
Portugal	0	19	19
United Kingdom	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 Regulation⁸⁶ and Articles 16(1) and (2) of the Implementing Regulation⁸⁷. 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:

<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'⁸⁸ with a chapter on the merger and takeover control procedure.

⁸⁵ See State Aid Scoreboard (Autumn 2006), p. 31.

⁸⁶ 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.

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

⁸⁸ [Shttp://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).



Chapter 5:

Setting the rules

- 1 - Community labour law and restructuring*
- 2 - European social dialogue and restructuring*
- 3 - Common texts on anticipating and managing change concluded in transnational companies*

When adaptation takes the form of company restructuring, it has wide-ranging social and economic consequences that may justify public intervention. In order to avoid one-off measures and increase transparency and predictability, public intervention is regulated increasingly by a body of rules adopted at national level. However, there is also a clear Community dimension to restructuring, since these economic and social consequences often extend beyond national borders, and certain fundamental principles laid down by the Treaty need to be respected when such rules are devised. In particular, the rules adopted by the European Union include statutory procedures to ensure that the parties concerned are involved at various stages of the restructuring process and to protect the workers and companies affected.

The first directives relating directly to restructuring were enacted in the 1970s following the first oil shock. Their aim was to ensure the protection of workers in all Member States in the event of collective redundancies, transfers of undertakings and employer insolvency. They also laid down the first Community rules on the involvement of workers' representatives in the restructuring process. These directives played a key role in developing a more anticipatory and protective approach to the social consequences of restructuring in several Member States' national legal frameworks. Other directives followed with the aim of ensuring worker involvement on a more regular basis (to allow for better anticipation of change) and at transnational level (to reflect the increasingly transnational dimension of restructuring).

Social dialogue is also crucially important in anticipating and managing change and restructuring, especially at company level. Social dialogue agreements, the normal outcome of social dialogue, are useful tools that allow the actors to tailor general rules to the particular circumstances of each business and region. As a result of the Europe-wide and global dimension of today's economic and social processes, social dialogue at European and transnational level has increased in importance, as the growing numbers and role of European works councils and the agreements concluded at transnational company level show.

This Chapter starts with a section presenting and discussing the effectiveness of the EU directives relating to the anticipation and management of change and restructuring. Section 2 presents the main initiatives of the European social partners in the framework of European social dialogue. Section 3 outlines some important innovations in transnational agreements.

1 | COMMUNITY LABOUR LAW AND RESTRUCTURING

The aim of labour law directives relating to corporate restructuring is to ensure the protection of workers' rights and provide for the involvement of workers' representatives in the restructuring process. They play a crucial role in promoting an approach that anticipates change and encourages cooperation in responding to it.

Like all directives, they are binding on the Member States as regards the objective to be achieved, although the latter are free to determine how and by what means they intend fulfilling their Community obligations within their own legal systems. In addition, national legislation and practice may provide for a higher degree of worker protection than the directives in the area concerned.

The protection of workers' rights is ensured in the event that the employer becomes insolvent or changes:

- The Directive on **employer insolvency**⁸⁹ aims to provide minimum protection for employees in the event of the insolvency of their employer. It obliges Member States to establish a body (guarantee institution) which guarantees the payment of employees' outstanding claims. Moreover, Member States must take the necessary measures to ensure that non-payment of compulsory contributions due from the employer, before the onset of his insolvency, will not adversely affect employees' benefit entitlements in as much as the employees' contributions were deducted at the source from their remuneration.
- The Directive relating to the safeguarding of employees' rights in the event of **transfers of undertakings**, businesses or parts of businesses⁹⁰ provides that rights and obligations that arise from a contract of employment or an employment relationship that exists on the date of a transfer, must be transferred from the transferor (the one ceasing to be the employer) to the transferee (the 'new' employer, in short). The directive further provides that the transfer shall not constitute grounds for dismissal either by the transferor or the transferee.

Special procedures are established in the event of collective redundancies or transfers of undertakings:

- The Directive relating to **collective redundancies**⁹¹ provides that employers who envisage collective redundancies must provide workers' representatives with specified information concerning the proposed redundancies and must consult with the workers' representatives in good time with a view to reaching an agreement. These consultations should cover ways of avoiding or of reducing the redundancies and of mitigating their consequences by recourse to social accompanying measures aimed at, in particular, aid for redeployment and retraining of the redundant workers. The directive provides also for a notification of the public authorities of any projected collective redundancy and requires that these collective redundancies take effect no earlier than 30 days after that notification.
- In addition to the protection of workers' rights, the Directive relating to the safeguarding of employees' rights in the event of **transfers of undertakings**, businesses or parts of businesses⁹² provides that both the transferor and transferee must provide specified information to the representatives of employees affected by the proposed transfer and if either party envisages measures in relation to the employees, their representatives must be consulted with a view to reaching agreement.

Moreover, a set of directives provide for the information and consultation of the workers on a regular basis, at both national and transnational levels:

- The Directive establishing a **general framework for informing and consulting employees** in the European Community⁹³ seeks to strengthen dialogue within enterprises and ensure employee involvement upstream of decision-making with a view to better anticipation of problems and the prevention of crises. It applies to companies with at least 50 employees or establishments with at least 20, and provides that employee representatives be informed and consulted on developments in the undertaking's economic situation, development of employment and decisions likely to lead to changes in work organisation or contractual relations;

⁸⁹ Directive 2002/74/EC of the European Parliament and of the Council of 23 September 2002 amending Council Directive 80/987/EEC, OJ L 270/10 of 8.10.2002

⁹⁰ Consolidated by Council Directive 2001/23/EC of 12.3.2001, OJ L 82 of 23.3.2001, p. 16.

⁹¹ Consolidated by Council Directive 98/59/EC of 20.07.1998, OJ L 225 of 12.8.1998, p. 16.

⁹² Consolidated by Council Directive 2001/23/EC of 12.3.2001, OJ L 82 of 23.3.2001, p. 16.

⁹³ Directive 2002/14/EC of the European Parliament and the Council of 11.3.2002, OJ L 80 of 23.3.2002, p. 29

- The Directive providing for the establishment of a **European works council** or a procedure for informing and consulting employees in Community-scale undertakings and groups⁹⁴ applies to companies or groups with at least 1000 employees and at least 150 employees in each of two Member States. It allows for the establishment of a European works council which is representative of employees in the Member States where the group has operations, to be informed and consulted on the progress of the business and any significant changes envisaged;
- Three directives provide for the **involvement of employees** (i.e. information, consultation and participation in the supervisory board or board of directors) in companies adopting the European Company Statute⁹⁵, the European Cooperative Society Statute⁹⁶ or deriving from a cross-border merger⁹⁷.

Improving the effectiveness of legislation and adaptation

For all directives, it is up to the competent national authorities, notably courts, to ensure the correct and effective application of the national transposing rules in view of the circumstances specific to each situation and to ensure the fulfilment of any company's duties in this regard. The Commission checks that the directives are properly implemented by Member States.

Through Directive 2002/14/EC establishing a general framework for informing and consulting employees, which was due for implementation by March 2005, there has been significant progress in certain Member States at the national level of the anticipation of change in companies⁹⁸.

The main area of concern in recent years related to the effectiveness of the transnational level of information and consultation in case of restructuring operations with a wider scope. After 12 years of activity, the positive impact of the European Works Councils (EWCs) established by Directive 94/45/EC on the anticipation and responsible management of change is generally recognised. However, expectations have grown and are far from being satisfied. All too often, their potential remains unexploited, particularly in the event of transnational restructuring.

The survey carried out in 2005 by Professor J. Waddington (University of Manchester⁹⁹) analysing the answers of 473 employee representatives in EWCs found that over 80% of the respondents indicated that management had restructured the company to some degree in the three years prior the survey. However, where applicable, the EWC was consulted over the restructuring:

- Before the decision was finalised in 20% of the cases.
- Before the decision was made public in 30% of the cases.
- After the decision was made public in 20% of the cases.
- Not at all in 30% of the cases.

This failure to properly consult the EWC in over half of the cases is also noted in the public debates (press, parliamentary questions, speeches, etc) that accompany every major new restructuring case over respect for information and consultation rights. The case studies analysed by the European Foundation¹⁰⁰ showed that the majority of the EWCs were informed after the event that business decisions were being taken, leaving little scope for consultation.

EWCs must be in a position to play their full part with regard to developments in undertakings, anticipating and accompanying change, and fostering genuine transnational social dialogue in a rapidly changing economic and social context. Sustainable competitiveness for large transnational undertakings and the related small and medium-sized businesses depends on this. These problems led the Commission to consult the social partners on the review of the Directive establishing the EWCs in 2004. Through its Communication COM(2005)120 *Restructuring and employment*, the Commission also consulted the European social partners simultaneously on the restructuring of undertakings and on the 'best-practice' aspect of EWCs, encouraging them to negotiate with a view to reaching agreement on the promotion of best practice. Social partners decided, in March 2006, to include the promotion and evaluation of their *Lessons learned on European works councils* in their 2006-08 work programme.

⁹⁴ Council Directive 94/45/EC of 22.9.1994, OJ L 254 of 30.9.1994, p.64.

⁹⁵ Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European Company with regard to the involvement of employees, OJ L294 of 10.11.2001 p.22.

⁹⁶ Council Directive 2003/72/EC of 22 July 2003 supplementing the Statute for a European Cooperative Society with regard to the involvement of employees, OJ L207 of 18.08.2003 p.25

⁹⁷ Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies, OJ L310 of 25.11.2005 p.1.

⁹⁸ See Communication of the Commission on the review of the application of Directive 2002/14/EC in the EU, COM(2008)146 of 17.3.2008 and accompanying Commission staff working document SEC(2008)334.

⁹⁹ Waddington, J (University of Manchester), results of a 2005 survey of 473 employee representatives presented in 'The performance of EWCs 12 years after the Directive', European Works Councils Bulletin. No 65, IRS, London, September/October 2006, pp.7-11.

¹⁰⁰ European Foundation of the Improvement of the Living and Working Conditions, Analysis of agreements and studies on evolution of European works councils, Dublin, regular update: <http://www.eurofound.europa.eu/areas/participationatwork/ewc.htm>

On 20 February 2008, the Commission adopted Document C(2008)660 launching the second stage consultation of the social partners in accordance with Article 138(3) of the Treaty on the content of a possible Community initiative to revise the 94/45/EC Directive and inviting them to negotiate. The responses of the organisations consulted and the contributions received were examined in detail and taken account of in the impact assessment process¹⁰¹. The examination carried out has led the Commission to modify certain proposals envisaged in the consultation document, for example in relation to the provisions aimed at effective decision-making in undertakings or reinforcing the select committee.

In the framework of the renewed Social Agenda, the Commission has proposed recasting the Directive¹⁰². The Commission's proposal is being submitted to the European Parliament and the Council, which will discuss it and can decide to adopt the provisions it contains by the codecision procedure. Once adopted, these provisions must be transposed into the law of the Member States before they can become generally applicable, a process which takes two years. The Commission hopes that this process will take place as quickly as possible.

In addition to promoting best practice¹⁰³, the Community initiative had the following objectives:

- To ensure the effectiveness of employees' transnational information and consultation rights in existing EWCs.
- To increase the take-up rate (the proportion of established EWCs compared to the number of companies falling within the scope of the Directive).
- To ensure legal certainty in the setting up and operation of EWCs.
- To ensure a better coherence and interplay between Community legislative instruments on information and consultation of employees.

¹⁰¹ Commission staff working document - Impact assessment SEC(2008)2166 of 2 July 2008

¹⁰² COM(2008) 419.

¹⁰³ Especially through budget line 04.03.03.03, providing support for measures to promote best practice in the field of information, consultation and participation of representatives of undertakings, to which the sum of €8.1 million has been allocated for 2008.

2 | EUROPEAN SOCIAL DIALOGUE AND RESTRUCTURING

As we now know, if properly implemented social dialogue (see box below) is probably one of the most powerful instruments for successful anticipation and management of change. The representatives of management and labour have a responsibility at company, sector, national and European level and the Commission has already consulted the European social partners twice on appropriate ways to tackle the challenge of restructuring.

Social dialogue

Social dialogue encompasses both collective bargaining and consultation of management and labour. It can be organised as an autonomous, bipartite and self-governed process between workers and managers, and their representative organisations. But it can also take place in a tripartite setting with the participation of officials or agencies representing the government or the public realm. Information exchange through social dialogue can be combined with and prepare the ground for joint problem-solving, collective bargaining or unilateral decision-making.

European social dialogue

European social dialogue is one of the instruments of governance in the employment and social area in the European Union. It refers to the discussions, consultations, negotiations and joint actions undertaken by the social partner organisations representing the two sides of industry (management and labour) at European level. It is a useful means by which the social partners assist in the definition of European employment and social standards, and play an important role in the governance of the Union.

Article 138 of the Treaty gives the Commission the role to promote social dialogue, gives recognition to social dialogue at European level and obliges the Commission to consult the European social partners in two phases before submitting proposals in the employment and social policy field. The autonomous bi-partite dialogue takes place in social dialogue committees. Article 139 offers the possibility to negotiate agreements that can be implemented either in accordance with the procedures and practices specific to management and labour and the Member States, or by Council decision for areas covered in Article 137.

In January 2002, the Commission launched a first consultation of the social partners, under Article 138 (2) of the EC Treaty, entitled 'Anticipating and managing change: a dynamic approach to the social aspects of corporate restructuring'. The consultation document identified four main areas for consideration:

- Measures to promote employability, adaptability and restructuring on the basis of 'lowest social cost'.
- The effectiveness of regulatory approaches, including identifying obstacles to restructuring in a socially positive way.
- Responsibility for the impact on regions and value networks (subcontractors, etc).
- The 'modalities of implementation', including the involvement of employees, fair compensation where job losses cannot be avoided, whether EU-level dispute-resolution machinery would be useful and good practices within small and medium-sized enterprises.

The second phase of consultation of the European social partners was launched in March 2005, together with the Communication on restructuring and employment (COM(2005)120). In addition to the part dedicated to EWCs, it called on social partners to become more involved in the ways and means of anticipating and managing change. In particular, it encouraged social partners to 'intensify ongoing work and to start negotiations with a view to reaching an agreement among themselves on the requisite ways and means for:

- Implementing mechanisms for applying and monitoring existing guidelines on restructuring, and a discussion on the way forward.
- Encouraging adoption of the best practices set out in the existing guidelines on restructuring (see 1.).
- Devising a common approach to the other points in the Communication which are of concern to them, more especially training, mobility, the sectoral dimension and the anticipatory aspect'



The European social partners have been addressing issues of restructuring at the cross-industry level as well as in the sectoral social dialogues, mainly by identification of best practices and development of tools to assist their members in anticipating and managing change in various ways.

The European social partners addressed the issue of restructuring in various ways:

- Conducting studies, conferences and training events, jointly identifying and disseminating best practices and agreeing on policy orientations addressed to the national affiliates.
- Developing tools for efficient and socially responsible restructuring.
- Identifying future skills needs and encouraging suitable training policies of public bodies and social partners.
- Studying and influencing policies that determine the development of the sector.

In many instances, the social partners have paid particular attention to accompanying the accession process of the new Members States.

Information sources on European social dialogue:

www.ec.europa.eu/socialdialogue

- Database of joint texts adopted by the European social partners
http://ec.europa.eu/employment_social/dsw/dspMain.do?lang=en
- Sectoral social dialogue committees and links to the European social partners' websites
http://ec.europa.eu/employment_social/social_dialogue/sectoral_en.htm
- Proceedings of the cross-industry and sectoral social dialogue committees
http://circa.europa.eu/Public/irc/empl/sectoral_social_dialogue/library?l=/&vm=detailed&sb=Title



2.1 European cross-industry social dialogue

a. The social partners' orientations

Within the context of European social dialogue, the cross-industry social partners (BUSINESSEUROPE¹⁰⁴, UEAPME¹⁰⁵, CEEP¹⁰⁶ and ETUC¹⁰⁷) responded to the first Commission consultation by elaborating joint 'Orientations for reference in managing change and its social consequences', officially presented to the Commission in October 2003. This text is based on the findings of three joint seminars at which ten cases of companies and regions faced with restructuring across Europe were presented¹⁰⁸. It contains a thorough analysis of the phenomenon and identifies the key factors for successful management of restructuring. It does not prescribe any measures for implementation or follow-up and relies on dissemination to all actors.



¹⁰⁴ R At that time called UNICE.

¹⁰⁵ European Association of Craft, Small and Medium-Sized Enterprises.

¹⁰⁶ European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest.

¹⁰⁷ European Trade Union Confederation.

¹⁰⁸ The 10 case studies analyse the situation of seven large companies (Norsk Hydro, Danone, Marzotto, Deutsche Telekom, Barclays Bank, Siemens and Metso) and two SMEs (Auwera and Abeil) as well as the revitalisation of the region of Asturias in Spain. For a summary of findings, see European Commission: Industrial Relations in Europe 2004 report, p. 146f.

Orientations for reference in managing change and its social consequences

• **Explaining and giving the reasons for change**

It is essential to explain and give the reasons for change in good time to workers and/or their representatives in the company concerned by setting out the company's overall strategy. An open discussion on the intentions of the management, in some cases based on documents explaining the reasons for the decisions and their possible consequences, allows workers and/or their representatives to make their views known. An understanding of this strategy is essential to create a positive climate for discussion and a climate of confidence. Involvement of managers is also a factor for success.

The obligations arising from the legislative and contractual framework on worker information and consultation as well as on confidentiality must be met. Good information and consultation (...) throughout the process of change may involve a different relevant level depending on the time and subject under consideration. Existing European bodies are the appropriate level when changes concern the strategy of a group and affect sites in several EU countries. (...)

• **Developing employability**

All the case studies underlined the importance

of maintaining and developing workers' competences and qualifications in order to foster internal and external mobility and ensure the success of the business. It also emerged that it is essential to act early in order to prepare the evolution of jobs and competences and, if possible, anticipate them. The development of its workers' competences is crucial for the success of the enterprise and the worker's own competences development is crucial for the management of his/her working life. This approach is the one recommended in the framework of actions for lifelong development of competences and qualifications adopted by the European social partners in February 2002.

• **Territorial dimension**

When economic and social changes have serious repercussions for an entire region or territory, complementarity and synergies between the actions of the various actors (employers, trade unions and territorial public authorities) assumes particular importance. The importance of this partnership to foster new job-creating economic activities, manage reassignments and improve the operation of the local labour market was highlighted in the experience of regions changing economic activity but also of some companies. In this context the social partners recall the importance of the role played by EU structural funds and territorial infrastructures to maintain social cohesion, ensure redevelopment initiatives and economic development.

• **Specific situation of SMEs**

Creation and development of SMEs as an indispensable component of a dynamic and adaptable economic and social fabric as well as the particular situation of those SMEs which are dependent on one large customer or in regions dominated by a single activity constitute the backdrop to this debate. Regarding SMEs in a restructuring situation themselves, overcoming the difficulties requires even more than in large companies, strong creativity and strong motivation on the part of the various players. The financial risk taken by the owner-manager is particularly important and cannot be taken without a supportive environment. The cases studied underlined that the willingness of workers and/or their representatives to take part in the firm's collective efforts from the outset is a precondition for convincing customers and financial institutions of the project's viability.

• **Managing restructuring**

The social consequences are managed locally. In case of 'social plans', the negotiation takes account of factors such as the company's constraints, the tax regime, national legislation, collective agreements and the needs and choices of workers. All the case studies stressed a concern to explore all possible alternatives to dismissals such as for example:

- *Reassignment.*
- *Training.*
- *Reconversion.*
- *Support for business creation.*
- *An agreement to diversify forms of work and employment and/or suspend or adapt some benefits on a temporary basis.*
- *Personalised worker support.*
- *Natural departures, notably through retirement or, as a last resort, early retirement.*

Management of the social consequences of a restructuring operation is a complex process. Several levels of information, consultation or negotiation and several types of workers' representation may co-exist in the companies and countries concerned.

For good management of restructuring, time is an important factor, for management and workers alike. The difficulty is in organising quality information and consultation without creating undue delays and uncertainties. A positive attitude to change together with the existence of a climate of confidence between management and workers and/or their representatives are key factors. Beyond formal procedures, informal relations play an important complementary role on the search for solutions which meet the needs of the enterprise and workers.

Given that ongoing change is a characteristic of the lives of companies and workers, some of the case studies revealed that the policies implemented during a restructuring operation were based on lessons learnt from an earlier experience. In this context, it has proved useful to put in place monitoring mechanisms to evaluate the effects and check the efficiency of the solutions identified in the medium and long term.'

The European social partners agree that adaptation to change is a constant phenomenon and that most of this adaptation does not entail net job losses. However, more far-reaching restructuring may sometimes be necessary. The existence of a good social dialogue in a climate of confidence and a positive attitude to change are important factors to prevent or limit its negative consequences.

b. Studies on restructuring in the Member States

In autumn 2004, the cross-industry social partners launched a joint project to analyse the economic and social change under way in the new Member States and the role that social partners play in dealing with its social consequences. Country dossiers were drafted by independent experts and include one good practice case of restructuring in each country. These national studies were discussed at seminars with national social partners in each new Member State. A synthesis report was drawn up on the basis of the country dossiers and discussed during a two-day conference in June 2006.

The synthesis report found that social partners had found it generally 'difficult at any level to discuss in constructive terms, either amongst themselves or with Government, important changes that were inevitable in the relatively short term'. Anticipation and strategic matters were rare at sectoral and national level. Company level social dialogue was 'commonly limited in duration and restricted to the financial considerations surrounding compensation for job losses.' A number of reasons were identified:

- First, the extraordinary extent of privatisation.
- Second, the lateness of information and consultation.
- Third, the standards of social dialogue of multinational companies that were lower than in their home countries.
- Fourth, the focus on financial compensation to the detriment of training, reconversion, support for business creation, or personalised worker support.
- Fifth, the capacity of social partners and the social dialogue had been too weak to predict and handle change beyond reactivity.

The report and the social partners' discussions confirmed the pertinence of the orientations for reference for an improved management of restructuring.

In their joint work programme for 2006-08 the cross-industry social partners agreed to 'complete the national studies on economic and social change in the EU-10, enlarge them to cover the EU-15 and on that basis promote and assess the 'orientations for reference on managing change and its social consequences''. At the time of writing, seminars have been held in the Netherlands, Greece, Italy, France, Austria, Denmark, Spain, UK and Sweden. There are plans to cover the remaining EU Member States as well.

The importance of a joint approach by the social partners for the anticipation and management of change should be underlined. In view of the social partners' intention to promote and evaluate the guidelines for reference in managing change and its social consequences in their 2006-08 working programme, the Commission Staff Working Document 'Restructuring and employment – the contribution of the European Union'¹⁰⁹ mentions that 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.



¹⁰⁹ SEC(2008)2154

2.2 European sectoral social dialogue

Social dialogue at sectoral level can develop tailored responses to challenges that might be characteristic of a specific sector. That was why the above mentioned second-phase consultation on restructuring invited sectoral social dialogue committees to get more involved in adaptation to change issues, to develop ways of anticipating structural change and to ensure a monitoring and early warning function at regional and sector level. Several European sectoral social dialogue committees addressed the issue. By way of example, some of them are described below.

a. Sugar: Best practices and access to funding

In addition to the general challenges of globalisation, the sugar industry faces extensive restructuring in the face of the reform of the EU sugar market that entered into force in 2006 and entails significant job cuts.

In the sugar sector's social dialogue committee, in 2003, CEFS (Comité Européen des Fabricants de Sucre) and EFFAT (European Federation of Food, Agriculture and Tourism) signed a joint code of conduct establishing minimum standards on CSR in eight areas, one of which deals with restructuring. Affiliate members are encouraged to go beyond national and European legislation on information and consultation and measures are recommended to improve the employability of workers. Examples of good practices that should serve as a source of inspiration for improvements in companies are collected, agreed upon and published on the committee's site¹¹⁰. For example, in 2008 the social partners report an Italian multi-stakeholder case: Employers, trade unions, local and national authorities and growers jointly develop alternative projects, e.g. biofuel or energy, to create employment for workers made redundant.

In 2005, they developed an electronic practical guide to facilitate access to the Structural Funds. It features an interactive facility enabling swift access to the relevant funds, for example according to the location of factory. Further to intensified follow-up with the social partners, the EU set up a temporary restructuring fund in 2006 to finance the restructuring measures for companies that relinquish their quotas¹¹¹.

In addition, the European social partners monitor factory closures and engage in a close dialogue with public authorities

through regular conferences. In 2008 they established a working group on employability that will report on suitable ways to adapt workers' skills to prepare them for jobs in other sectors.

b. Electricity: Research, best practice and skills development

In the electricity sector, the European social partners EPSU, EMCEF (European Mine, Chemical and Energy Workers Federation) and Eurelectric (Union of the Electricity Industry) are developing, in 2008, a best practice toolkit for restructuring in the electricity sector. The liberalisation of the electricity industry, followed by privatisation, unbundling, mergers and acquisitions, re-organisation and re-orientation of activities has led to extensive restructuring. One result has been job cuts and extensive use of outsourcing. The focus of the study will be on existing policies, structures, procedures and solutions and their positive and negative effects. The toolkit/best practices guide is intended to be an easy-to-use, well written practical guide which can be circulated widely and posted on web sites. It will be useful for human resource and line managers and trade union officials in the electricity sector.

This project follows on from a series of projects and conferences strengthening the place of social dialogue at various levels in the restructuring processes of the industry. In addition, the social partners discussed the impact of the EU energy and climate policies for the future of their industry. In accordance with a joint declaration of 2002¹¹², there has been a special focus on restructuring in central and eastern European countries in these activities.

The electricity social partners also adopted a declaration on future skills needs in 2004. They recognise an emerging deficit in technical and technologically essential skills (craft and engineering) and a growing shortage of new skills (sales, trading, commercial activities, and customer-oriented skills) that are integral to the emerging industry structure in Europe. One consequence is the need for long-term training planning. To meet these needs, the social partners proposed a range of actions. For example, as the number of collective agreements that dealt with training was rather limited, companies and unions might wish to consider what more needs to be done. Equally, the number of technical and non-technical apprenticeships should be increased.

¹¹⁰ www.eurosugar.org

¹¹¹ Council Regulation No 320/2006 of the 20.2.2006 establishing a temporary regime for restructuring of the sugar industry.

¹¹² Joint Statement on the Conference on Social Implications of the Electricity Sector Restructuring in the Candidate Countries, 19-20 September 2002, Budapest.

c. A tool to deal with cyclical fluctuations in shipbuilding

The Community of European Shipyards' Associations (CESA) and the European Metalworkers' Federation (EMF) jointly developed a 'tool box' in 2005. It contains information about legislation and best practice across Europe to help deal with cyclical fluctuations in demand. The tool box project aims to increase companies' capacity to react flexibly to changing market conditions while retaining a valuable, highly-skilled workforce in phases of under-employment. Carried out in collaboration with the European Monitoring Centre for Change (EMCC) of the Dublin Foundation, the project involves a survey of eleven countries to establish a comprehensive list of existing instruments, their legal basis and financial support as well as their effectiveness. In particular it examines instruments in the areas of working time, work organisation, such as secondment schemes, as well as financial measures, such as performance-related pay. The intention is to provide a point of reference to the social partners and to facilitate discussions on the most suitable tools. The social partners also contributed to the work of the high-level group 'LeaderSHIP 2015' aimed at developing a programme to ensure the long-term future of the sector.



d. Restructuring, outsourcing and networking in the furniture industry

With the support of the European Social Fund (Article 6 Innovative Actions), the UEA (European Furniture Manufacturers Association), together with its counterpart, the EFBWW (European Federation of Building and Woodworkers), is implementing the project 'Furniture Industry in Restructuring: Solutions & Tools (FIRST)'¹¹³ from 2006 to 2008. After an enquiry that identified the best practices among SMEs, the partners developed a set of tools that allows SMEs to identify their strengths and weaknesses by comparing various criteria for what they can do in-house and what they can subcontract in order to reduce their costs with neutral social impact. These tools allow a review of all relevant factors leading to a decision and reveal real and hidden costs; especially those associated with outsourcing. It provides for benchmarking with other manufacturers' experiences, and, through specific software, allows manufacturers to analyse internal and external data and indicates potential partners for outsourcing. SMEs can thus configure a strategy with the assistance of the partners. The underlying philosophy is the optimisation of resources allocation according to the competitive advantages of the respective European countries. Cooperation through outsourcing and networking should help to consolidate the European furniture industry.

e. Matching skills for the future of the civil aviation industry

The European social partners have jointly launched a project on 'Training and Qualifications in the Ground Handling Sector' with the aim of benefiting from an overview of the best practices obtained by their respective members and to explore new ways of working on training and qualifications. The objective is a compendium of best practices which will help national members of the social partners to anticipate change following the gradual opening-up of access to the ground handling market. The results of the project are expected by autumn 2008.

¹¹³ <http://www.ueanet.com/first/default.htm>

f. Best practice in socially responsible restructuring in HORECA and catering

In December 2004, EFFAT and HOTREC (Hotels, Restaurants and Cafés in Europe), the social partners in the hospitality sector, signed an initiative for improving Corporate Social Responsibility in the hospitality sector. One of the minimum standards established in these policy orientations deals with restructuring.

'Since an open dialogue is a pre-requisite for a climate of mutual respect and confidence, employees and their representatives should be regularly kept aware of the situation of the enterprise as well as informed and consulted on planned restructuring measures in due time, in order to avoid, or at least limit, negative consequences of such changes on employment.'

EFFAT and HOTREC regularly monitor the progress made by collecting from their member organisations the best practices developed by enterprises. The social partners regularly assess the collected best practices, which are disseminated among national member organisations and will be put on the Social Dialogue Website. A similar approach has been followed by EFFAT and FERCO (European Federation of Contract Catering Organisations) in their social dialogue in the contract catering sector since January 2007.

g. Research and exchange of information in the textile sector

The social partners in the textile sector, the European Apparel and Textile Organisation (Euratex) and the European Trade Union Federation of Textiles, Clothing and Leather (ETUF:TCL), have held several projects and conferences on the subject of management of change, which is particularly rapid in their sector. A large number of experiences were reviewed jointly.

One example is the case of the Trèves Group which, despite all efforts, was forced to undertake major restructuring measures due to the ever more competitive international environment. In line with the social dialogue approach a joint exchange and negotiating group with all union and staff representatives was set up to manage the process. It agreed accompanying social measures, reassignment to other duties and retraining for work elsewhere. Beyond this joint management of restructuring a forward-looking management of jobs and skills was launched, including a shared analysis of needs and individualised competence development plans.

As a result of the conferences an expert synthesis report made the following recommendations:

- Improve the image of the sector, partly in order to recruit highly-skilled staff.
- Promote innovation and reactivity, which is at the heart of the success stories reviewed.
- Take action in training and professional career management.
- Build quality social dialogue.
- Develop employability, including a regional perspective.
- Avoid sudden job cuts.
- Help SMEs.
- Favour an integrated approach of political, legislative, contractual and financial instruments.
- Set up a European network of regional resource centres that analyse sectoral developments regarding markets, technology and skills. In a few countries these resource centres already play an important part in implementing the above-mentioned recommendations.

h. Supporting the reform process in local and regional government

The European social partners, EPSU (European Federation of Public Service Unions) and CEMR (Council of European Municipalities and Regions) in the sectoral social dialogue committee on Local and Regional Government launched the project 'Supporting the reform process in local and regional government: Joint evaluation of the experience in different forms of service provision' in 2007. Its study chimes with the CEEP study on 'Public services restructuring and modernisation through effective social dialogue and human resources management'. At the first discussion of the interim report aiming to set the scene regarding the trends and drivers of change in services delivery, initial findings showed that the situation differs widely from country to country, especially in the use of public private partnerships and the extent of inter-municipal cooperation.



i. Restructuring and change in the European chemical industry

In 2007 and 2008, the European social partners in the chemical industry, EMCEF and ECEG (European chemical employers' group) are implementing a project that studies:

- Experiences with managing restructuring and change in the European chemical industry at company level and national sector level.
- Likely future needs for restructuring due to the European and global economic development and regulatory changes.
- The implications of these developments for employment and the determinants of employability of chemical industry employees.

A series of seminars and conferences will feed into a best practice-compendium and a checklist for successful restructuring.



j. Social dialogue in the rail sector

The European social partners in the rail sector, ETF (European Transport Workers' Federation), CER (Community of European Railway and Infrastructure Companies) and EIM (European Rail Infrastructure Managers), are carrying out a joint study on the Impact of European Freight Restructuring on Employment until autumn 2008. Against the background of the complete opening of the international and domestic rail freight market in January 2007 and the expected restructuring in European rail freight companies, the sectoral dialogue committee project group has carried out study visits to some major rail freight operators and was able to observe the situation in two of the largest European ports, large marshalling yards, key railway sites and the terminals of the two most recent rail motorway systems. The project's objectives are to study the quantitative and qualitative impact of restructuring on personnel in the short, medium and long term. It will possibly lead to joint social partners' recommendations and sharing of good practices.

3 | COMMON TEXTS ON ANTICIPATING AND MANAGING CHANGE CONCLUDED IN TRANSNATIONAL COMPANIES

More and more large companies with activities in different Member States of the European Union and beyond are forging a new path by engaging, together with workers' representatives, in the adoption of texts addressing anticipation and change management at the transnational level.

It may be a sign that corporate governance in Europe is adapting fast to deal more effectively with global markets and the internationalisation of information and decision taking, yet it is too early to form a clear opinion in this field. In any case, business strategies need to anticipate the impact of corporate decisions affecting workers, clients and suppliers located in several countries, and subject to different rules and legislations. Innovative instruments are required to involve stakeholders upstream in the corporate decision process at the transnational

level and a particularly good example of such instruments is provided by transnational texts, which are concluded between the management of a company and workers' representatives on a variety of issues and cover establishments and/or undertakings located in several countries

Transnational texts for the European area tend to have as their core aim the establishment of partnerships to deal with restructuring, reorganisation and anticipative measures. 24 out of the 76 European transnational texts recorded focus on anticipation and management of change and 13 additional European and mixed transnational texts address this issue in a text dealing more generally with social policy or social dialogue. A brief review of these texts is presented below.

3.1 Dealing with restructuring

These transnational texts have been concluded in view of comprehensive restructuring measures within Europe or contain provisions for possible future restructuring measures. They generally include safeguard measures for employees, such as the transfer of pension entitlements (for example, *Ford Visteon*) and, if necessary, organise support in finding new employment. They also generally express their commitment to social dialogue in order to communicate better and directly between management and employees and to involve the employees in the decisions taken by the management and keep them up to date on developments within the company.

Ten European texts focus on providing a framework for dealing with restructuring and change (*Axa, Danone 1997 and 2001, Diageo, Deutsche Bank, EADS, General Motors 2004, RWE, Solvay, Unilever*). For example the *General Motors (2004)* text states that '*Management and Employee Representatives will work together in good faith to find financially sustainable and socially responsible solutions for the necessary manpower adjustments. This includes that both parties will examine potential business opportunities in order to lessen the impact on employees. Respective solutions may cover (in no particular order) but are not limited to processes like: Voluntary separation programs, early retirement programs,*

specific local programs based on national legislation, transfers to spin-offs, joint ventures, partnerships, other locations, etc. and will, in case of a sufficient number of participants, enable us to work towards results without forced redundancies. Both parties acknowledge that these measures cannot be limitless in cost and timing.'

Other texts, which have not been concluded specifically in view of restructuring measures, contain a general provision should such measures become necessary. For example, the signatories of the *Dexia Group* in their text on social management commit themselves to consulting and holding open negotiations before launching a dismissal procedure and the *European Works Council* may send a delegation to the business unit concerned if the negotiations break down and an outside arbitrator is needed.

Ten European texts address specific restructuring cases, in particular the series of *General Motors* and *Ford* transnational texts.

The employer and employee representatives surveyed by the Commission in 2006 reported very concrete results from these transnational texts dealing with restructuring. Management

recognized that they helped to bring the negotiation with employees to an end in a difficult and time-limited context, and acknowledged the effectiveness of certain precise provisions such as the ones provided in the *General Motors* framework agreement described in the box above and, more generally, their positive impact on the acceptance by employees of the need for restructuring. Employee representatives also perceive concrete results such as avoiding plant closures, allowing development of outsourced activities and maintaining statutes for employees. They also see the advantages of common rules for dealing with restructuring and the level playing field they provided for the workers affected.

The 2000 'Framework agreement on the consequences of the joint venture between General Motors and Fiat' at General Motors Europe

- **Aim:** employment, status and workers' representation in the framework of the joint venture between **General Motors and Fiat Provisions: employment guarantees, maintaining of collective agreements, possibility to return to General Motors.**
- **Initiative:** German unions, EWC.
- **Negotiation:** European Group management, EWC select committee including EMF coordinator, workers representatives and HR managers from the affected sites.
- **Signature:** General Motors Europe, EWC, EMF.
- **Scope:** GM European entities included in the scope of the joint venture with Fiat.
- **Effect:** through national implementing process.
- **Follow-up:** annual EWC meeting and bilateral unions with concerned sites, disputes brought to the knowledge of the EWC.
- **Evaluation:** clear commitment of the parties, acceptance of the alliance by the workers, smooth transitions and safety network, maintaining status, facilitated reintegration of the workers after the alliance failed.

3.2 Anticipating and developing skills, training and mobility

Anticipation of change and forward looking management of competences and skills are the focus of four additional European texts (*Suez, Schneider, Total*), further to the negotiations held on this issue in French companies with over 300 workers and/or on a Community scale. For example, the 2007 *Suez* Group agreement states that the company should offer improved management of employment and skills, anticipating future changes in occupations, work, growth etc. It should allow for workers also to be able to work in other parts of the company and prevent redundancies. The agreement also provides that a series of structures be set up at various levels to help implement this policy.

In addition to the texts specifically dealing with anticipation and management of change, four European texts focus on training and mobility (*Air France, Danone and ENI*). Other more general texts include provisions in this regard. For example, the Dexia (2002) 'Principles of Social Management' sets up common rules for secondment and expatriation and establishes that each worker within the group must have access to training as this will help maintain his employability and develop his career, whether in the same business line or elsewhere.

On the same lines, 2005 research findings¹¹⁴ elsewhere indicate that over 40% of joint texts between European Works Councils and management deal with skills and training and over 30% with staff mobility.

¹¹⁴ J.Waddington, id.

3.3 Organising subcontracting and promoting SMEs

Four European texts focus on subcontracting and promotion of SMEs (*Club Méditerranée, Lhoist, Solvay, Total*). The *Club Méditerranée* (2001) joint declaration deals with the principles to be applied for subcontracting in the EU: 'As and when necessary, the *Club Méditerranée* companies call upon the services of subcontractors with special skills and know-how. The terms under which subcontractors are hired fully comply with social legislation and collective agreements concluded in the country in question. In this way, both the employees of *Club Méditerranée* companies and subcontracted workers are protected in each country; *Club Méditerranée* ensures that the subcontracting companies hired by *Club Méditerranée* establishments undertake to respect the company agreements and collective agreements applicable to them, where such agreements exist, and also comply with the regulations governing social security, particularly the fundamental principles and rights at work as provided for in the ILO declaration of 18 June 1998; Staff representatives from all the villages concerned can refer matters associated with prevailing social conditions in outsourced activities to the management of the village or the respective national *Club Méditerranée* management with a view to indicating any issue or difficulty relating to the respecting of the aforementioned principles.'

Positive results were also identified from more general texts on CSR. For example, one transnational text was considered as having introduced managerial principles throughout the group and given dynamism to concrete actions, leading for example to a label for call centres, a negotiation on socially responsible subcontracting in one country and a charter on purchasing.



3.4 A Commission initiative to promote transnational agreements

In 2006, having observed how this new instrument had become increasingly common since the late 1980s, the Commission organised two study seminars for government experts, social partners, academics and company actors to analyse the new approach, its background and initial experiences with texts of this kind. The seminars included background reports, company case studies and interviews with company actors.

The proceedings and materials can be viewed under: http://ec.europa.eu/employment_social/labour_law/documentation_en.htm#5.

In order to gain more knowledge and expertise on this particular aspect, a company workshop was held on 20/21 May 2008, which allowed for an in-depth exchange between Commission experts, management and European Works

Council representatives of different groups of companies from Europe on such agreements. The findings of the workshop have been used to organise a larger conference that was held in November 2008 together with the EU French Presidency on the transnational dimension of social dialogue.

As part of the renewed Social Agenda, the Commission presented a document on transnational agreements.¹¹⁵ In order to support the conclusions of transnational company agreements, the Commission will set up an expert group on these agreements with a mandate to monitor developments and share information on ways of supporting the process, and it will invite the social partners, governmental experts and experts from other institutions to take part.

¹¹⁵ J.Waddington, id.

The Commission will supply the expert group with reports on its initiatives and other work on the subject, which will focus on:

- Developing a data base of transnational texts.
- Organising exchanges of experience and analyses.
- Reviewing the effects of company agreements and the way norms relate to each other in the Member States.
- Clarifying the rules of international private law⁰ in connection with transnational texts.

In this document, the Commission will also propose that support for transnational company agreements be one of the priorities in the budget headings on social dialogue. In this connection the Commission will consider projects to:

- Find ways to ensure that the texts agreed are more transparent.
- Help to identify the actors, approaches and mechanisms worth promoting in this area.
- Determine the conciliation or mediation mechanisms most likely to facilitate the settlement of disputes.



Chapter 6:



Proactive solidarity through financial instruments

- 1 - European Structural Funds
and restructuring*
- 2 - The European Social Fund
and the anticipation
and management of change*
- 3 - Support from the European Regional
Development Fund for restructuring
and economic change*
- 4 - Structural Funds and relocation*
- 5 - The European Globalisation
Adjustment Fund*

Effective anticipation and management of change calls for early, effective preparation. Workers, companies, national and regional authorities and the social partners all have a role to play. Companies have to adapt to change, and employees have to develop new skills and knowledge. Preparing workers and regions well in advance of a particular restructuring event is the responsibility of the individual workers, the company, the government and the regional authorities. All stakeholders need to be mobilised in order to develop and foster a genuine culture of lifelong learning. Improving workers' skills and adaptability is a priority. In this respect, European Social Fund (ESF) support represents an important contribution from the European Union. Structural funding are primarily used to contribute to the Lisbon growth and jobs objectives.

Different regions are affected by change in different ways. Solutions therefore need to be tailored to the local situation. There are many examples in the EU of dynamic regions which embrace change, anticipate events and move in a fast-evolving, forward-looking business environment. These are regions where all the actors — companies, trade unions, public authorities, education and training institutions, local bodies, etc. — come together around the basic concepts of anticipation, partnership and continual investment in innovation and human resources. Both the ERDF and the ESF play an important role in supporting such integrated action at regional level to anticipate and prepare for the future. In fact, EU funding plays a crucial role in helping employees adapt to change.

The recently established European Globalisation Adjustment Fund (EGF) helps workers made redundant through restructuring triggered by trade liberalisation to get back into the labour market quickly. The EGF is the latest example of solidarity at European level.

This Chapter begins with a brief overview of the development of the Structural Funds (Section 1) before looking at the contributions of the ESF (Section 2) and the ERDF (Section 3). Section 4 restates why and how the Structural Funds cannot be used for relocation purposes and Section 5 presents the EGF.

1 | EUROPEAN STRUCTURAL FUNDS AND RESTRUCTURING

1.1 Long history

The structural funds were not all created on one go: the European Social Fund was established by the Treaty of Rome, the European Regional Development Fund following the accession of the United Kingdom in 1973 and the Cohesion Fund with the Maastricht Treaty. They all aim to foster economic and social cohesion and help bring about a better general level of development and wellbeing. They have therefore always been associated, albeit indirectly, with change and restructuring. The ECSC treaty, provided for funding to help coal-mining and steel-producing areas and companies and the ESF was created in 1957 to first help these two sectors. The ERDF (European Regional Development Fund) was set up in December 1974 with the aim of: «correcting the principal imbalances in the Community resulting from agricultural preponderance, industrial change and structural unemployment.» These funds were not organised as a package until 1988, and from then on were grouped together and disbursed in multi-annual periods, called programming periods. These were 1989-93, 1994-99 and 2000-06. The latest programming period started in 2007 and lasts until 2013.

There are three European Structural Funds:

- The European Regional Development Fund (ERDF);
- The European Social Fund (ESF); and
- The Cohesion Fund.

In addition, there are two funds associated with the Structural Funds, although, strictly and technically speaking, they are managed outside the Structural Funds regulations:

- European Agricultural Fund for rural development (EAFRD).¹¹⁶
- European Fisheries Fund.¹¹⁷

The Structural and Cohesion Fund regulations have been constantly updated to equip the Union for the future and for different challenges. In 1988 (1989 – 1993 programming period), multi-annual programming became the «norm» and, an order of priorities was introduced together with the concept of partnership i.e. Member States, regions and economic and social groups cooperating to agree strategies for using the Funds. The reform in 1993 (1994-99 programming period) aimed to turn the different funds into genuine instruments for economic and social development with a dual dimension: functional and geographic. A new fund - the Financial Instrument for Fisheries Guidance (FIFG) – was set up and a new objective (low demographic-density regions), was added upon the accession of Sweden and Finland to the European Union.



¹¹⁶ EAFRD replaces the European Agricultural Guidance and Guarantee Fund (EAGGF) in the 2007-2013 period.

¹¹⁷ FIFG replaces the Financial Instrument for Fisheries Guidance (FIFG) in the 2007-2013 period.

The Community Initiative Programmes from 1989 to 1999

The Community initiatives programmes were introduced in 1989 as special financing instruments for structural policy. These initiatives were intended to address specific problems affecting the EU as a whole, and were allocated 9% of the Structural Funds. They mainly concerned: transnational and interregional cooperation (INTERREG, REGEN); promoting innovation capacity (STRIDE, TELEMATIQUE, PRISMA, SME); developing rural areas (LEADER) and fishing (PESCA); experimental measures for the environment (ENVIREG) and urban areas (URBAN); adaptation to industrial change (ADAPT); industrial restructuring (RESIDER, RENAVAL, RECHAR, RETEX, KONVER) re-integration of specific groups within the labour market (EMPLOYMENT: NOW, HORIZON, YOUTHSTART).

The RECHAR and RESIDER programs

The Rechar Community Initiative was adopted by the Commission in 1989 to support the economic restructuring of the coal-mining areas of the Community hardest hit by the decline of their industry and the loss of employment. Rechar II pursued the same goal over the period 1994-99, giving priority to the environment, new economic activities and human resources in order to help the areas concerned cope with the deterioration in their economic conditions. It also addressed the impact of the downturn in lignite extraction. RESIDER provided support to the steel industry where certain eligibility criteria were met (at least 1000 steel jobs lost since 1 January 1986; at least 1000 actual or publicly announced job losses since that date; or, at least 1000 steel jobs lost since that date or at risk (as agreed jointly by the Commission and the Member State).

Summary of measures eligible for both programmes (1994-99)

- Environmental improvement and conversion of old mining buildings to other commercial uses in seriously affected areas, renovation of social and economic infrastructure in mining villages (community facilities, water, electricity, etc.) as part of an economic re-deployment strategy.
- Promotion of new economic activities, in particular those undertaken by small firms, through various supporting measures (new industrial premises and advance factory units, productive investment, access to risk capital, common services, market studies, cooperation networks and innovation in products and processes).
- Promotion of tourist activities, particularly those based on industrial heritage.
- Assistance to bodies concerned with economic conversion and regional development.
- Assistance for training and employment, particularly in small firms whose activity is essential for the development of the area, and for the retraining of miners / steel workers and former miners / steel workers.
- Interest subsidies on ECSC loans, particularly those for small firms, and any conversion measures eligible for an EIB loan.
- For Rechar only:
 - Promotion of cross-border cooperation between coal-mining areas.

Funding: €760 million for Rechar _ Rechar I (1989-1993) €300 million and Rechar II (1994-1999) €460 million and €706 million for Resider _ Resider I (1989-1993) €131 million and Resider II 1(1994-1999) €575 million.

The KONVER and RETEX programmes

The Commission adopted the special measures *Perifra I* (1991) and *Perifra II* (1992) in response to calls from the European Parliament. These included support for demonstration projects to serve as models for the conversion of military installations. In 1993, the Commission then adopted the *Konver Community Initiative* to assist regions weakened by the decline in defence industries and installations. Introduced in 1993 as an annual programme, the Initiative continued on a multi-annual basis up to the end of 1999. It provided support for economic diversification in areas heavily dependent on the defence sector, in particular through the conversion of economic activities associated with the sector to reduce dependence on it, and through the encouragement of commercially viable activities in all industrial sectors, with the exception of activities that might have military applications.

The Commission launched *Retex* in 1992 as a Community Initiative to assist areas highly dependent on the textiles and clothing industry. As provided for in the guidelines published at the time, the Commission then approved a supplementary appropriation to cover *Retex* schemes in areas eligible under Objectives 1, 2 or 5(b), in particular the five new Länder in Germany. *Retex* was designed to assist with economic diversification in the areas concerned, with a view to making them less dependent on the textiles and clothing industry and easing the adjustment of commercially viable businesses in all industries, including the textiles and clothing industry itself.

Summary of measures eligible for both programmes (1994-1999)

- Advisory services and equipment (but not production machinery) to improve know-how in businesses: e.g. quality control, computer-assisted design and manufacturing (CAD/CAM), marketing, health and safety, etc.
- Support for local business associations and cooperation schemes, networking and market information systems, with a view to developing know-how, accelerating the spread of new production and organisational methods, and establishing links between research centres and businesses, businesses and their suppliers and customers, etc.
- Business audits in the above fields by a special Task force (with the focus on small and medium-sized businesses), financial engineering schemes.
- Training of business personnel and business services staff, as well as defence -sector employees who had been made redundant or were threatened with redundancy.

For KONVER only:

- Temporary payroll contributions for skilled personnel employed as part of modernisation plans drawn up with the help of external experts.
- Environmental improvement of areas damaged by military installations or the defence industry.
- Promotion of alternative activities, in particular through the creation of SMEs.
- Renovation of economic and social infrastructure (public facilities, water, electricity etc.).
- Promotion of tourism.

For RETEX only

- Rehabilitation of industrial wasteland and refurbishing of abandoned industrial premises, help with treating liquid effluents and industrial solid wastes, technical assistance to develop less-polluting processes.

Funding: €874 million for Konver - pilot project (1992-1994) €130 million, Konver I (1995-1997) €500 million and Konver II (1998-1999) €244 million - and €603 million for Retex - Retex I (1992-1993) €131 million and Retex II (1994-1999) €472 million.

1.2 The current situation

For the programming period 2007-13, three new objectives have been defined:

- «**Convergence**» replaces the former objective 1 and seeks to reduce the gap between the levels of development of the various regions.
- «**Regional competitiveness and employment**» replaces the existing objectives 2 and 3. Its purpose is to boost the competitiveness and attractiveness of the regions and to improve employment, and combat unemployment, by supporting innovation and the knowledge-based society, entrepreneurial spirit, environmental protection and risk prevention, improved accessibility, adaptability of employees and companies, social inclusion, training and apprenticeship, equal opportunities and the fight against discrimination.

- «**European cooperation**» follows directly on from the INTERREG Community initiative and therefore incorporates the three aspects of the latter: cross-border cooperation along land and sea borders, cross-border cooperation on strategic priorities (research, information society, environment, etc.) and interregional cooperation allowing regions to network on a European scale and encouraging the exchange of experience.

To finance these three objectives, three structural funds and instruments have been retained: the **ERDF**, the **ESF** and the **Cohesion Fund** (see table below)

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

Objectives	Structural funds		
Convergence	ERDF	ESF	Cohesion fund
Regional competitiveness and employment	ERDF	ESF	
European territorial cooperation	ERDF		
	Infrastructures R&D and innovations investments,...	Vocational training, work organisation, skills validation,...	Infrastructures, renewable energy, environment,...

Economic dynamism means continuous change. While globalisation and market opening create new opportunities for growth, there may also be negative consequences as adjustment takes place. The regional pattern of the opportunities and threats that emerge is likely to be highly uneven. This is true for instance in the case of the textiles and clothing sector, which has been undergoing restructuring for many years.

The Commission regularly stresses that it is very sensitive to the hardships of change. Its policy is to proactively assist people in moving where necessary to new and better jobs. The Commission also recalls the importance of abiding by the European and national rules in the case of mass redundancies, especially with regard to information and consultation of workers' representatives. As always, social dialogue is a crucial instrument in easing the situation for the workforce as much as possible.

The European Cohesion Policy has an important role in supporting public policy to cope with structural adjustment. The Cohesion Policy aims to strengthen economic and social cohesion across the EU by reducing economic and social disparities. In order to achieve this objective it is designed to support proactive strategies to raise living standards and to

diversify the economy. In this respect, support for job creation is an essential part of the wide range of interventions financed. Both in anticipation of and in response to such restructuring, the European Union has important instruments at its disposal to promote adjustment, in the form of the medium-term programmes financed under the Structural Funds.

In particular, the programmes allow for a regionally differentiated approach, in partnership with the key players on the ground, specifically addressing the type of supply and demand mismatches that arise as the restructuring process in a major sector unfolds.

Regional development programmes provide regions with tools to respond to economic adjustment in the shape of the design and implementation of medium-term strategic programmes. In relation to restructuring, the following specific aspects of the design and principles underlying Cohesion Policy programming are worth mentioning.

- Proportionally more resources target the poorest regions under the new Convergence objective (over 81%), where the most vulnerable industrial sectors tend to be concentrated. The EU is thus able to support diversification in these regions and help them move up value chain.

- The new Competitiveness and Employment objective helps all other regions in the Union to pursue adaptation strategies. This is important not only economically, but also politically, showing that the solidarity of the Union extends beyond the East and South.
- Decentralised management of Structural Funds programmes (i.e. by national, regional or local authorities) facilitates better exploitation of regional and local potential and the proximity of entrepreneurs and SMEs to relevant players crucial for their competitiveness and adaptation (e.g. universities and research institutions, financing institutions). The decentralised nature of Cohesion policy programmes has important advantages:
 - Regional planning of the programmes allows authorities to anticipate threats such as those arising from industrial restructuring and to prepare in advance for the diversification of economic activity.
 - Where delivery is concerned, SME interests can be actively articulated in a timely way by the relevant stakeholders in the programme monitoring committees.
- Even if it has a medium-term focus, the programming process is nonetheless **flexible**. Even though programmes run for seven years, they can be adjusted to adapt to changing circumstances. The action taken in response to the closure of the Rover car plants in the UK has demonstrated this flexibility (see box). Flexibility has been further enhanced for the period 2007-13 by the introduction of a “**national contingency reserve**”, equivalent to 1% of the annual Structural Fund contribution to the “Convergence” objective and 3% of the annual contribution to “Regional competitiveness and employment”. The reserve is intended for “local or sectoral crises linked to economic and social restructuring, or to the consequences of trade opening”.
- More emphasis than ever is placed on alternative forms of finance, where the Commission has intensified its work with the EIB/EIF and other international financial institutions to develop **SME and micro-business credit** to encourage start-ups.



The MG/Rover case in the UK West Midlands (April 2005)

The MG/Rover case demonstrates that the Commission, together with national and regional authorities, can help overcome serious crises in an efficient way and assist regions in efforts to regain economic strength and competitiveness. This €74 million package makes use of the extension of the Learning and Skills Action Plan to provide individualised support in the form of job advice, placement help and re-training for those made redundant.

The range of activities covered includes the following:

- *Improving job prospects for redundant workers and helping those in work to retrain;*
- *Strengthening the communities affected by closures to overcome barriers to individuals gaining employment;*
- *Retraining of workers to meet critical skills shortages and to create bridges from unskilled to skilled employment to match the needs of the local and regional economy.*
- *Accelerated diversification of the business base through: appropriate innovation, research/development and business incubation strategies; business consultancy; grants for capital retooling; promotion of new business sites;*
- *Access to finance through tailored financial engineering-instruments aiming to ensure the survival of viable businesses through the provision of short-term loans or loan guarantees or to help older redundant workers create their own businesses;*
- *Investment in infrastructures in the affected area particularly in the form of transport links.*

The implementation of the EU rural development policy is also based on shared co-management with Member States and regions. It is based on a sound legal basis providing regions and Member State countries with options for developing measures responding to their needs of local situation ensuring at the same time the achievement of the overall regional, national and Community objectives.

Major principle in the implementation of the EAFRD and the Structural Funds is the complementarity between both policies and the achievement of synergy effects in the use and application of all possibilities provided by them.

2 | THE EUROPEAN SOCIAL FUND AND THE ANTICIPATION AND MANAGEMENT OF CHANGE

The European Social Fund is the EU's main instrument for anticipating change, ensuring adaptability and mitigating the negative effects of restructuring, and has for years contributed

to these objectives. Its contribution is presented in more detail below for the previous and current programming periods.

2.1 The 2000–2006 period

In the programming period 2000–2006, the ESF supported interventions in the following five policy fields:

- Developing and promoting active labour market policies;
- Promoting equal opportunities for all in accessing the labour market;
- Promoting lifelong learning;
- Promoting a skilled, trained and adaptable labour force; and
- Improving gender equality.

Support for the anticipation and management of economic change and restructuring was mainly in the area of adaptability and, where linked to the anticipation of labour market trends, in the area of active labour market policies. In addition, some Member States had chosen to co-finance the training of employees through priorities or measures for 'life-long learning'. All these interventions directly contributed to the positive management of economic change. A more detailed mapping of interventions to support the anticipation and management of economic change and restructuring was carried out in 2007 as part of a thematic evaluation ('Evaluation of European Social Fund Support to the Anticipation and Management of Economic Change and Restructuring', carried out by Bernard Brunhes International). This led to the identification of four broad categories of interventions by Member States to manage economic change (see box nearby).

An analysis of the role of ESF interventions in the context of the programmes supported by the ESF points to three main types of added value provided by the ESF:

- Added value in terms of volume: ESF co-financing allows support for a greater number of people or a larger number of projects;
- Added value in terms of a broader range of actions that can be supported;
- Added value in terms of the management of restructuring, in regions where such mechanisms do not exist or are not effective.

ESF support for change and restructuring

ESF funding has been used in various ways by Member States, but can be classified into four categories linked to four stages of change — its anticipation, its promotion, its accompaniment and the management of the redeployment of employees made redundant:

Measures anticipating economic change

- *Analysis of the labour market, which contributes to improving the skills of the workforce and the competitiveness of the company concerned.*
- *Analysis of skills gaps and future skills requirements, which contributes to improving professional orientation and thus employability.*

Activities to promote economic change

- *Advice within organisations for managers to promote new forms and/or ways of organising work and to enhance the competitiveness of the company concerned.*
- *Research grants / pre- and post-doctoral training. These aim to develop an area's R&D capability and therefore its competitiveness.*

Assistance to accompany economic change

- *Training leading to the validation of skills. This contributes to improving employees' qualifications and their employability.*
- *Consulting, guidance, and re-qualification to support the restructuring of sectors in decline and also the consolidation of the sector's competitiveness.*

Assistance to support redeployment

- *Advice, accompaniment and training using dedicated structures (such as retraining units) to support individuals made redundant and to retain their employability.*
- *Advice and studies to support social dialogue to improve crisis management through dialogue, always with employability in mind.*

A closer look at Equal and Article 6 projects

More generally, hundreds of projects were financed during the Structural Fund period 2000–06, with important steps taken to promote adaptation to change and restructuring under the Commission Initiative EQUAL¹¹⁸ and Article 6 of the ESF Regulation¹¹⁹.

While the aim of EQUAL was to promote new ways of combating all forms of discrimination and inequality in the labour market, Article 6 provided for innovative measures to promote new approaches and identify good practices in order to improve the implementation of future activities under the ESF. The common features of projects financed by EQUAL and Article 6 were that they were highly innovative, partnership-based and transnational. Moreover, EQUAL stressed the importance of social inclusion, which is particularly pertinent to the discussion of socially responsible restructuring. At European, regional and national level, the two instruments have yielded rich insights and experiences. Activities under EQUAL and Article 6 can be grouped into 5 themes for which new and effective solutions have been developed. An overview of these solutions and the policy messages into which they can be translated for policy makers at all levels are presented in the following table¹²⁰:

Instruments: support systems and structures	
<p>New and effective solutions</p> <ul style="list-style-type: none"> • Reconversion and redeployment structures. • Knowledge management and learning. • Proactive and multidimensional company support. 	<p>Policy messages</p> <ul style="list-style-type: none"> • Help to resource more permanent reconversion and redeployment structures as part of a wider and longer-term restructuring strategy. • Support the development of mobile and well-resourced provision for reconversion and redeployment of laid-off workers. • Support the development of dynamic systems to capture and manage knowledge, as well as promote learning. • Address the problems that many employers, particularly Small and Medium Sized Enterprises (SMEs), face in accessing and making full use of reconversion and redeployment services. • Look at company support in a more creative and multidimensional way.
Instruments: direct support for individuals	
<p>New and effective solutions</p> <ul style="list-style-type: none"> • Flexible and accessible training • Development of soft skills • Validation and transfer of personal capital • Empowerment and bottom-up approaches • Targeted support for older workers 	<p>Policy messages</p> <ul style="list-style-type: none"> • Support and promote the development of soft skills as a critical component in more technical skills training • Foster the principle of empowerment within the design, delivery and evaluation of support measures • Target support at the most vulnerable people in restructuring situations, especially older workers • Establish processes and systems for the validation and certification of skills as a 'passport' to the employment market during restructuring
Reconversion strategies and coordination of instruments	
<p>New and effective solutions</p> <ul style="list-style-type: none"> • In-depth research and analysis • Forecasting and observatory activities • Identification of positive and inspiring examples • Regional planning and strategy development • Structures and tools for ongoing review, consultation and collaboration 	<p>Policy messages</p> <ul style="list-style-type: none"> • Support the development of more structures and tools to get all stakeholders' opinions about the future of the region and get them involved in the subsequent regional development process • Help to promote and disseminate the opportunities offered by restructuring as opposed to the threats and risks • Make provision for longer-term forecasting and planning via the establishment of observatories, particularly at regional and sectoral level • Support more regular and effective evaluation of restructuring measures

¹¹⁸ See Article 5 of Regulation 1784/1999, OJ L 213 of 13/8/1999, p. 5. The EQUAL initiative will terminate at the end of 2008. For further information see the EQUAL website on EUROPA: http://ec.europa.eu/employment_social/equal/index_en.cfm

¹¹⁹ Regulation 1784/1999, OJ L 213 of 13/8/1999, p. 5.

¹²⁰ The classification is based on the paper 'EQUAL and Article 6: A test bed for innovative and socially responsible restructuring', prepared by GHK consulting Ltd in November 2006. The paper, which contains a number of case studies, was used for the Restructuring Forum held on 4 and 5 December 2006. It can be accessed under http://ec.europa.eu/employment_social/events/2006/restruct_forum3/art6_en.pdf

Partnerships

New and effective solutions

- Inclusive and diverse partnership-working
- Clear, stable and open partnership structures
- 'Animation' and personal interaction
- Definition, allocation and support of partner roles
- Social dialogue
- Engagement of employers
- Added value of transnational cooperation

Policy messages

- Focus on and promote the involvement of all stakeholders in restructuring at territorial, sectoral and corporate levels
- Provide adequate resources for the establishment and management of partnerships
- Support the capacity-building of partners, especially for those organisations that have traditionally been outside or disengaged from the restructuring debate
- Focus on identifying and engaging dynamic people to manage and animate the partnership, and ensuring that they have adequate resources and backing to undertake this 'animation' role
- Establish organisations whose sole remit is to promote and coordinate inter-regional and transnational partnership working
- Should emphasise the public authority's role in setting up and leading partnerships
- Should be encouraged to participate in partnerships outside their traditional role

SMEs and restructuring

New and effective solutions

- SME networks and clusters
- Management training and support
- Dissemination and awareness-raising

Policy messages

- Promote and support the provision of combined SME services, tailored to the needs of individual SMEs or groups of SMEs from particular sectors and/or localities
- Support structures that give time and space for communication and relationship-building so as to generate trust and dialogue between SMEs, as well as between SMEs and other intermediaries
- Seek to modernise training services and foster more innovative and flexible training provision
- Be formulated and disseminated in a way that is clearer, simpler and far more user-friendly for SMEs

Two overall conclusions can be drawn:

EQUAL and Article 6 projects have managed to address the complex and multidimensional nature of restructuring thanks to their scope for experimentation and innovation. The second conclusion is the value and importance of partnership in addressing the challenges of restructuring. Multi-stakeholder approaches are essential in finding effective and sustainable solutions to economic change. Policies should therefore put partnership-based approaches at the forefront of any measures and allow sufficient time and resources for the proper planning and management of partnership. Otherwise, there is a risk that not all stakeholders will be fully engaged and that solutions are not as effective and long-lasting. The positive experiences with the instruments have been carried forward by integrating the EQUAL and Article 6 provision for innovation, partnership working and transnational cooperation within the ESF programming for the new period 2007 - 2013.

2.2 The 2007–13 period

One of the key challenges for the programming period 2007–13 is to strike the right balance for companies and workers to promote the conditions for a flexible labour market and provide both security and flexibility. Maintaining human capital and employment protection as key objectives will rely on ESF intervention to improve the qualifications of the work force and increase the internal flexibility of companies (multi-skilling, training, flexible working methods and structures and working time arrangements) and external flexibility in the form of contingent jobs and outplacements.

The European Social Fund Regulation¹²¹

responds to this challenge, and identifies anticipation and positive management as a priority:

Article 3(1)

'increasing adaptability of workers, enterprises and entrepreneurs with view to improving the anticipation and positive management of economic change, in particular by promoting:

(i) lifelong learning and increased investment in human resources by enterprises, especially SMEs, and workers, through the development and implementation of systems and strategies, including apprenticeships, which ensure improved access to training by, in particular, low-skilled and older workers, the development of qualifications and competences, the dissemination of information and communication technologies, e-learning, eco-friendly technologies and management skills, and the promotion of entrepreneurship and innovation and business start-ups;

(ii) the design and dissemination of innovative and more productive forms of work organisation, including better health and safety at work, the identification of future occupational and skills requirements, and the development of specific employment, training and support services, including outplacement, for workers in the context of company and sector restructuring'

a. Rationale and budget for ESF intervention in 2007–13

Professional training and entrepreneurial mobility are key factors in the transfer of knowledge, skills and good practice, and the ESF offers a broad spectrum of possibilities for direct assistance to workers, promotion of entrepreneurship and support for enterprises and entrepreneurs. In addition to boosting the skills of employees, the ESF programmes for 2007–13 have a stronger focus on the companies themselves. ESF interventions should help enterprises better anticipate and manage change and implement the necessary transformations. This includes introducing new and more productive human resources strategies and work organisation structures.

Around €13.5 billion will be allocated to actions to improve the adaptability of workers, enterprises and entrepreneurs. This includes the promotion of life-long learning and increased investment in human resources by enterprises and workers, training of staff and managers and support for restructuring processes. The capacity of companies to adapt and benefit from changing circumstances is determined by the ability of their employees to acquire new skills and competences. Hence, around €9.4 billion will be devoted mostly to improving human resources planning and development in companies. Of this amount, €2.5 billion will directly target sector and company restructuring through the development of systems to effectively anticipate change. Almost one fifth of ESF funding will be spent directly on adaptability, one of the key areas of ESF intervention in 2007–13 (see table below).

¹²¹ Council Regulation (EC) No 1081 of 05.07.2006.

Table 1: ESF allocation by priority theme

Priority Theme	Financial allocation in €billion	Percentage
Increasing the adaptability of workers and firms, enterprises and entrepreneurs	13.5	17.8%
Improving access to employment and sustainability	21.5	28.4%
Improving the social inclusion of less-favoured persons	10.0	13.1%
Improving human capital	25.0	32.9%
Mobilisation for reforms in the fields of employment and inclusion	0.9	1.2%
Strengthening institutional capacity at national, regional and local level	2.0	2.7%
Total	73.0	96.1%

Source: ESF, DG EMPL European Commission

Within the support for adaptability, a further distinction can be made between different categories. The development and provision of life-long learning (systems) in companies accounts for by far the biggest part of support in this area (almost 70%). Interventions more directly linked to sectoral restructuring represent 18.6%, whereas innovative and more productive ways of organising work account for almost 12%.



Table 2: ESF allocation to 'Increasing the adaptability of workers and firms, enterprises and entrepreneurs' by categories

Category	Financial allocation in €billion	Percentage ¹²²
Design and dissemination of innovative and more productive ways of organising work	1.6	11.8%
Development of life-long learning systems and strategies in firms; training and services for employees	9.4	69.6%
Development of special services for employment, training and support in connection with the restructuring of sectors	2.5	18.6%
Total	13.5	100%

Source: ESF, DG EMPL European Commission

The EAFRD also supports the investments in training and upgrade of human capital. In the current programming period, a complementarity between both funds has been ensured, including the avoidance of overlapping of actions.

b. Types of activities supported

As in the past, the activities co-financed by the ESF will concentrate on three major types of support: for systems, company and sector restructuring, and individuals.

Supporting systems

ESF intervention in the present programming period will aim

to make existing mechanisms and systems to anticipate and manage change more consistent and complementary. To this end, the creation of skills and jobs observatories at national, regional, sector and company level can help to provide strategic information to the various actors to enable them to take timely action and orient their choices. Other action will include the development of forecasting and foresight methods and systems, and stakeholder consultation mechanisms for different sectors and regions, along with collective solutions, exchanges of good practices and networks between social partners and public authorities. Instruments for strategic planning and collective solutions should be of particular importance for companies with limited resources, such as SMEs.

¹²² This does not add up to 100% as non-ESF related categories and Technical Assistance are not included.

Support for systems

Enhancing labour market performance and anticipation of change

- Creation of Skills and Jobs Observatories.
- Creation of National Employment Observatories.
- Development/Creation of regional and local labour market observatories.

Tools and techniques

- Development of forecasting methods and systems, benchmarking and indicators, stakeholder consultation mechanisms for the different sectors and regions.
- Exchange of good practices.

Promoting efficient collective solutions

- Development and strengthening of partnerships.
- Supporting social partners.
- Link between social partners and public authorities.

Supporting company and sector restructuring

The ESF can be used to support the development of early warning systems in companies, for example through regular skills audits. Sectoral networks can be vital for sectors particularly affected by globalisation. Support for companies may also target SMEs through the development of consulting services specifically adapted to their needs.

Support for company and sector restructuring

Support mechanisms and tools

- Development of anticipation and alert systems (early warning systems) and contingency plans in companies.
- Development of sectoral networks.
- Assistance at sectoral level.
- Strengthening the role of business associations, business support organisations and networks
- Developing consulting services for SMEs.

Complementary actions implemented under the human capital priority

- Fostering entrepreneurship and business strategies.
- Improving the capacity of enterprises to manage change in a positive way.
- Fostering an entrepreneurial mindset through education and learning.

Supporting individuals

Individualised solutions are a key element in helping workers adapt quickly. Actions might for example take the form of outplacement services, mobility facilitation, career guidance and tailored training.

Support for individuals

Training

- Skills mapping and personal plan for professional guidance.
- Career development and individual guidance.
- Identification of training priorities and delivery of tailored training.

Outplacement and mobility

- Provision of outplacement services by specialised units.
- Fostering geographic mobility in order to help redundant workers move to regions where jobs are available, thus improving labour market outcomes.



Some examples of planned ESF support for 2007–13

In Denmark, economic change and restructuring will be supported, as part of other actions, by promoting cooperation between enterprise-knowledge institutions, building cluster-based competences and strengthening the ability of companies to capture the full benefits of IT investment.

Mainly in Sweden, Finland, Slovakia, Ireland and Poland, the ESF will directly target sector and company restructuring through the development of systems to anticipate change effectively. Support will be offered to upgrade qualifications and make professional management skills more accessible to enterprises.

The focus here is on the least-qualified workers and on SMEs. There is also emphasis on the enterprises' own organisation and culture as framework conditions for exploiting employees' potential for innovation.

In the UK there will be a focus on low-skilled/vulnerable workers, to empower them to become more resilient to the negative effects of globalisation and intensified competition.

In Portugal, adaptability and lifelong learning are the key areas for ESF investment, with the aim of introducing new qualifications to expand workers' abilities, creating more diverse learning opportunities and developing new ways to deliver lifelong learning. Adults will be encouraged to complete their education, progress to higher qualifications and acquire more professional skills.

In Slovenia, adaptability and the promotion of entrepreneurship are the key focus of the ESF. The aim is to stimulate mobility among highly qualified personnel to ensure they can adapt to change. Other activities will focus on encouraging knowledge transfer between R&D institutions, universities and businesses, training employees and improving the skills of those workers most at risk of unemployment.

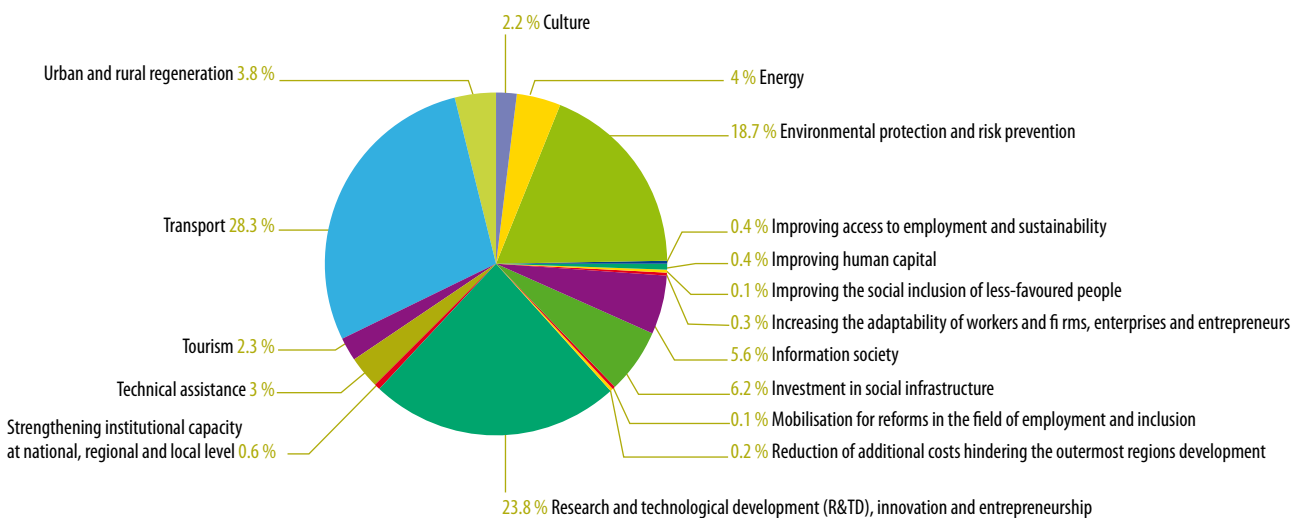
3 | SUPPORT FROM THE EUROPEAN REGIONAL DEVELOPMENT FUND FOR RESTRUCTURING AND ECONOMIC CHANGE

3.1 ERDF business support in 2007–13

Cohesion policy puts into practice the principle of solidarity between the peoples of Europe as enshrined in the preamble to the Treaty on European Union. It helps achieve one of the fundamental objectives of the Treaty: strengthening the EU’s economic and social cohesion by reducing developmental disparities between its regions. It has a significant impact on the competitiveness of the regions, and on the living conditions of their inhabitants, mainly through the co-financing of multiannual development programmes. It seeks to enable all regions in the Union to benefit fully from the opportunities offered by the single market and contribute to the success of economic and monetary union (EMU).

In practice, the year 1988 first saw the EU develop a genuine regional structural policy governed by a series of Community texts. In the EU-25, 123 million people — representing some 27% of the total population — live in regions with a per capita GDP below 75% of the EU average as against 72 million people, or 19% of the total, in the EU-15. Of these 123 million, four out of ten live in regions belonging to the fifteen old Member States while the other six are nationals of the ten new Member States (excluding Bulgaria and Romania).

Fig 1: Allocation of European Regional Development Fund/Cohesion - Fund by theme - EU27 - 2007 - 13



Source: DG REGIO European Commission

Sectoral initiatives were pursued in previous funding periods to address the challenges faced by industries under pressure leading to fundamental restructuring. Such sectoral approaches have been progressively phased out because of the partiality of their coverage, their limited performance and the risks of overlap and multiplication that they entailed. The Commission has, as an alternative, proposed to address restructuring by promoting competitiveness more proactively in the mainstream programmes.

Integrated programmes, unlike sector-specific actions, provide policy makers with the **opportunity to address all the conditions necessary to introduce economic change**. Thus, actions to promote innovation, for example for developing new

products and processes in textiles, can involve investment in R&D itself, the development of the skilled labour required and the creation of networks between business, universities and research institutes. Also, through linking the National Strategic Reference Frameworks 2007–13 with other regulatory measures in the national Lisbon Reform Programmes, the context for providing public support to innovation and entrepreneurship is more clearly defined.

Structural Fund priorities frequently include diversifying a region’s industrial base and helping it to adapt to economic and structural change. Indeed the European Regional Development Fund (ERDF) is the Community’s largest source of financial support for SMEs. The bulk of support for SMEs aims to

anticipate and embrace restructuring as a business opportunity in a proactive way, such as by providing support to start-ups or for timely diversification by existing companies into new sectors or products, the adaptation of production processes (under the ERDF), or the introduction of innovative ways of management, work organisation or related training (under the European Social Fund). Moreover, the ERDF facilitates the adaptation of SMEs to change by supporting the modernisation and diversification of the local or regional production environments within which SMEs operate, for example through support for regional innovation strategies or infrastructures focused on innovation, networking and clustering.

ERDF support for improving the adaptability of SMEs covers in particular:

- Better **access to capital** for SMEs in the start-up or growth phase (e.g. JEREMIE).
- **Regional and local R&D and innovation capacities** (e.g. competence and technology centres, 'poles of excellence', technology transfer, regional innovation strategies).
- **Business infrastructure and support services** (e.g. science parks, incubators).
- **Cooperation and networking** amongst SMEs and between business, research institutions and public authorities (technology transfer, innovative clusters, cross-border cooperation).
- **Environmental and innovative technologies and management systems** in SMEs.
- **Better use of ICT.**
- Promoting **entrepreneurship and entrepreneurial education.**
- Improving **human resources potential** (education and skills, adaptability of workers and enterprises).

Examples of successful regional restructuring strategies

• **The Basque Country - Spain - restructuring of a region and its cities**

Local industry, structured around the shipbuilding, steel and heavy industry, went into decline in the 1980s.

The Basque government, employers and trade unions decided to restructure and modernise these sectors of industry. Nine clusters were created, which together made up 45% of the Basque country's GDP. Today, they remain the driving force of the region's economy. After a process lasting some twenty years, the Basque Country's GDP is currently the third highest in Europe, after regions in Luxembourg and Ireland. Unemployment, which was 25% in 1990, currently stands at 4.5%. Much of the capital has been invested in innovation; private funds account for 66% of total investment (the average in Spain is 48%; the figure for Europe is 54%). The restructuring process was linked with the redevelopment of the region's cities, including the capital, Bilbao. Culture and local identity played a major role in this process, which led to a high degree of social acceptance of the process itself.

• **Tawira - Portugal**

Restructuring based on redevelopment led to the development of tourism services and an increase in investment in this sector, which helped finance the preservation of the region's historical and architectural heritage, in turn leading to a further increase in tourism and an influx of private capital.

• **Porto - Portugal**

Restructuring has begun only recently, as a consequence of the relocation of numerous government bodies and firms to the capital, along with a shrinking population and the collapse of traditional retailing in favour of supermarkets. The aim of the restructuring process is to breathe new life into the city centre, to develop cultural services and to redevelop the city's housing. 2004 saw the launch of the PortoVivo initiative, which aims to attract private investment to the town. This major restructuring and redevelopment project has a twenty-year time frame. The renovation of over 5 000 buildings is planned during this period, which will help preserve a valuable cultural and historical heritage, and will in turn develop the services sector, thereby creating new jobs.

• **Wrocław - Poland**

The last seventeen years have seen a change in both the city's economy and its appearance in general. The redevelopment of both the city centre and specific areas of the town has drawn private investors. Hotels and restaurants have appeared. The open policy of the city authorities, its partnership with its twin towns, regional authorities and central government, as well as the cooperation between the city and its immediate neighbours have led to new industries being established in the city's surrounding area. The Wrocław Technology Park and the city's centres of education and industry have launched many initiatives in the field of R&D. Unemployment has fallen from 18% to 6% over this period, though one drawback has been rising prices, e.g. property prices have soared by 400%.

Targeted measures for both large and small firms can help to strengthen the attractiveness of a given region or a Member State by discouraging them from moving. There are examples in Italy, Germany, and Austria where specific schemes to fund technology transfer, R&D, training skills and business infrastructure have been introduced with the aim of further increasing the competitiveness of the region.

Such measures do not necessarily exclude large enterprises but focus on areas like access to technology, building industrial clusters, grants for machinery and R&D. Thus, they are not intended to help firms (whether large or small) stay put as such, but aim rather to increase their market competitiveness, support their distribution networks or help them to succeed in the supply chain. One such measure was used to persuade a large automotive company, crucial to its region's economy, to remain inside the EU.



3.2 *Link to the industrial agenda and the role of networks*

The renewed Lisbon Strategy has stressed the importance of creating growth and jobs. In this broad context, competitiveness policy can play a key role in providing industry with suitable framework conditions and making the EU an attractive place to invest. The decision by the Member States to link 75% of all European cohesion policy funding to the goals of the Lisbon agenda will undoubtedly help promote the growth and jobs agenda by increasing the competitiveness of the economy in Europe.

Regional policy, by virtue of its cross-cutting nature, is closely linked to a broad range of Community policies relevant for the competitiveness of regions and enterprises, in particular enterprise policy, research policy, environmental policy, labour market policy and social policy. While the Lisbon strategy has increased the importance of the SME dimension in Community policies, SMEs have already in the past received a major part of Structural Fund support.

Industry has to permanently adapt, and managing structural change has become a key issue. From a sectoral perspective, some sectors were subject to strong competition from low-wage countries and had to make severe adjustments in the 80s. International competition, whether from industrialised countries (the USA or Japan) or emerging countries (China or India), has dictated a shift towards sectors with higher added value and technological content. These changes typically require new skills, new organisations and the adoption of new technologies, and call for enterprises to innovate constantly and to focus on activities with a high knowledge input. Innovation and the successful delivery of the Lisbon strategy are the long-term policy instruments for responding to restructuring and globalisation.

For the period 2007–13, the Community Strategic Guidelines for Cohesion¹²³ emphasise the key role of businesses, in particular SMEs, and their capacity to adapt to economic and structural change, such as by strengthening their investment in RTD, facilitating innovation and promoting entrepreneurship. Various references to SMEs have also been included in the new Structural Fund Regulations for 2007–13¹²⁴. However, Structural Fund interventions have to respect the Community legal framework, such as rules on state aids, the environment or public procurement.

¹²³ Commission Communication COM(2005) 0299 of 05.07.2005.

¹²⁴ See Official Journal of the European Union, OJ L210 of 31.07.2007.

Cross-border cooperation also leads to the creation of new economic regions, going beyond existing administrative boundaries.

For the period 2007–13 the Commission is placing increased emphasis, in partnership with Member States, on existing instruments under the European Regional Policy — Inter-regional Cooperation and the Urban development network programme— for testing good practices for economic modernisation and increased competitiveness. This initiative, called 'Regions For Economic Change', will further enhance the contribution of European Cohesion Policy to the goals of the renewed Lisbon agenda. The total budget of the two networking programmes is around €375 million.

Under the new initiative, the Interreg IVC and the Urbact network programmes will continue to operate as at present. Networks of public authorities in the Member States, regions and cities will select development themes that interest them, and will pursue these through joint networks co-financed by the European Regional Development Fund (ERDF). Participating Member States, regions and cities will continue to play the leading role in running the networks.

The novel features are that: the Commission and the Member States have agreed a priority list of modernisation themes; the programmes are paying increased attention to 'capitalising' on results; fast-track networks with specific links to mainstream programmes will be supported by the Commission; and the Commission will reinforce its efforts to communicate and disseminate good practices in particular for projects that clearly contribute to the Union's jobs and growth agenda.



The European Agricultural Fund for Rural Development and jobs

- *Similar to the Structural Funds, the EAFRD has focused its attention in the new programming period on job creation and job maintenance, investments in the field of innovation, new technologies, products and techniques, business creation as well as upgrade of human capital in agriculture, forestry, food industry and in rural areas in general along with investments in land management and the environment. In the new programming period, about € 12.2 billion of EAFRD will be spent on income diversification measures and improvement of quality of life in rural areas, and another €30.9 billion for improving the competitiveness of agriculture, forestry and food industry.*
- *The Common Monitoring Evaluation Framework (CMEF) for rural development shows that over the period 2007-2013, it is expected to be created about 369.8 thousand non-agricultural jobs under the income diversification measures (data from 64 Rural Development Programmes (RDPs) out of 94 in total) with a non-agricultural value added amounting currently to some €34.1 billion (data from 30 RDPs out of 94 in total). Additional data is expected to come for those RDPs that are currently assessing the potential impacts, which will raise the above figures.*
- *As regards the upgrade of human potential, EAFRD will support the training of some 2.3 million farmers, forestry and food industry managers (data from 77 RDPs out of 94 in total), and the training of about 0.44 million rural inhabitants not involved in agriculture (data from 56 RDPs out of 94 in total).*

4 | STRUCTURAL FUNDS AND RELOCATION

4.1 Distinction between relocation as part of restructuring and 'subsidy-hopping'

Relocation is a normal phenomenon in economic life. It can form part of a restructuring process. It is also important to keep in mind that decisions on the location of a firm are the responsibility of its own management. The Structural Funds should not be used for 'subsidy-hopping' and relocation should not be financed by public aid. In its programme negotiations for 2007-13, the Commission, in partnership with Structural Fund recipients, has paid particular attention to the issue of relocation.

Legal provisions and follow-up

Article 57 of the General Council Regulation (EC) 1083/2006 of 11 July 2006 contains a number of provisions to reduce the risk of EU Structural Funds being used for subsidy-hopping and relocation. In essence they require a Member State to recover any co-funded state aid where a project is terminated within five years after granting of the aid (three years for SMEs). This Member State then informs all other Member States and the Commission of the recovery and as a consequence no other Member State will grant EU funding to the same company. Responsibility for compliance lies with the Member States.

The Commission intends to play a more active role in monitoring relocation throughout the Union. It will ensure the flow of information between Member States on any ongoing relocations that involve EU co-financing, and will seek to ensure that relocated enterprises that have unduly benefited from the Structural Funds do not get any further support in future. The Commission will organise the flow of information required under Article 57(4) and pay particular attention to the relocation issue when taking a position on major projects.

Support is granted to companies by national and local agencies under programmes agreed by the Commission. If a project has a total investment cost of over €50 million (€25 million in the case of environmental projects), the Commission analyses the individual project and the Member State has to indicate the job impact within the EU. If the net effect is negative the Commission can refuse to co-finance. Furthermore, when assessing major projects, the Commission can request all necessary information to verify that the financial contribution from the Funds will not result in substantial job losses in other locations within the European Union, in order to ensure that Community funding does not support relocation within the European Union.

The Commission devoted particular attention to relocation during the 2007-13 programme negotiations, sending a letter

to all Permanent Representations requesting the Member States to include the following standard phrase in their operational programmes:

'In the case of assistance granted from the Structural Funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprise concerned that the assistance will not be used in support of investment that concerns the relocation of its production or service facilities from another Member State of the European Union.'

For those operational programmes already adopted, or already agreed with the Commission, this paragraph is to be inserted upon the first modification of the programme. The Commission has received clear commitments from various Managing Authorities of the programmes that no money will be used for business investment resulting from relocation.

Cohesion Policy has a particular emphasis on SMEs. Article 3(2) of the *ERDF Regulation (1080/06)* provides that '*the ERDF shall contribute towards the financing of productive investment [...] primarily in small and medium-sized enterprises.*' Moreover, the Strategic Guidelines refer in various places to the priority to be given to SMEs.

While aid to large enterprises is possible within the limits of state aid rules, following various questions by Member States during the 2007-13 programme negotiations, a policy line on limiting aid to large enterprises has been developed. In particular the Commission has made the following recommendations to all Member States:

- For each Member State and globally for Operational Programmes providing direct assistance to firms, a substantial share of this support should be directed towards assisting SMEs; and
- Each Operational Programme should make explicit reference to a minimum threshold of direct support for SMEs as a percentage of the total amount of direct support for all firms during the programming period.

These minimum amounts would not preclude the allocation of all direct ERDF assistance to SMEs, and do not apply to direct support for R&D, given the high importance attached to this type of investment.

Account should be taken of national circumstances, but the overwhelming priority in designing aid schemes for firms should be SMEs.

4.2 **European Parliament report and action plan**

In response to a Parliament report on the issue of relocation, an action plan has been agreed between the European Foundation for the Improvement of Living and Working Conditions and the Commission's Directorate General for Regional Policy. The European Foundation records information on the restructuring activities of companies in the EU-27 in the European Restructuring Monitor (ERM). This database, updated weekly, already includes information on relocation cases. This element will be strengthened further in the future to allow for an even more detailed analysis of the phenomenon.

The Foundation presents an analysis of the data it collects in quarterly reports and in a yearly restructuring report. This will address the European Parliament's request for 'monitoring the issue of relocation, in order to objectivise its social and economic impact and effect on cohesion policy, spatial planning and regional development, and submitting the findings obtained and putting forward specific proposals to Parliament in the form of regular reports.'

The Commission has made an inventory of the information held by the Commission itself (see Annex), and the European Foundation will do the same as regards existing studies and reports within its area of responsibility. The Commission has subsequently commissioned a study on the wider available literature on the subject and its main conclusions. Use will be made of earlier studies carried out in this area.

The fact that Member States will be obliged in future to regularly publish lists of Cohesion Policy Fund recipients may help to feed the European Restructuring Monitor database and track the restructuring activities of the companies concerned.



5 | THE EUROPEAN GLOBALISATION ADJUSTMENT FUND

The European Globalisation Adjustment Fund (EGF) complements the structural funds, and in particular the contingency reserve. The budgetary reserve created for the Fund contains a maximum of €500 million each year. To activate the Fund, a Member State must submit a request and comply with strict criteria, subject to an assessment by the Commission and approval by the budgetary authority (Council and European Parliament). There must be a proven link between job losses and significant structural changes in world trade patterns and a minimum of 1,000 redundancies in a given company or sector. At company level (Article 2a), the geographical point of reference is the Member State concerned. The number of redundancies in this case also includes workers made redundant in suppliers or downstream producers.

The period in which redundancies can occur is 4 months. At sector level (Article 2b), the EGF can help in case of job losses particularly pronounced in small and medium-sized enterprises in a given economic sector (as defined in the Community's «NACE2» nomenclature published by Eurostat), either in one region (i.e. the «NUTS II» regions for Cohesion policy; see examples in the Annex), or in two neighbouring regions. The period during which such redundancies are counted is 9 months. In small labour markets or in exceptional circumstances (Article 2c), the Fund can intervene even if the criteria in 2a) or 2b) are not entirely met. To qualify for support by the Fund, redundancies must have a serious impact on employment and the local economy.

5.1 Purpose and functioning of the EGF

In 2005, the Commission report on 'European Values in a Globalised World'¹²⁵ emphasised the benefits of opening markets and increased international competition, but also highlighted the need to help workers whose jobs would disappear, to find new jobs quickly. Commission President Barroso proposed setting up a European Globalisation adjustment Fund (EGF) to provide a European response and help those needing to adjust to the consequences of globalisation. This was designed to be a sign of solidarity on the part of the many benefiting from openness to the few who face the sudden shock of losing their jobs

In December 2005, EU leaders agreed to establish the EGF. During 2006, the Council and the European Parliament debated and refined the concept, until it was adopted on 20 December 2006¹²⁶. Since 1 January 2007, the EGF is funding active labour market policies focused on helping the workers who have become redundant as a result of globalisation, for example through:

- Job-search assistance, occupational guidance, tailor-made training and re-training, including IT skills and certification of acquired experience, outplacement assistance and entrepreneurship promotion or aid for self-employment,
- Special time-limited measures, such as job-search allowances, mobility allowances or allowances to individuals participating in lifelong learning and training activities,
- Measures to encourage disadvantaged or older workers in particular, to remain in or return to the labour market.

The EGF co-finances support provided by the national authorities the form of active employment measures. It will not fund passive social protection measures such as retirement pensions or unemployment benefits, which are the responsibility of the Member States. Applications to the Fund must be submitted by Member States. Individuals affected by redundancies and wishing to benefit from the Fund may contact their national authorities. The EGF does not contribute towards the restructuring of companies or industrial sectors. EGF assistance is not limited to the workers of the main company or sector experiencing difficulties – if the company's suppliers also face redundancies as a result, then their workers may benefit under Art 2a). Thus, the Fund is available to support workers made redundant by small or medium-sized enterprises (SMEs) either in a sectoral application, or if these are suppliers to a large enterprise where redundancies take place.



¹²⁵ COM(2005) 525 final

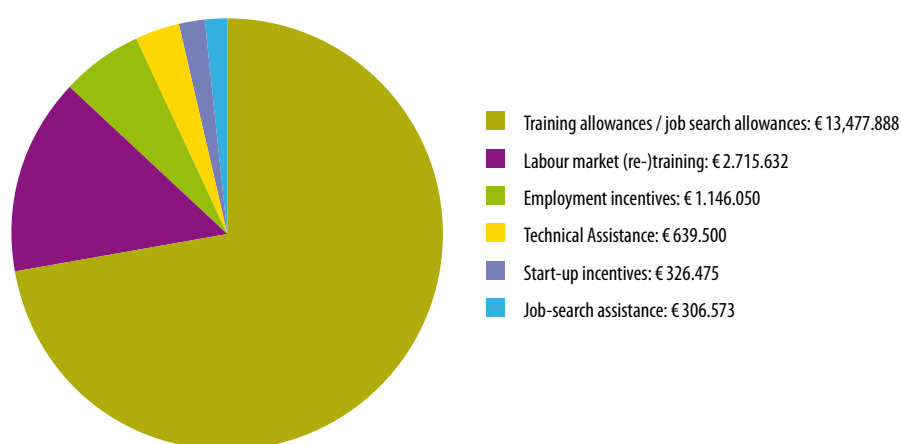
¹²⁶ Regulation (EC) No 1927/2006

5.2 Overview of applications received

The reporting cycle for individual EGF contributions means that the first two reports were received in September 2008. The first evaluation of the EGF is scheduled mid-term in its period of implementation, in 2011. While it is at this stage too early to draw detailed lessons, information on the current EGF cases may be summarised as follows.

Twelve applications for a support from the EGF have been received by the Commission so far. Financial contributions made by the EGF in 2007 are detailed in the graph below, while the table provides an overview of all applications received to date (as at end October 2008):

Fig 2: EGF Interventions in 2007



Date of application	Member State	Firm, sector or region affected	Workers targeted for assistance	EGF support requested	Status
9/3/2007	France	Suppliers to Peugeot-Citroën	267	2.558.250	Paid in full
23/3/2007	France	Suppliers to Renault	628	1.258.030	Paid in full
27/6/2007	Germany	BenQ	3.303	12.766.150	Paid in full
18/7/2007	Finland	Perlos	915	2.028.538	Paid in full
9/8/2007	Italy	Textile sector in Sardegna	1.044	10.971.000	Budgetary Authority
10/8/2007	Italy	Textile sector in Piemonte	1.537	7.798.750	Budgetary Authority
17/8/2007	Italy	Textile sector in Lombardia	1.816	12.534.125	Budgetary Authority
12/9/2007	Malta	Textile sector	675	681.207	Paid in full
9/10/2007	Portugal	Automobile sector in Lisboa-Alentejo	1.122	2.425.675	Paid in full
12/02/2008	Italy	Textile sector in Toscana	1.558	3.854.200	Budget authority
6/02/2008	Spain	Delphi	1.589	10.471.778	Financing Decision
8/05/2008	Lithuania	Alytaus tekstil	600	298.994	Financing Decision
Total			15.054	67.646.697	96.1%

EGF applications by Member State:

Eight Member States have applied for a contribution from the EGF. Of these, Italy has requested support for the textile sector in four separate regions, while France has asked for assistance with two separate large-scale redundancies in the automobile sector.

EGF applications by amount requested:

The amount of assistance requested is calculated by the Member State applying for it, and among other things depends on the scale of the redundancies, the territory concerned, including job alternatives, the cost of implementing the most appropriate measures, and the general environment, including other measures already available. There is no recommended or maximum amount. Requested amounts have ranged from €298 994 in the Lithuanian application to €12 534 125 in the Italian application for the textile sector in Lombardia.

EGF applications by the number of workers targeted for assistance:

Although the EGF is designed primarily to assist with large-scale redundancies, Member States may also make applications for small labour markets or in the event of exceptional circumstances. Furthermore, Member States may choose to focus assistance on only some redundant workers, if it feels that they face particular difficulties in finding new jobs. While most applications (7 out of 12) relate to over 1 000 workers, three others concerning 'small labour markets' target a smaller number, while in the case of the two contributions granted to France, the Member State specifically targeted a sub-set of the workers affected in order to maximise the impact.

EGF applications by amount of contribution requested per worker:

The package of services that Member States can offer is dependent on the circumstances of each case. The amount requested per worker affected can therefore vary according to the scale of the redundancy event, the labour market situation in the region affected, the individual circumstances of the workers affected, or even the general cost structures in the Member State or region concerned. In practice, the amounts proposed per worker have varied greatly, from €498 in the case of Lithuania up to over €10 000 in the case of the Italian application for the textile sector in Sardinia. In general terms, the assistance proposed per worker tends to be higher in regions, or sectors, where the workers face particular labour market problems, or where the costs are higher than the EU average.



5.3 Next steps

In accordance with the Renewed Social Agenda, the first annual report on the EGF¹²⁷ was presented in July 2008. This Communication reports on the operation of the EGF during its first year and makes suggestions for immediate and longer-term ways to improve its performance.

The uptake of the Fund is likely to increase in future years as Member States become more familiar with it and best practices are developed. Moreover, in the current economic climate, the expected increase in globalisation induced redundancies will lead to more cases when the support of the EGF will be called upon. In its Communication of 26 November 2008 on «A European Economic Recovery Plan», the Commission announced a future proposal to revise the rules of the EGF together with a revision of the budgetary means available for the Fund.¹²⁸

¹²⁷ COM(2008) 421.

¹²⁸ See box on financial crisis consequences in Chapter 1.

Chapter 7:



Stepping up coordination, disseminating innovations and developing partnerships

- 1 - Coordinating the EU's objectives, policies and action in the field of change and restructuring: the Commission Taskforce*
- 2 - Capitalising best practices and fostering a multi-actor approach to change and restructuring: Restructuring Forums*
- 3 - Reinforced sectoral monitoring*
- 4 - Initiatives under way*

The Commission has taken several initiatives on the basis of the 2005 Communication on restructuring. The first entailed the setting up of an internal Commission Restructuring Taskforce (Section 1) with a view to achieving greater convergence and synergy between the various objectives and policies relating to restructuring.

The second involved the setting up of a Restructuring Forum (Section 2), which was set up in 2005. Designed as a platform allowing representatives of the European Union institutions, Member State governments, regional and local authorities and the social partners to regularly share ideas and discuss developments, the Restructuring Forum seeks to keep abreast of changes at all levels and to ensure that initiatives under way are properly dovetailed. Since the inaugural session, the Commission has organised a series of sessions focusing on specific aspects of restructuring (the sectoral dimension, the regional dimension, the role of the social partners, the anticipation tools and the specificities of the SMEs) and on individual sectors (automotive and defence industries).

Section 3 describes the enhanced sectoral monitoring that has been developed in the car and defence industries. A European Partnership for the Anticipation of Change was concluded as follow-up to the Restructuring Forum on the automotive industry. A dedicated Forum will take place on the defence industry in December 2008.

The EU has a number of useful instruments for anticipating and accompanying change. Thanks to its capacity for identifying and forecasting sectoral developments and its tools for responding effectively to unforeseen events that impact disproportionately on certain sectors or regions, it promotes successful coordination among all stakeholders. In addition to developing knowledge of restructuring as a phenomenon, the Commission has launched a series of sectoral studies that seek to identify emerging competences at sectoral level and analyse how existing occupations will evolve over the coming years, with the goal of helping workers and companies to anticipate future developments. By applying a foresight scenario-based approach, these studies provide options both for anticipating and adapting to change. This new development is presented in Section 4. In addition, some preliminary work is outlined on the link between restructuring and health.

1 | COORDINATING THE EU'S OBJECTIVES, POLICIES AND ACTION IN THE FIELD OF CHANGE AND RESTRUCTURING: THE COMMISSION TASKFORCE

In the framework of the Lisbon Strategy, the mobilisation of general Community policies is one strand of the Community action advocated in the Commission Communication on Restructuring and Employment, to create conditions whereby workers and companies can adapt. A number of fields are involved, such as education, industrial and competition policy, employment policy, cohesion policy and external action. To ensure the overall coherence, convergence, synergy and rationalisation of activities led by different Commission services and departments, the Communication acknowledged the need for a specific coordination entity in the form of a Taskforce.

The group was set up within one month of the adoption of the Communication, and met on 29 April 2005 for its first session (agreeing on the composition and mandate of the Taskforce).

Mandate of the Taskforce:

- *Follow the various external initiatives of the Commission from the start and try to incorporate the main principles of the Commission communication on restructuring and employment (anticipation, coordination).*
- *Promote the circulation of relevant information inside the Commission services.*
- *Follow the planned and ongoing analyses by various services of the Commission on restructuring, sectoral evolutions and other main events (e.g. warnings by the social partners) in order to anticipate change better.*
- *Coordinate the analyses by Commission services on restructuring*

Since this initial meeting, the Taskforce has been convened two or three times a year. The most recent meeting of the Taskforce was held in April 2008 and a meeting of the Taskforce is planned for December 2008.

Pursuant to its mandate, the meetings held were convened to ensure the continued exchange of relevant information and/or rapid coordination and consultation at short notice when major restructuring events or new developments in companies or sectors called for concerted action by the Commission, such as the Hewlett-Packard restructuring in 2006, the restructuring announced for the Volkswagen plant in Belgium, the closure of the Cadiz plant of Delphi or the enquiries into the legality of aid granted by the Polish authorities to shipyards in Poland.

The Taskforce is made up of permanent members representing 20 different services of the Commission and reinforced by other Commission staff when necessary. Where appropriate specific topics are mandated to working groups bringing together the services particularly concerned by the matter addressed (e.g. competition matters). The Taskforce may also decide to issue a joint public statement (see the statement of September 2007 on the Polish shipyards situation below).

Further to discussions at meetings of the Taskforce, intense and sustained work contacts have developed between members. This applies particularly to the preparation of the sessions of the Restructuring Forum and follow-up activities. Depending on the topic, members cooperate throughout the preparation of the agenda and background papers to ensure that all interested participants and relevant aspects are addressed. Joint work is also done on shared monitoring and steering of projects and studies commissioned by the various components of the Taskforce.

The importance and necessity of coordination are also reflected in the impact assessment process. As part of the Better Regulation package and the European Sustainable Development Strategy, the Commission has taken concrete actions to improve the way it designs policy. One of these is Impact Assessment (IA), for which the Commission introduced a new method in 2002, integrating and replacing previous single-sector type assessments. The European Council and the European Parliament have also agreed to undertake IA of major amendments to Commission proposals (see box below).

Impact Assessment at the Commission

IA is a process aimed at structuring and supporting the development of policies. It identifies and assesses the problem at stake and the objectives pursued. It identifies the main options for achieving the objective and analyses their likely impacts in the economic, environmental and social fields. It outlines advantages and disadvantages of each option and examines possible synergies and trade-offs. Thorough consultation of different stakeholders and coordination between the different Commission services are key elements of this process.

IA is applied to all major legislative and policy-defining initiatives included in the Commission Legislative and Work Programme, be they:

- Regulatory proposals;
- Other proposals having considerable economic, social and environmental impacts;
- Proposals having a major impact on particular groups;
- Proposals representing a major change or policy reform.

So far, around 300 IAs have been carried out and published by the Commission.¹²⁹

In 2006, the Commission also created an independent Impact Assessment Board (IAB) to ensure consistency and high quality of its IAs. The IAB works under the direct authority of the Commission President. Its members (appointed in their personal capacity and on the basis of their expertise) are high-level officials from the Commission departments most directly linked with the three aspects of the impact assessment — economic, social and environmental impacts. The opinions of the Board are not binding. However, the Board's opinion accompanies the draft initiative together with the IA report throughout the political decision-making in the Commission.

The assessment of employment and social impacts

In 2006–07 an external evaluation of the Commission IA system was carried out. It confirmed, on a technical level, the difficulties of identifying and quantifying certain types of impacts, particularly in the 'social pillar', and the need to strengthen the quality of the assessment of such impacts. The same concern had already been expressed, on a political level, by the European Parliament in June 2006 on the basis of a study commissioned by the Parliament's Employment and Social Affairs Committee.

In order to develop a practical response to these issues, the Employment DG produced a Toolkit for the assessment of employment and social impacts falling under its competences. The Toolkit provides guidance to answer the questions related to social impacts identified in the IA Guidelines. For each set of questions, the policy framework in which the issue should be examined is described, and basic definitions of the main related concepts are provided. In addition, the main effects usually observed are listed, as well as the principal sources of data.

The Toolkit is likely to contribute to the assessment of relevant social impacts in the framework of the preparation of IAs. Naturally, the other Commission services do not need to assess all the potential impacts described in the toolkit, but can use the guidance for the impacts most likely to be induced by the policy proposal.

In order to provide further tools aiming to strengthen the Commission's capacity to assess potential employment and social impacts, and thus anticipate and facilitate adaptation to change, the Employment DG has launched or is about to launch a number of studies, including:

- A contract to develop a labour market model, which should help to assess the effects of labour market reforms in the context of the European Employment Strategy;
- A study aiming to improve knowledge of how to assess the social and employment impacts in some strategic fields of Commission policy (trade policy, transport policy, energy policy, Internal Market and especially consumer policy);
- A study on social impact assessment as a tool for mainstreaming social protection and social inclusion concerns in public policy in the EU Member States (mainly focusing on the level of the Member States);
- A study aimed at reviewing the existing research literature and approaches/methodologies (applied in the Member States and at the European and regional levels) to identify and measure the regional employment impacts of various public policies (both sectoral and cross-sectoral ones) and the redistributive impacts.

¹²⁹ http://ec.europa.eu/governance/impact/practice_en.htm

The following short summary of the topics discussed at the Taskforce meetings will illustrate how this internal coordination mechanism has functioned so far.

In 2005, the Taskforce addressed the following important policy initiatives and developments at three meetings (29 April, 30 June, and 30 September):

- Employment Guidelines (adopted as Council decision on 12 July 2005);
- New regulatory framework for the structural funds (Funds for Regional Development, European Social Fund);
- New industrial policy framework (see Communication COM(2005)474);
- External policies (trade);
- State Aid reform;
- Analysis of the phenomenon of restructuring;
- Preparation and follow-up to sessions of the restructuring forum.

In addition, the meeting held on 30 September was convened at short notice to address the major restructuring at *Hewlett-Packard* and to respond to the request of the sectoral social partners on the impact of the sugar market reform.

In its meeting on 12 July 2006, the Taskforce discussed several issues:

- The preparation of forthcoming Restructuring Forums;
- How to better incorporate anticipative approaches in the national programmes of the new generation of Structural Funds;
- The launching of the project 'Innovation, skills and jobs' (see Section 4.1 on Comprehensive sectoral analysis of emerging competences and economic activities in the European Union) and the initiative 'New Skills for New Jobs' (see Chapter 4, Section 5.2);
- Sectoral initiatives launched by the social partners in the textile and steel sectors;
- The forthcoming Communication on the external dimension of competitiveness.

At the end of 2006, another meeting was convened in response to the announcement by the German *Volkswagen* Group of a high number of redundancies at the production site in Vorst (Brussels, Belgium).

The Belgian authorities had created crisis management mechanisms and involved the Commissioners responsible for the structural funds (European Regional Development Fund and European Social Fund) to obtain guidance on the use of money from the structural funds, as the transition to the new programming period raised some specific questions. The Taskforce Members informed each other in this regard and heard about the outcomes of the meetings with the Belgian authorities of the Commissioner for Employment and the

Commissioner for Regional Policy. The Taskforce was also given information on compliance with the legislation on information and consultation of workers and the 'Reference guidelines on managing change and its social consequences' as adopted by the Social Partners at European level.

The first meeting in March 2007 largely focused on the automotive sector (although other high-profile restructuring events were also analysed, such as Airbus, Alcatel-Lucent and Siemens-Nokia). It provided for follow-up information on the developments at *Volkswagen Belgium* and was mainly driven by a new major restructuring exercise in the automotive sector, the decision of the car parts supplier *Delphi* to close down a site in Porto Real, in a region which had already suffered severe job destruction in previous years. The Taskforce reaffirmed the need for intensified monitoring of the automotive sector. This led to the organisation in October 2007 of a Restructuring Forum dedicated to the sector and the launching of a European Partnership for the Anticipation of Change in the Automotive Sector (see section 3.1 of this chapter).

At the same meeting, state aid issues related to training aid were considered. It was decided to set up a working group of Taskforce members from the Competition, Enterprise and Employment DGs to consider competition matters such as the involvement of third parties in merger procedures and the implementation of the state aid action plan).

The meeting of the Taskforce in September 2007 was primarily caused by recent state aid issues relating to shipyards in Gdynia, Szczecin and Gdansk (Poland). Taskforce members were informed about the situation in the European shipbuilding and repair industry and the enquiries launched by the Competition DG, together with an in-depth analysis of the orientations of the Polish Operational Programmes under the structural funds. The Taskforce decided to issue a joint public statement on the situation in the shipbuilding and repair industry, also in the light of the European experiences and the LeaderSHIP 2015 initiative; it underlined the necessity of developing regional strategies and adjusting the use of structural funds to cope with adaptation needs.



Statement of the Taskforce on the situation of Polish shipyards – September 2007

- *The Taskforce takes note of the inquiries launched into the state aid granted to the shipyards of Gdynia, Szczecin and Gdansk. Shipbuilding remains an important economic sector for Poland and in particular for the regions of Pomorskie and Zachodniopomorskie (Pomerania and West Pomerania).*
- *All enterprises of this sector throughout Europe have been facing globalisation, including fierce competition, and undergone considerable restructuring for more than 20 years with difficult consequences for enterprises, their workers and regions where this branch of industry was or still is present.*
- *At the same time, the industry is an example for the successful implementation of an industrial strategy, which was launched in 2003, based on the conviction that shipbuilding in Europe will only survive by becoming and remaining a modern and efficient manufacturing sector operating in high segments of the market and stimulated by innovation and high skills. Combined efforts have been undertaken within the LeaderSHIP 2015 initiative¹³⁰ to vitalise the sector and change its image. As expressed in the recently published progress report¹³¹, the Commission will continue and accelerate the LeaderSHIP 2015 initiative where possible.*
- *Polish shipyards which have received or are to receive public money and are confronted with serious efficiency deficits will need to undergo important changes to become successful, viable companies.*
- *Without prejudice to further developments of the current enquiry on the compatibility of state aid granted to the Polish shipyards and regardless of the final decisions that shall be made in these cases, the Taskforce would like to recall the need as well as the instruments available to manage smooth management of inevitable change in order to reduce social costs related to this process to a minimum.*
- *In its Communication on restructuring and employment¹³², the Commission underlines the importance to anticipate and prepare change, in order to primarily avoid brusque events wherever possible and to have structures ready for relief in cases of unforeseeable events. The Commission is convinced that close partnership between all actors involved — national government, regional authorities, employers and workers' associations, employers and workers' representatives — is a necessary condition for achieving these aims.*
- *The Taskforce encourages all these actors to launch discussions and to engage in the development of joint strategies based on a realistic vision of the future of the shipyards and of their whole regions and addressing the need of economic diversification and re-conversion. This will at the same time enable the targeting and the optimisation of the use of the structural funds available to the regions. Their concept for the new programming period allows developing and supporting measures to foster the adaptability of workers, enterprises and regions. The Commission services are ready to discuss and provide support in this regard.*

In 2008, the Taskforce met at the beginning of April, to examine the status of major initiatives in the area of adaptation to and management of change and restructuring, and to ensure

continued cooperation in these matters. An informal discussion was held in preparation to the Commission Staff Working Document on Restructuring and Employment.

¹³⁰ COM(2003)717 final: LeaderSHIP 2015 — Defining the future of the European Shipbuilding and Repair Industry.

¹³¹ COM(2007)220 final: LeaderSHIP 2015 Progress Report. See also: http://ec.europa.eu/enterprise/maritime/maritime_industrial/leadership_2015.htm

¹³² COM(2005)120: Restructuring and Employment: anticipating and accompanying restructuring in order to develop employment.

2 | CAPITALISING BEST PRACTICES AND FOSTERING A MULTI-ACTOR APPROACH TO CHANGE AND RESTRUCTURING: RESTRUCTURING FORUMS

The Forum's mission is based on the work already done by existing organisations to exchange information on ongoing changes at all levels and to ensure that the various initiatives are properly dovetailed. The Forum includes representatives of European Union institutions, Member States representatives, regional and local authorities and social partners. As an opportunity for exchanges and discussions, the Forum play an important role in helping trade unions, businesses and workers to tackle the current challenges. The Forum aims at collecting, promoting and disseminating the information gathered by the different projects on restructuring issues. Its main roles are to capitalise on information obtained in EU-funded projects and deliver information to key public actors, such as the European institutions, social partners, scientific experts and the general public. It feeds into the debate on restructuring in Europe.

The Restructuring Forum meets regularly to tackle specific issues on restructuring. Designed as a platform for the exchange of ideas and debate between high-level public and private representatives, the Restructuring Forum has already been held six times since 2005: an inaugural session on anticipation in June 2005, followed by specific forums on the sectoral dimension (July 2006), the regional dimension and the role of European structural funds (December 2006), anticipation of changes (June 2007), the automotive sector (October 2007) and adaptation of SMEs to change (November 2007).

Restructuring forum	Subject	Follow-up
23 June 2005	Inaugural session	
18 July 2006	Sectoral actions in industry	Sectoral Foresight studies
4–5 December 2006	Regions and Structural Funds	ESF Committee Meeting (6.12.2006)
25–26 June 2007	Anticipation of change	Anticipedia (work in progress)
17–18 October 2007	Automotive industry	European Partnership
26–27 November 2007	SMEs and change	Good practices in training and adaptation of skills
13–14 November 2008	Transnational Agreements	Support to share experiences
27–28 November 2008	Innovative actions Art. 6 ESF	Toolkits for stakeholders
8–9 December 2008	Defence industry	European partnership
2009 & 2010	Climate change, sectoral skills foresight, private equity...	

Each of the Restructuring Forums, which brought together hundreds of representatives of governments, regional and local public authorities, companies, social partners and academics, provided an opportunity for broad discussion on the mutual

interdependence of the various factors involved in tackling the restructuring of companies, and the benefits of proactive and positive management of change processes.

2.1 1st Forum: the inaugural session - 23 June 2005

This inaugural session was held on 23 June 2005, in Brussels, and was chaired by Commissioner Vladimír Špidla. The President of the Commission José Manuel Barroso, the President-in-Office of the Employment Council François Biltgen and high-level representatives from the EU institutions and the major European social partners were present.

Among the main conclusions of this event were the need to anticipate and accompany change with a view to giving workers affected by restructuring the opportunity to swiftly find new jobs, and the importance of planning coherent policies in order to exploit all possible synergies between the actors.

Speech highlights

• **Mr José Manuel Barroso**, President, Commission

Europe has many assets. Together, we can anticipate, manage and stimulate change where it is needed. (...) Making Europe attractive for work and investment, investing in innovation and knowledge, creating high-quality jobs: this is the programme which should allow Europe to become more prosperous, provide jobs for its young people and consolidate its social protection. (...) Restructuring is always painful when it hits a city or region which sees many jobs disappear. We must listen to these concerns and answer them innovatively, in close cooperation with all those concerned — companies, the social partners, local politicians, employment services. Everything must be done to ensure that restructuring does not lead to exclusion. (...) I warmly welcome the creation of this Forum by my colleague Vladimír Špidla. It will contribute to bringing about a new political consensus for which I have long wished and which is, today, so necessary for Europe's progress. (...) Managing restructuring is the great challenge of our age. (...) The speed of these changes means that we must anticipate them and listen to citizens.

• **Mr Vladimír Špidla**, Commissioner for Employment, Social Affairs and Equal Opportunities Today we see two major types of restructuring, which call for political answers at different levels. The first one happens inside the sectors of activity and is linked for instance to technological possibilities to locate subcontractors and suppliers anywhere on the planet. This kind of restructuring calls for an individual, reactive and anticipatory accompaniment, adapted to the conditions of the territories and of the companies concerned. The second type of restructuring occurs between the various sectors of the economy. Almost 15 million jobs were suppressed in the sectors of Agriculture and Industry in the last 25 years. As an answer, Europe has to build the basis of dynamic and sustainable growth. For that purpose, Europe must invest in the 'human capital', i.e. three complementary fields: research, innovation and education.

• **Mr François Biltgen**, Luxembourg Minister of Labour and Employment, President-in-Office of the Council Restructuring is unavoidable. If Europe wants to continue to be competitive, it needs an added value which implies restructuring and perhaps at a higher level. The aim is now to find a strategy to cope with that. (...) We cannot be passive, we must be active and even proactive, everybody is concerned, social dialogue has a role to play, anticipation is needed (like in the case of MG Rover) and all levels of action are welcomed.

• **Mr John Monks**, Secretary-General of ETUC

Restructuring is a fundamental question along with the demographic challenges, the question of working time and the duration of working life particularly in the new Member States. In a context of globalisation, the security of jobs is decreasing; relocations are a major source of concern for citizens. To face that, Europe needs more growth and more confidence. Mr Monks congratulated the Commission and Commissioner Špidla for their initiative to put the theme of restructuring on the agenda. It is a new challenge, a threat but also an opportunity. He expressed doubts about the functioning of the forum but he will be interested in its outcomes.

• **Ms Thérèse de Liedekerke**, UNICE's social affairs director

She expressed doubts about the suitability of an EU-level framework for managing the consequences of restructuring at company level. Public authorities can help (important role of the structural funds in general and of the European Social Fund in particular), but they must respect the autonomy of social dialogue within companies.

Outcomes

The debates showed that important consensus points exist in the European Union, which have been strengthened:

- Restructuring forms part of the world we live in, as it always has, but today new cases arise more frequently due to the combined effects of globalisation and technological changes.
- Anticipation of change is necessary and has to involve all actors, especially at the local level.
- The accompaniment of restructuring through rapid and proactive intervention, in particular from public employment services, is important, in order to give the workers affected the means of finding alternative employment.
- The role of the social partners is essential to create the conditions for positive management of change and the European works council represents an important tool for positive management



2.2 2nd Forum: Sectoral actions in industry - 18 July 2006

In October 2005 the Commission launched a Communication on industrial policy with an outline of work for manufacturing industries for the coming years.¹³³ It included new cross-sectoral initiatives and initiatives tailor-made for specific sectors, intended to complement work at Member State level and help address the key challenges faced by the various sectors of the manufacturing industry.

Against this background, and following on from the inaugural session of the Restructuring Forum, the Employment DG and the Enterprise and Industry DG organised in Brussels, on 18 July 2006, a session of this Forum dedicated to the sectoral dimension of restructuring.

It started with an opening session during which the floor was given to the European Union institutions and then four interactive sessions were held in parallel, allowing participants to join discussions on four topics around the two main themes of the Forum (sectoral industrial policy and sectoral social dialogue):

- **The European Union's support instruments, including financial mechanisms** — general topic, dealing with all EU policies and instruments relevant in the field of restructuring (social dialogue, labour law, industrial policy, macro-economic policy, trade policy, structural and cohesion policy, etc.) All

these policy fields are mentioned in the Communication on Restructuring and Employment of 31 March 2005.

- **Sectors concerned** — focused on the Industrial Policy Communication of October 2005 and, in particular, on the 27 industry sectors analysed and the 15 follow-up actions announced in that Communication. The idea was to discuss the role of sectoral industrial policy in anticipation of change and restructuring and how social partners' organisations can contribute to and participate in the follow-up actions being launched by the Commission.
- **The role of the sectoral actors** — session addressing mainly concrete experiences of the sectoral social partners' organisations, at European as well as at national level, in anticipating and managing change. The speakers were also invited to look ahead and give their views on the role these organisations should assume in the future.
- **Link between the sector and other levels** — discussion of complementarities between the sectoral dimension of restructuring and the company level, as well as the regional, national and European levels. Restructuring is an issue that arises and has an impact at company and possibly also regional level. But it is also frequently a sector-driven phenomenon: many companies in a given sector may face common problems or challenges. How can one articulate all those levels of intervention? What are the speakers' experiences in that area? Also Europe has a role to play, but what role?

¹³³ COM/2005/474 final of 5.10.2005.

The event brought together several hundred high-level representatives of European Union institutions, Member State governments, regional and local authorities and the social partners. It had three main objectives: (i) to showcase experience and potential of sectoral social dialogue and of sectoral social partners' organisations in anticipating change and restructuring; (ii) to familiarise them and the other Forum participants with the Commission's Communication of 5

October 2005 on a new integrated industrial policy, which aims at developing tools to predict and anticipate change and at implementing coordinated actions to reinforce certain sectors; and (iii) to discuss the European Union's financial mechanisms which support anticipation and management of change and restructuring.

Speech highlights

• **Mr Vladimír Špidla**, Commissioner for Employment, Social Affairs and Equal Opportunities

It is now understood that economic change leads to increased and faster competition and that the rhythm of restructuring is accelerating. Its sometimes tragic social consequences indicate a need to react. (...) The Commission develops a positive approach for anticipating change. (...) The first idea is to better coordinate European policies and financial support through the structural funds and the Globalisation Adjustment Fund which was adopted by the Council in 2006¹³⁴ and which should be available soon. Secondly, there is a need to adapt the regulatory framework from a policy based on job security towards employment security. Geographical mobility of workers is to be developed too in the direction of portability of pension rights. Thirdly, partnership is vital for good positive change, vital for managing restructuring. Social partners have a major role to play.

• **Mr Matti Salmenperä**, Director, Ministry of Labour, Finish Presidency

*Innovation is the best answer to give to the problems caused by restructuring. In Finland, social partners have launched a special discussion on restructuring in different sectors. It is striking to see that the sectoral differences are not so important as common conclusions were reached: (i) the importance of training and education; (ii) the need to develop organisation of work; (iii) the need to increase Research and Development; (iv) the importance of productivity development; (v) the need to simplify regulatory environment and relaxation of taxation; (vi) the need to develop management and business skills. (...) After having explained that a restructuring process is poorly managed if it appears that major periodical redundancies continue to occur, two warnings must be made concerning a good restructuring process. **1.** A new approach to innovation is needed. About the internal organisation of the firm, the management of innovation at the micro-level must be improved; **2.** Globalisation is not only an external shock; it is dependent on every firm. This is why a reaction at the stage where the effect is already badly felt is too late. In conclusion, it must be said that the approach of the Commission is very interesting but must be complemented by a common policy that takes into concern especially the needs for fostering innovation at all levels and necessary steps to take care of vulnerable groups and regions.*

• **Mr Heinz Zourek**, Director-General Enterprise and Industry

The Enterprise and Industry DG wants to manage and anticipate change actively to bring positive results. It is the aim of its new Communication on Industrial Policy. (...) The choice of an integrated approach has been made to develop the job market and industry. There has been a significant and appreciated coordination between Employment DG and Industry DG. (...) An anticipatory, proactive approach is necessary. The final integrated legal framework must be appropriate for everyone (owners of firms, workers...). The purpose of this forum is to brainstorm, exchange experiences, to understand how structural change can become an instrument for better growth and employment and not a phenomenon of suffering.

• **Mr Jean-Paul Mingasson**, General Counsellor, Business Europe (Ex-UNICE)

Restructuring of companies becomes vital to adapt to current socio-economic changes and to ensure companies' long-term viability. (...) The industrial policy is a strategic element of the growth and jobs strategy. (...) The best approach is to mobilise existing Community horizontal policies, to make better quality legislation, to focus on research, innovation, competition, education, employment, respect for internal market rules, cohesion policy, trade policy and create an integrated approach addressing, if required, the needs of specific sectors. (...) The EU financial instruments can play a useful role in the restructuring process. The European Social Fund (ESF) correctly focuses on priorities that will contribute to better coping with change, such as active labour market policy, education and employment access. (...) Social dialogue is vital for facilitating change.

¹³⁴ Regulation (EC) N° 1927/2006.

• **Mr Patrick Itschert**, General Secretary, European Trade Union Federation: Textile, Clothing and Leather

About anticipation, 'zero dismissal' is impossible, but 'zero unemployed' is the objective. (...) Sector analysis high level groups are the tools of anticipation. There is also a need to focus on education and to create regional observatories. (...) What can enterprises do? Anticipate, avoid cross-mismanagement, and emphasise corporate social responsibility. To ease the enterprise role, the European works council directive should be revised.

• **Mr Robert Drobnič**, Director-General for Labour Market and Employment, Slovenia.

The actors' interventions must be underlined and sorted into three categories: 1-Anticipation tools were developed at regional/local levels. They took the form of committees created to anticipate change with the assistance of the government analysis. 2-The drivers of change were social dialogue, regional and local partnership and also the work of public services in local areas. 3-The management of change was due to governmental help and intersectoral coordination. In concrete terms, a new law defined criteria to allocate help in case of restructuring. A first strategy was to try to preserve employment, but after a while, it was realised that some funds had had an effective long-term role but that most of them were not as efficient as expected. It was better to accept change. It seems that this new strategy has been positive; at the beginning of the 90s, the unemployment rate was 7–8% (125 000 people) whereas it is 5.8% (85 000 persons) now. In conclusion, some keywords are training (especially for those who have a low level of education), anticipation, transition, flexicurity and coordination with social partners. Europe can help at different levels. For instance, Slovenia can use the European Social Fund to build and modernise administrative capacities to develop anticipatory instruments

Outcomes

The nature of industrial policy has changed. Industrial policy is not geared towards protecting sectors in decline. The renaissance of industrial policy is motivated by three factors:

- The new 'growth and employment' strategy.
- Structural change.
- Developments in the world economy (and competition with China).

The cross-sectoral importance of industrial policy is generally recognised and we know there are some limitations to the sectoral approach, but the sectoral dimension remains important. This is why the Commission has screened 27 manufacturing industry sectors to examine six basic challenges and see which issues are relevant from a policy point of view. This has already produced interesting results. The next step is to put in place the appropriate framework conditions at a sectoral level to promote competitiveness and thereby boost employment creation at a sectoral level. The role of public authorities in assisting sectoral development must also be underlined to strengthen an industry where there are clear market failures or coordination difficulties (as in the Galileo project, where public authority had to intervene to allow the emergence of a new technology by breaking a monopoly in satellite communication). The Finnish presidency is also putting a lot of emphasis on the demand side of innovation.

From an employment policy point of view, training and recognition of training to support mobility is paramount, but the limitations of the sectoral approach must be stressed. First, job destruction occurs within one sector but creation and reallocation may very well take place in other sectors. Secondly, an active labour market policy (of which the Nordic countries were pioneers) does not create new jobs. It is about matching... All this leads to the conclusion that the regional perspective is very important.

Social partners need a global view on the implications of the challenges ahead and, at company level we need a social dialogue that relies on, and in return yields, trust. At sectoral level, a renewed industrial policy is linked to a tripartite forward-looking vision relying on European social dialogue committees as well as assistance with the development of innovative products, action to ensure intellectual property rights are observed, and easy access to the capital.



2.3 **3rd Forum: How dynamic regions face restructuring. The role of the European Social Fund and of the other Structural Funds - 4/5 December 2006**

The European Union is full of examples of dynamic regions which embrace change, anticipate events and move in a fast-evolving, forward-looking business environment. These are regions in which all the actors — companies, trade unions, public authorities, education and training institutions, local bodies, etc. — get together around the basic concepts of anticipation, partnership and continuous investment in innovation and human resources.

The Structural Funds and the European Social Fund (ESF) in particular, have been playing an important role in supporting integrated actions carried out at regional level, aimed at anticipating and preparing the future. Their role in that regard should be reinforced in the years to come.

Against this background, the Employment DG, the Enterprise and Industry DG and the Regional Policy DG have organised in Brussels, on 4–5 December 2006, a session of the Restructuring Forum entirely dedicated to the regional dimension of restructuring and the role of the ESF.

Several hundred high-level representatives from the European Union institutions, companies, social partners, central governments and regional and local authorities gathered in Brussels to discuss the theme 'How dynamic regions face restructuring — The role of the European Social Fund and of the other Structural Funds'. The event was organised in close cooperation with the Committee of the Regions. Although it analysed what has been done in the recent past, it was strongly focused on the future, i.e. on the 2007–13 programming period of the Structural Funds.

As in the previous Forum, four interactive sessions gave the participants an opportunity to exchange views and debate around the forum's main theme: the role of regions in anticipating and managing change and restructuring. The themes of these interactive sessions were:

- **Instruments: effectiveness and pertinence.** The instruments include mechanisms and structures (regional labour market observatories, experts' networks, reconversion cells, training of 'change managers', etc.), as well as effective interventions (anticipation, targeted training, aid to individuals, promoting entrepreneurship, etc.).
- **Coordination of reconversion strategies and instruments.** The aim is to stress the need for a regional strategy covering the different policies and instruments (employment, education, training, innovation, R&D, local development, social dialogue, industrial policy, etc.).
- **Partnerships and regional dialogue.** The importance of well-managed partnerships for regional restructuring cannot be underestimated. However, partnerships differ in scope, size and management, depending on the needs and objectives of the regions concerned. This workshop will discuss partnerships and their potential for successful restructuring.
- **Competitiveness centres, SMEs and regions.** Stress the role of regions as indispensable layers for competitiveness promotion and innovation, as well as for the anticipation of restructuring by SMEs.

To feed the Restructuring Forum's discussions, a background document was prepared¹³⁵ on the patterns for potential ESF interventions in order to better anticipate change and restructuring in the 2007–13 programming period. This document was also submitted to the ESF Committee.

¹³⁵ http://ec.europa.eu/employment_social/events/2006/restruct_forum3/esf_fiche_en.pdf.

Speech highlights

- **Mr Vladimir Špidla**, Commissioner for Employment, Social Affairs and Equal opportunities

In this Forum we are going to understand how different regions in Europe anticipate restructuring and manage to implement economic and social alternatives for affected companies and workers. We will realise the importance of ESF and other structural funds that support anticipation and proactive actions and assist people facing restructuring. (...) I wish that the ESF will play a key role in this field all through the next programming phase.

- **Mr Günter Verheugen**, Vice-President of the Commission in charge of Enterprise and Industry

We must avoid that changes are unexpected and regions unprepared with all the negative consequences that we know. This is not only a responsibility for policy makers. It is a very strong responsibility also for the companies involved. I have discussed the matter with the CEOs of the most important European companies and I have asked them 'When do you know that a certain sector of your company is in trouble? When do you know that one of your products or one of your productions will be no longer competitive?' The surprising answer was 'We know it between 3 and 5 years in advance. It does not come as a surprise.' Of course, then the question is 'What are you doing to prepare the region and to prepare the workers?'. A European company does not have only responsibility for the shareholders. The management has also responsibility for the workers, their families and the location where they are. (...) If at the end of the day, restructuring leads to the closing down of production facilities and lay-offs, huge lay-offs of the workers, then it's normally justified to discuss management failure. Modern management in the 21st century means to adapt to the change and prepare the company for that.

- **Mrs Tarja Filatov**, Finnish Minister of Labour

Investment in human capital grows in importance as labour becomes scarce. (...) As a result of globalisation, governments cannot guarantee to workers that they will maintain the same job throughout their careers. Instead, governments must try to guarantee employment security. (...) The ESF should also be a response to globalisation and be a tool to confront restructuring.

- **Prof. Maria João Rodrigues**, University of Lisbon

The purpose of my statement is to ask if there is an alternative to the cases of difficult restructuring. I would say 'yes' there is an alternative provided that we are able to envisage restructuring more and more as an industrial change and provided that we are able to improve our capability to manage change. This means that we should go beyond passive answers and we should be able to build proactive answers and a preventive approach concerning restructuring. (...) Structural funds should be placed in this broader context of different instruments which are now available in order to have a stronger coordination of education, training and innovation policies towards new opportunities of investment and job creation in Europe. I hope that in this way we will be able to prevent step by step cases of restructuring and to create in advance more and better jobs for the European citizens.

- **Mr Michel Delebarre**, President of the Committee of the Regions

This forum is at the heart of the preoccupations of the Committee of Regions because many regions suffer from restructuring. (...) Dramas are not inevitable. It is possible to re-create possibilities, to give hope. But it is possible only if there is a collective will, as well as financial and legal provisions, especially at the European level. A positive dynamic depends on solidarity and on realistic and innovative strategies at local level. For this, the national and the European policies and frameworks such as the European Social Fund, the Cohesion Fund, the Globalisation Adjustment Fund, industrial policy and the social Community acquis are very useful

- **Mrs Danuta Hübner**, Commissioner for Regional Policy

The best protection we could offer to our employees in Europe today is the security that they will have the skills to move from one job to another.

- **Mr Andrea Moltrasio**, Vice-President of Cofindustria

We are on the right road as long as the idea shall be to strength regional competitiveness and human and physical capital, as well as fostering innovative capabilities.

Outcomes¹³⁶

Like all other EU policies, the provisions of the Structural Funds concentrate more and more on the need for proactive management both in terms of timing and anticipation, regarding the impact made by restructuring on the development of high quality infrastructures and on the maintenance of a well-trained workforce. It is this transversal approach to prevention that is increasingly becoming the distinctive feature of EU interventions.

These interventions need to be flexible since there is a very wide variety of local circumstances in Europe today. It is natural to consider first the disparities in development between the former Member States and the new entrants, and the considerable disparities that exist between agricultural regions, such as old industrial regions in the process of transition to more advanced regions. However, there are other sources of differences that often receive less attention and that can be crucially important.

Firstly, between the regional powers themselves, whose skills, responsibilities and resources vary quite considerably from one country to the next; secondly, between the adjustment capacities of labour markets at both the local and national level. For example, the presence of substantial numbers of employees with recognised professional qualifications makes it easier to retrain them if these qualifications are regularly updated and match the qualifications being sought. On the other hand, the huge number of employees trained in-house and who therefore do not have transferable qualifications are much less easy to place elsewhere, which is an obstacle to their redeployment and pushes agencies at both local and national level either to try and keep them in their jobs or to force them out of the labour market (through early retirement or other similar schemes).

In certain institutions, labour force adjustments can play a major role, while in others, they may be broadly neutralised. In some sites, the search for substantial redundancy packages and the fight against discrimination may be the most important point for collective monitoring and negotiation, whereas in other sites the question of guaranteed redeployment is the main priority. The room to manoeuvre and sources of conflict are therefore not the same, but are dependent on the mechanisms favoured at local level.

In his conclusions, the general rapporteur, Mr Gazier, underlined at a more general level that three lessons may be drawn from these interactive sessions. The first, which is resolutely optimistic, is that no industry should be written off. In all sectors, even those apparently subject to the fiercest international competition, niches of skills and specialisation remain and can be filled, on condition that the interactions mentioned above are developed. The second lesson is more difficult and is the result of a paradoxical effect of the study of accumulated best practices. Best practices are often seen as dependent on perceptive and persistent actors.

Consequently, it is difficult to make generalisations about best practices. Above all we must recognise and go beyond what we might call the 'melancholy of best practices'. In fact, the emphasis that is often placed on pre-existing cooperative networks and the involvement of highly qualified project promoters comes back to the focus placed on trust and the need to build on this even when these resources and networks have not yet been developed. So we come back — and this is the third lesson — to the importance of not leaving anyone behind, and to not only build effective 'transitions', but also stable and secure centres, to create trust and active involvement as widely as possible. The destruction of jobs, even if compensated by other jobs in the same location, always unleashes a period of bereavement, impoverishment and dispersion that destabilises its victims. The commitment of all communities concerned within Europe must be to create a culture of solidarity, even more so now than in the past, in order to liberate initiatives. Debate on this issue has shown its social as well as its economic relevance.

¹³⁶ By the Final Rapporteur, Prof. Bernard Gazier, University Paris http://ec.europa.eu/employment_social/restructuring/docs/syntesis_en.pdf.

2.4 4th Forum: Anticipation of change - 25/26 June 2007

A technical forum on restructuring, organised in Brussels on 25 and 26 June 2007, provided an opportunity to share experiences and examples of good practices regarding anticipation of restructuring at various levels.

The restructuring of companies often involves costs, which can be very high, not only for the workers concerned, but also for the local or regional economy. Maintaining social cohesion — which is a distinctive feature of the European social model — requires the adoption of accompanying policies aimed at minimising social costs and promoting the search for alternative sources of jobs and incomes.

Under these conditions, it is essential to ensure good management of restructuring, which responds to both the urgent economic and the social requirements. Anticipation and the accompanying of these activities fit fully into the Lisbon strategy and are the collective responsibility of public authorities, companies and social partners.

The Commission communication 'Restructuring and Employment-Anticipating and accompanying restructuring in order to develop employment: the role of the European Union' COM(2005) 120 final, stresses the importance of change management and anticipation to the benefit of all. The presentations at the Forum placed anticipation in the context of forecast studies, highlighting its dual nature as both a decision-making process and a precondition for positive management of restructuring.

• **Anticipation: an approach linked to forecasts.** Effective anticipation requires materials to work on: these are provided by forecasting, which can be defined as a method for reflecting on the future. It is an exercise in exploration of the realm of the possible based on data analysis, the observation of 'weak signals', understanding of the dynamics of the determinants of change and, generally, development of medium- and long-term scenarios.



• **Anticipation: a step towards a decision.** Anticipation relies on forecasts but it has two major characteristics: it is short-term in nature and feeds into the decision-making process. To anticipate is not only to identify tendencies, and possible futures, but more specifically to make choices and to begin to implement them, in order to prepare and bring about this future. Anticipation is about drawing up effective plans or projects. Several examples were presented during the Forum.

Started in 2005 by 14 European countries and controlled by CEDEFOP, the Skillsnet *network*¹³⁷ was launched to fill the gap in information on the future skills needs of Europe up to 2015. It observes and compares the methodologies used in various countries to identify current skills developments and future needs at European level. The project recently launched an innovative initiative aiming to add a 'focus group' sample of companies to the existing technical tools, as a way to identify skills needs.

More ambitiously, the project '*Innovation, skills & jobs*' aims to develop a European foresight methodology to identify emergent jobs and their skills needs, combining two principal fields:

- Setting the general employment trends in Europe in the context of worldwide employment trends;
- Exploring and concentrating on new activities or emerging activities thanks to a combination of innovation and skills development. The project proposes to use Community statistics, forecasts produced by econometric models, scenarios constructed by panels of experts and comparison of the various existing initiatives (such as Skillsnet).

• **Anticipation: a precondition for positive management of restructuring.** Anticipation plays a major role in the management of the restructuring processes, since there are:

- Actors endowed with their own capacity to anticipate;
- Places and procedures which enable the various actors to share their anticipations and the associated decisions, even if these are potentially in conflict;
- A number of mechanisms, which make it possible to equip the stakeholders, in good time, with the resources needed to prevent the restructuring issue turning into a crisis.

¹³⁷ http://www.trainingvillage.gr/etv/projects_networks/skillsnet/.

In other words, the anticipation of restructuring attempts to look at restructuring issues as a permanent phenomenon, requiring procedures to be devised, along with tools, mechanisms, and know-how, to allow their management.

This restructuring forum brought together around 150 high-level representatives from European Union institutions, governments, cross-industry and sectoral social partners, academic experts, promoters of good practices, business support providers such as chambers of commerce and industry, regional development agencies, all of whom addressed experiences, good practice frameworks and information in the following fields of action:

- Forecasting and foresight of sector development
- Scenario-building for the identification of future job profiles and skills needs
- National approaches to anticipation
- Anticipation of change at the enterprise level.

Outcomes

At the end of this forum, four conclusions can be drawn:

- The forecast studies and anticipation attract some criticism, pointing to the low reliability of estimates from 2007 in determining employment and training needs for 2012 or 2017. But the fundamental usefulness of the forecast studies, and anticipation, is less in the result than in the process, which makes it possible to think about the future and to do so jointly. Without ignoring the major technical difficulties of the forecasting and anticipatory exercises, it is fair to say that the process of sharing and discussing the hypotheses, the modelling choices, the results obtained, and the divergences between forecasts and achievements is more important. One must have dialogue to begin to anticipate, and then be able to turn this social dialogue towards anticipation; and the best time to do so is at the earliest stage.

- It is precisely this method that underpins the renewal and the adoption of a modern European industrial policy. Next it may have to solve the problems related to:

- The variety of sectoral characteristics. So it is important to track the impacts that the same elements (forward studies up to 2020, **flat European technological platform**, ideas on the financing of the sector, existence of an active European social dialogue committee) will produce in a sector made up of small enterprises like the textiles sector.¹³⁸

- The specific characteristics of European social dialogue and the ongoing process of designing the tools for effective transnational collective bargaining.

- The wide diversity of approaches and experiences makes it possible to compare more or less different methods and to benefit from cross-fertilisation, as long as discussions can take place over a period and according to a method which allows for reciprocal learning. National, regional and company practices have grown up in different institutional and legal contexts. So it is not always possible to transfer a 'recipe' from one country to another, and moreover a 'recipe' as such does not actually exist. However, it is possible to reflect on and learn from a practice undertaken in one context and apply it to another if its effects were judged desirable and if one or more project sponsors participate in an experiment in the host country.
- The prospect is remote of a complete mechanism for anticipating restructuring, making it possible to detect all the major risks to come, to cope with unforeseen events, and to do so in such a way that enables the consequences to be managed in a coordinated way. Actors learn by both experience itself and by the sharing of experiences. Their capacity to act effectively in restructuring situations depends on the degree of collective capitalisation, beyond borders, beyond the experiments carried out, beyond success or failure.

Forum Follow-up:

- *Setting up of an exchange network on anticipation in the form of a website called 'Anticipedia'. Anticipedia will create an online resource centre on change anticipation and restructuring and allow for an exchange of information on the various practices around anticipation of restructuring.*
- *This tool will have the attributes of a 'wiki' in the sense that the information available on the site will be supplied not only by the Commission but more importantly by any economic actors involved in one way or another in restructuring processes and willing to share their good practices on anticipation of restructuring in the form of concrete case studies, innovative and successful solutions, etc which could inspire others facing similar experiences of restructuring in their region, sector or enterprise.*
- *The site will also have forums where the various actors can express and exchange their points of view, experiences and comments on topics linked to the anticipation of restructuring. A peer-review system will be used to rate the documents posted on the site.*

¹³⁸ 'European Technology Platform for the future of textiles and clothing. A vision for 2020'. Euratex; 'An attempt at a vision for 2020': European textiles and clothing in a quota free environment - High level group follow-up report and recommendations .

2.5 5th Forum: The challenges of the automotive industry, towards a European partnership for the anticipation of change - 17/18 October 2007

Held in Brussels on 25 and 26 June 2007, this session of the Forum took place in a year when change in the automotive industry was at the top of the industry agenda, following high-profile restructuring cases (Volkswagen-Vorst, Delphi-Cadiz, General Motors-Azambuja, Opel-Antwerp, etc.) closely monitored by the Taskforce, the European Parliament, the press and the public at large. The whole meeting took the form of a plenary session bringing together 200 high-level representatives from the European Union institutions, companies, social partners, central governments and regional authorities.



Speech highlights

• **Mr Vladimir Špidla**, Commissioner for Employment, Social Affairs and Equal Opportunities

Carrying out an assessment is one thing. Taking the issues in hand and managing these challenges is another. The Commission chose to take this second route, with a proposal which is open to all (partnership for the anticipation of the change in the motor industry) (...) I can assure you that the Commission believes in the future of the European motor industry. It is and will remain one of our industrial jewels and one of the pillars of our economy. Our aim is to strengthen this pillar by taking full account of the social dimension, which passes in particular through the adaptation, innovation and investment in the human resources — our principal wealth.

• **Mr Günter Verheugen**, Vice-President of the Commission in charge of Enterprise and Industry

The final goal of our efforts is not about industry as such. It is to secure safe and rewarding jobs in Europe! (...) The Commission's position is that we should create framework conditions which avoid the need for restructuring insofar as possible by making Europe an attractive and profitable location in which to produce cars. Where restructuring is unavoidable, we expect any transition to be managed in a socially responsible way by the automotive companies involved and in close cooperation with the workers' representatives. The Commission has a legal framework in place for such consultations and it has to be respected. In a way our policy can be summed up in very simple terms: avoid negative effects where possible and ensure that workers and families who are affected are given transitional security and provided with help in finding employment. I hope that all stakeholders will contribute to these aims.

• **Mr Christian Streiff**, CEO, PSA Peugeot Citroën, President of ACEA

The whole European automotive industry supports the 'Partnership for the Anticipation of Change in the Automotive Industry'. (...) The European Union has set itself ambitious goals regarding the protection of the environment and economic growth. It is time to really coordinate the policies and to align these equally important priorities. Our industry plays a vital role in Europe. We are fully engaged in achieving further progress in terms of economic growth, environmental performance, road safety, social dialogue and sustainable development. But we need as well: better regulation with fully transparent and proper impact assessments; an integrated approach in reducing CO₂ and to road safety; realistic lead-time and affordable solutions.

• **Mr Jürgen Peters**, Chairman, IG Metall

We need an integrated approach that puts the complex interrelations and interactions of environmental, transport, industrial and employment policies into one strategic perspective. (...) I am well aware of the fact that a new approach in the direction of sustainable development needs to overcome many restrictions, resistances and blockades — for instance in the area of corporate strategies as they are today. We must overcome a one-sided orientation toward cost cuts, short-term planning horizons and an exclusive focus on core activities. But the public authorities must also act in a proactive manner, redefining the further development of traffic and transport systems with a view to achieving sustainable mobility. We see the need for a wide-ranging social dialogue at a European level between governments, business and trade unions.

The Restructuring Forum was a starting point assembling all relevant actors to review the events in the automotive sector, to permit open dialogue between the various parties and to help them to adapt to the change. One of the main objectives of the event, which was entirely fulfilled, was to promote a 'European Partnership for the anticipation of change in the automotive industry'¹³⁹ describing the roles and responsibilities of each actor (European Union, governments, companies, trade unions and regions).

This innovative document endorsed by the Commission and all the sector's economic and social players (i.e. ACEA, representing all European car manufacturers; CLEPA, representing the supply industry; and EMF, the European Metalworkers Federation) refers to the roles and responsibilities of each actor (European Union, governments, companies, trade unions and regions) and commits the partners to a series of 14 actions in a 2-year period (2008–09) aimed at monitoring the developments in the industry, while the partners will exchange know-how on managing restructuring in a socially responsible way, issuing recommendations on socially responsible restructuring. The partnership is open to other partners, especially public authorities (local, regional and national).



Outcomes¹⁴⁰

The European automotive industry is very important for production, employment, exports and R&D in Europe. Over the last ten years, there have been important changes. The most important has been the process of outsourcing, which has created a segregated supply chain, including equipment suppliers and vehicle manufacturers. The situations in these two sub-sectors are quite different: Vehicle manufacturers are today in a relatively comfortable position in terms of competitiveness and profitability. This is the result of efforts made by the industry, companies and workers included, which have included an increase in the R&D and marketing effort, the offshoring of some low-skill-intensive activities to countries with lower labour costs, and greater flexibility of some of the labour arrangements emerging from social dialogue. For equipment suppliers, the situation is more difficult given the fragmentation in the industry. This fragmentation puts the sector in a weak negotiating position. The solution will entail more consolidation and more offshoring, both of which are currently taking place.

There are four main challenges ahead:

- The rise in international competition, there has been huge international competition, from more and more competitive producing countries (e.g. China); there are some unfavourable changes in international trade laws: WTO and bilateral agreements may close export markets, if they exclude the EU, and open local markets, if they include it. Euro appreciation is adding to the competitive pressure.
- Demand is changing. Most growth will come from countries on the periphery. So the growth is going to come from these markets and whatever we do to be competitive we have to be able to penetrate them. Markets in Europe, particularly in the EU-15, have been flat for over 15 years.
- The rise in regulatory pressure, due to societal (urban sprawl, road safety) and environmental demands.
- The need for skills to replace the ageing labour force. The share of skilled manual workers fell from 62% to 55% in the last ten years. The proportion of engineers was up from 13% to 19%. The proportion of the labour force over 50 years old has increased from 18% to 21% in the same period. The capacity of national economies to produce skills will be a key factor of competitiveness. Continued commitment to a vocational training platform that develops skills internally must be part of the solution.

¹³⁹ http://ec.europa.eu/employment_social/restructuring/docs/partnership_en.pdf.

¹⁴⁰ By Professor Daniel Traça, General Rapporteur, Solvay Business School/Université Libre de Bruxelles.

2.6 6th Forum: Adaptation of SMEs to change - 26/27 November 2007

Held in Brussels 26 and 27 November 2007, this session of the Forum was dedicated to a highly difficult subject. Restructuring presents a very specific challenge for SMEs and for Members States and the Commission when they design policies to help anticipate and manage change. Paradoxically, SMEs' restructurings are less visible (they are often referred to as 'silent restructuring') even though the EU's 23 million SMEs are a major component of the European economy (see Chapter 3, Section 4).

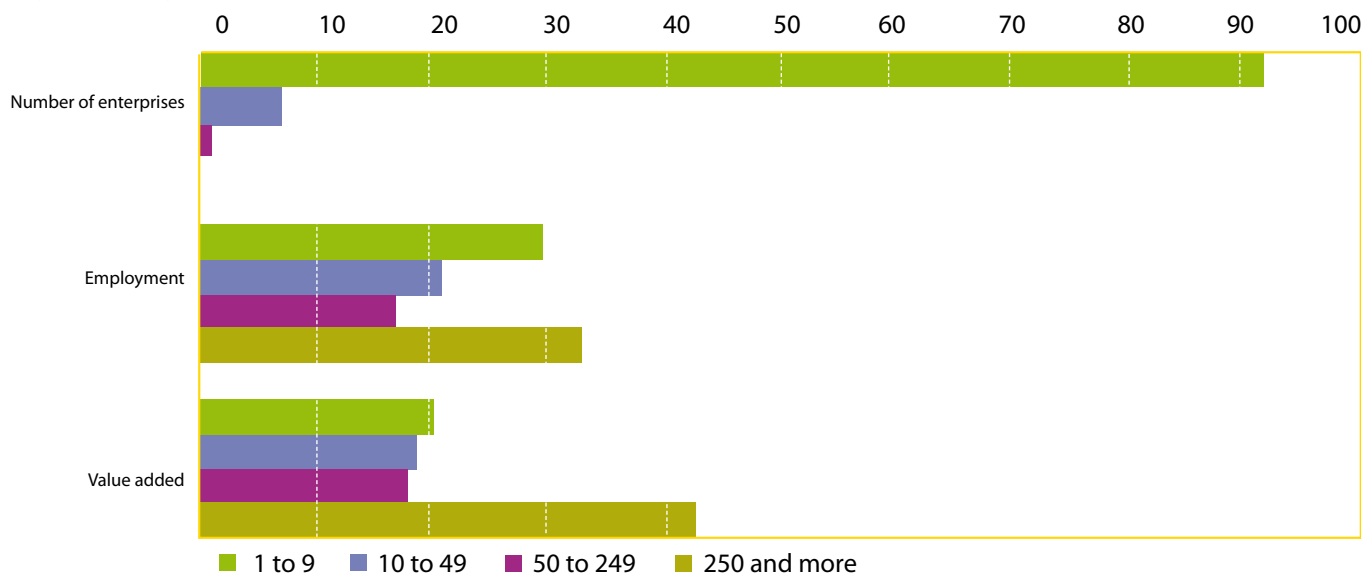
On the basis of a background document¹⁴¹, the forum addressed questions that are rarely raised from the point of view of the entrepreneurs as well as that of the employees. The Forum highlighted the specific challenges that restructuring can pose for SMEs and created a platform for the exchange and discussion of best practices on how to adapt to change.

Objectives

The EU's 23 million SMEs are a major component of the European economy. Accounting for 75 million jobs, they constitute 99% of all businesses (see Figure 1).



Figure 1: Distribution of companies, employees and added value by company size in the non-financial market economy (Sections NACE C to I and K), EU-27, 2004 (in % of the total)



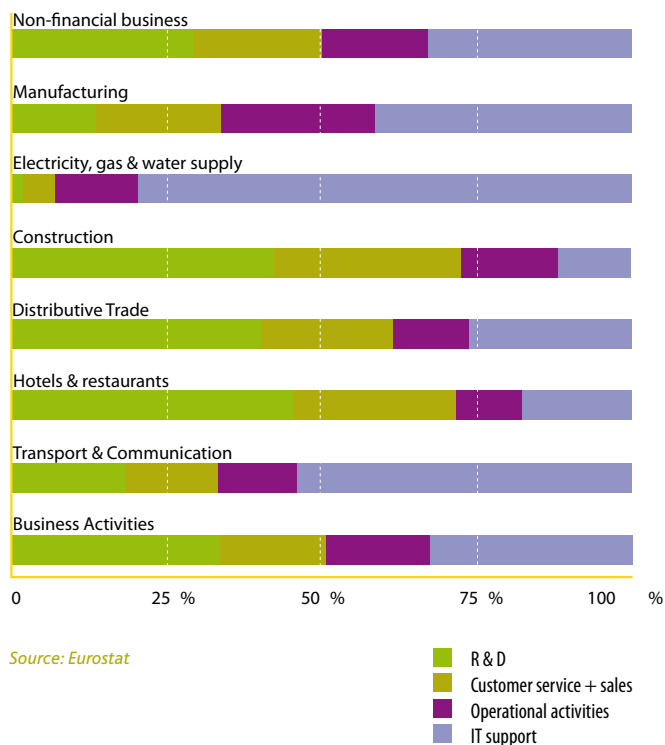
Source: Eurostat

The role of SMEs is not consistent across all economic activities (see Figure 2). The share of SMEs varies between 18.7% in the energy and water sectors to more than 80% in sectors such as construction and hotels and restaurants. Distributive trade and

business activities are sectors where almost three quarters of the total employees work in SMEs.

¹⁴¹ Structural change, company restructuring and anticipation of change in the European small and medium-sized enterprises sector, edited and prepared by Eckhard Voss, Hamburg/Brussels, November 2007 http://ec.europa.eu/employment_social/restructuring/docs/sme_background_report_finale_en.pdf

Figure 2: Role of the SMEs by sector of activity (NACE Sections C to I and K), EU-27, 2004 (in % of total employment)

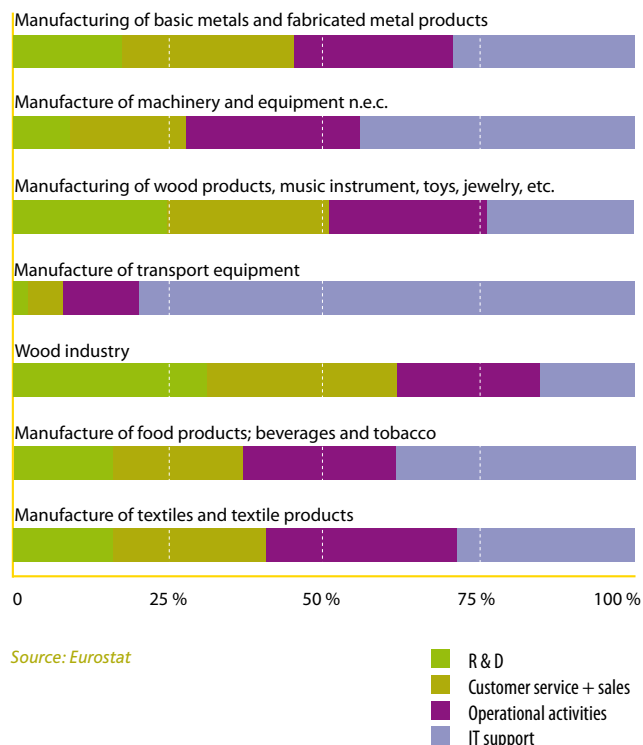


There are also different group sizes of SMEs within the major industrial sectors. For example, almost three quarters of the European labour force in construction work for companies of less than 50 employees, and approximately 45% of all employees in the hotels and restaurants sector are in micro-enterprises. In the manufacturing and electricity, gas and water supply sectors, the majority of the labour force of the SMEs is in medium-sized companies.

A more detailed study of the industrial sectors shows that in the subsectors where labour force needs are high, the micro-, small and medium-sized enterprises play a truly crucial role (see Figure 3).

The influence of SMEs in sectors such as the mining industry, transport facilities, communication and media is quite low. A sector such as forestry development is largely dominated by SMEs, as well as sectors for the manufacture of wooden products, toys, jewellery, etc; base metals and fabricated metal products; food industry; and textiles and clothing.

Figure 3: Role of the SMEs in the single industrial sectors (NACE sections DA, DB, DD, DJ, DK, DM, DN), EU-27, 2004 (in% of total employment)



Although their base is local or regional, SMEs, just like large companies, must adapt to factors such as increasing international competition, movements of capital and its globalisation, and the speed of technological change. The rapid cyclical shifts which characterise modern economies and the changes affecting them have not been sufficiently analysed.

For SME development and structural change, driving forces like globalisation, increasing pressure for skills, development and training, privatisation and liberalisation of markets and public sector restructuring, and the challenges due to demographic change are crucial.

However, in dealing with these transformations, SMEs do not have the same support structures, in terms of either financial or human resources, as large companies. What is more, the changes affecting them are largely unknown. Lack of awareness can be seen as the corollary to the media coverage given to major restructurings in high-profile companies.

'Restructuring' can take many forms and is used to designate a broad range of situations. The most obvious situations of restructuring are of course the creation of new companies, closures and transfers of property. The table below tries to give an image of the importance of the various situations and forms of restructuring for the three groups of SME by comparison with large companies.

Table 1: Relevance of the various restructuring situations by group of company size

Restructuring situations	Relevance for			
	Large Companies	Micro Companies	Small Companies	Average Companies
Launching of a company, closure, change of property				
Establishment of a new company	Weak	High	High	Weak
Closure of companies	Weak	High	High	Weak
Mergers and acquisitions	High	Weak	Weak	High
Transfers of property of a company	Weak	High	High	High
Internal reorganisation, adaptation of the base competences and training				
Introduction of new schedules and payment systems	High	Weak	Weak	High
Increase in the flexibility of the labour force (part-time work, temporary contracts, temporary work)	High	High	High	High
Reorganisation projects, for example merger	High	Weak	Weak	High
Reorganisation of company procedures	High	Weak	Weak	High
New forms of organisation of work, for example work in group or in team	High	Weak	High	High
Internal projects aiming at the development of competences, continuing training, upgrading of qualifications, etc.	High	Weak	Weak	High
Measures to adapt to technological progress, implementation of new technologies	High	Weak	Weak	High
Introduction of new HR tools, management of knowledge, communication projects, etc.	High	Weak	Weak	High
Introduction of new products and production methods	High	Weak	High	High
Externalisation, relocation and extraterritorial relocation				
Isolated station or whole company	High	Weak	Weak	High
Relocation projects abroad/outside the territory	High	Weak	Weak	High
Service/activity subcontracting	High	Weak	Weak	Weak
Privatisation and restructuring in the public sector				
Privatisation of companies and public services	High	Weak	Weak	Weak
Public-private partnerships	High	Weak	Weak	Weak
Liberalisation of the market in public utility services	High	Weak	Weak	Weak

Source: Restructuring Forum 'Adaptation of SMEs to change' Background document

During the workshop, three interactive sessions, gave the participants an opportunity to discuss and debate around the Forum's main theme: the role of regions in anticipating and managing change and restructuring:

- **Opportunities and threats for SMEs in the value chain**
The workshop focused on various aspects of the effects on SMEs of large-scale restructuring as well as the reorganisation of supply chains in the context of technological change and globalisation.

- **Anticipation and preparation for change in SMEs**
There is a shortage of information on the restructuring process in SMEs. Most SMEs network and these networks are in a continuous process of change. The structures of large firms may be very complicated, but at least they are well known by specialists. Networks of SMEs are more flexible and less transparent. The workshop therefore tried to identify the most important ways in which SMEs are permanently restructuring

- **Managing change and intelligent restructuring in SMEs**
The workshop discussed the various cases and experiences regarding the management and shaping of restructuring processes in SMEs at sector level, local and regional level and company level.

Outcomes

The Restructuring Forum brought together around 400 high-level representatives from European Union institutions, governments, cross-industry and sectoral social partners, academic experts, promoters of good practices, business support providers such as chambers of commerce and industry, regional development agencies and the European Business and Innovation Centres and they addressed experiences, frameworks of good practice and information in the following fields of action:

- Anticipating and monitoring change in the SME sector;
- Supporting SMEs in preparation for change and managing restructuring;
- Improving the skills base and training and competence development in SMEs;
- Initiatives by large companies to support SMEs and examples of a proactive role for public authorities, professional organisations and social partners.

The main findings derived from the analysis of patterns, trends and framework conditions of restructuring in the context of European SME development and are as follows:

- As already outlined in the Communication from the Commission on a modern SME policy¹⁴² in 2005, **there is a need to improve knowledge about and analysis of European SME performance** in order to anticipate change and be able to take action to reinforce their competitiveness. Therefore a more structured exchange of good practice and gathering of information with regard to innovative approaches at company and sector level, as well as various regional levels, might be very helpful to support a better preparation and management of restructuring processes in the European SME sector.

- **SME-specific tools and strategies integrated with change management are necessary** as most of the existing instruments and tools aiming to cushion the social effects of restructuring and redundancy (re-training, job transfer, and employment security) do not cover the SME sector sufficiently. At the same time there is a large variety of local projects and national initiatives, and cases of good practice to target these constraints. So an exchange of practice and innovative concepts for addressing micro, small and medium-sized enterprises are necessary.

- **Training and competence development is becoming more and more vital for SMEs in all sectors and size-groups.** Increased competition is creating a growing need to invest more in competence development, skills and general upgrading of qualification standards and innovation capacities.

- **More attention should be paid to the specific patterns and needs of the medium-sized company sector** as there are significant differences in restructuring processes and situations between the micro company sector and larger SMEs in terms of capacity and experience of dealing with change and managing restructuring.

- **SMEs are much more affected by the challenges of demographic change, ageing of the workforce and increasing lack of skilled labour.**

- Globalisation, EU enlargement and opening-up of markets, along with new technologies and an increasing transnational reorganisation of value chains, is resulting in corporate restructuring processes both at company level and in individual sectors. This is not only resulting in an upsurge of restructuring operations such as offshoring, relocation and subcontracting, but also affecting the role of SMEs in value chain networks. **Therefore the new role of SMEs in value chains and the increased dependency of SMEs have to be addressed better.**

¹⁴² COM(2005)551 final of 10.11.2005.

- Those *SMEs who are actively involved in cooperation and networking are performing better than others* (with large companies and other SMEs, but also with public institutions, R&D bodies, social partner organisations and professional organisations).
- *The issue of restructuring in the SME sector in the Central and Eastern European Member States has not been addressed properly yet* in public debate and social dialogue.
- Many examples of good practice and innovative projects at regional and local level, in individual sectors and in different national frameworks illustrate a **clear added-value of social dialogue and active employee participation in SME restructuring and adaptation to change**. Good practice can be found in all types of SMEs regardless of size or sector or territory.
- **Public authorities and professional organisations play a crucial role in the context of supporting SMEs in adaptation to change**, i.e. in fields such as business creation, support for cooperation and networking, delivering resources and support frameworks for competence development, research and development, organisational support etc. In this context it became quite clear that there is a need to better integrate existing programmes and measures addressing different needs/challenges (financial support, start-up, training, export orientation etc.) as well as to better coordinate the activities of public authorities at different regional levels (local, regional, national, European).

There was a broad consensus of participants that the important issues to be addressed include the development of SME-specific training programmes, the re- and upskilling of SME workforces, lifelong training, the recognition of informal skills and competences, skills needs assessments at local, regional and sectoral level, improving training environments and developing adequate financial support programmes and schemes for training activities in SMEs.

Forum Follow-up

- *The debates at the forum underlined a need for a practical guide for best practices in training and skills adaptation for SME employees and managerial staff.*
- *This guide will identify and select 50 best practices. It will identify types of solution for the difficulties encountered by SMEs. It will also include aspects relating to methods (condition for success: which type of training, use of technology, pooling of resources, players involved), it will identify the pitfalls to be avoided and it will make a series of recommendations.*
- *The best practices selected will illustrate innovative aspects from the point of view of their contribution to improving training in SMEs, taking account both of the specific difficulties encountered and of demographic problems.*
- *The guide will be distributed widely and can be used by company managers, employees themselves, social partners, regional structures, professional organisations and all training practitioners.*



3 | REINFORCED SECTORAL MONITORING

3.1 Automotive industry

2007 was a demanding year as regards work on the automotive sector. Following high-profile restructuring events (Volkswagen-Vorst, Delphi-Cadiz, General Motors-Azambuja, Opel-Antwerp, etc.), closely monitored by the Taskforce, the European Parliament, the press and the public at large, a number of follow-up actions were launched:

- The organisation of a Restructuring Forum dedicated to the automotive sector.
- The launching of a 'European Partnership for the anticipation of change in the automotive sector'.
- A comprehensive study on the foreseeable evolution of the sector and of future skills needs.
- A panel workshop for validation of the results of that study.

The work carried out so far will form the basis for a Work Programme to be developed in 2008 and 2009 by the Commission, the social partners and industry organisations and national and regional authorities. It constitutes an inspiring example of sectoral follow-up as proposed in the Commission's Communication of 31 March 2005¹⁴³, to be replicated in other economic sectors faced with the prospect of massive restructuring.

The automotive sector, an important source of economic prosperity, employment and innovation in the EU, is undergoing a major transformation as a result of market trends, international competition, technological innovation and regulatory changes. This transformation creates new opportunities for Europe's automotive sector but at the same time represents major challenges for the industry, its employees and the areas in which the sector operates.

European Partnership for the Anticipation of Change in the Automotive Sector

One of the main objectives of the event was to promote a 'European Partnership for the anticipation of change in the automotive industry'¹⁴⁴. This innovative document endorsed by the Commission and all the sector's economic and social players (i.e. ACEA, representing all European car manufacturers; CLEPA, representing the supply industry; and EMF, the European Metalworkers Federation) refers to the roles and responsibilities of each actor (European Union, governments, companies, trade unions and regions) and commits the partners to a series of 14 actions in a 2-year period (2008–09) aimed at monitoring the developments in the industry, while the partners will exchange know-how on managing restructuring in a socially responsible way, including by issuing recommendations on socially responsible restructuring. The partnership is open to other partners, especially public authorities (local, regional and national).



¹⁴³ COM/2005/0120 final.

¹⁴⁴ http://ec.europa.eu/employment_social/restructuring/docs/partnership_en.pdf.

European Partnership for the Anticipation of Change in the Automotive Sector - Follow-up actions

1. ANALYSIS TOOLS

The parties will work together to monitor the evolution of the sector on an ongoing basis. A comprehensive study on the evolution of the automotive sector will be presented as a follow-up to the Restructuring Forum of 17 and 18 October 2007 and will be updated on a regular basis. That study will be completed with particular analysis on:

• **Employment and skills issues**

- **action 1:** Employment trends, structure of employment, demographic issues and skills needs.
- **action 2:** Good sectoral, regional and company practices for increasing skills levels and the employability of the workforce.

• **Restructuring processes**

- **action 3:** Good practices for anticipation and good management of change and restructuring at company and regional level.
- **action 4:** Analysis of automotive regions

• **General issues**

- **action 5:** Mobility, quality of life and societal demands
- **action 6:** Impact of regulatory changes
- **action 7:** Integration of the supply chain

2. COOPERATION, EXCHANGES AND MOBILISATION OF THE ACTORS

In order to carry on the studies under 1 and to disseminate, discuss and follow up their findings, the parties will organise or encourage:

- **action 8:** Dissemination and discussion workshops attended by representatives of Human Resources Management of the sector
- **action 9:** Dissemination and discussion workshops attended by representatives of European Works Councils of the automotive sector
- **action 10:** Seminars and workshops in automotive regions likely to experience significant change.

3. ANTICIPATION AND ADAPTATION TOOLS

- **action 11:** On the basis of the studies and exchanges above, the parties will constitute an informal observatory of the automotive sector focused on:
 - > The evolution of industry worldwide and in the EU;
 - > The evolution of employment and skills needs;
 - > The creation of a data base on practices for anticipation and good management of change and restructuring at company, sectoral and regional level, including those focused on increasing skills levels and employability.

This observatory will take stock on a regular basis of the whole range of actions carried out and report back to the parties.

- **action 12:** They agree to work on collecting and exchanging best practices of socially responsible restructuring in order to be able, at a later stage, to issue recommendations on this subject.

4. REINFORCING THE EU SUPPORT INSTRUMENTS

• **Innovation and R&D**

- **action 13:** The Commission will hold talks with all the stakeholders on the best way to make full use of the existing support instruments, notably the 7th Research Framework Programme.

• **Structural Funds and EGF**

- **action 14:** The Commission will hold talks with all the stakeholders, as well as with Member States and relevant regional authorities, on the best way to make full use of the existing support instruments, notably the Structural Funds and the European Globalisation Adjustment Fund.

3.2 **Fostering change and anticipating restructuring in the European defence industry**

The defence industry is important for the EU economy for technological and economic policy reasons. It employs around 800 000 people and in recent years has contributed between 2 and 2.5% of EU GDP. Like all other industrial activities, the defence industry is required to deliver increased efficiency in a context where the European defence industry's competitiveness is vital to the credibility of the nascent European Security and Defence Policy.

Like other industries, the defence industry is facing challenge of globalisation and is subject to change. Given increasing budgetary constraints and the rising costs of military equipment, national markets in Europe have often become too small to produce high-quality equipment at affordable prices, in particular for complex equipment which involves high costs for research and development. Restructuring has thus become indispensable for Europe to maintain a viable European defence industrial and technological base and equip its armed forces adequately. This is the reason why the Commission adopted a 'Defence Package' to improve the competitiveness of the European defence industry and to create a genuine European Defence Equipment Market (EDEM). The defence package consists of a Communication on the competitiveness of defence industries and two legislative proposals: a directive on intra-Community arms transfers, and a directive on the procurement of defence and sensitive security equipment.

Against this background, a study was launched in 2007 (see box) on the anticipation and management of change in the defence industry in Europe to provide the Commission with: an analysis of the economic and social background and foreseeable evolution of the defence industry, within a five-to-seven year timeframe; concrete proposals for the ways in which

change and restructuring in this sector can be anticipated and properly managed.

A Steering Committee — composed of Commission services, the European Defence Agency (EDA), AeroSpace and Defence industries association of Europe (ASD), European Metalworkers Federation (EMF), and high-level experts in the field — has been established to follow the work of the study and to set its objectives. The issues addressed were:

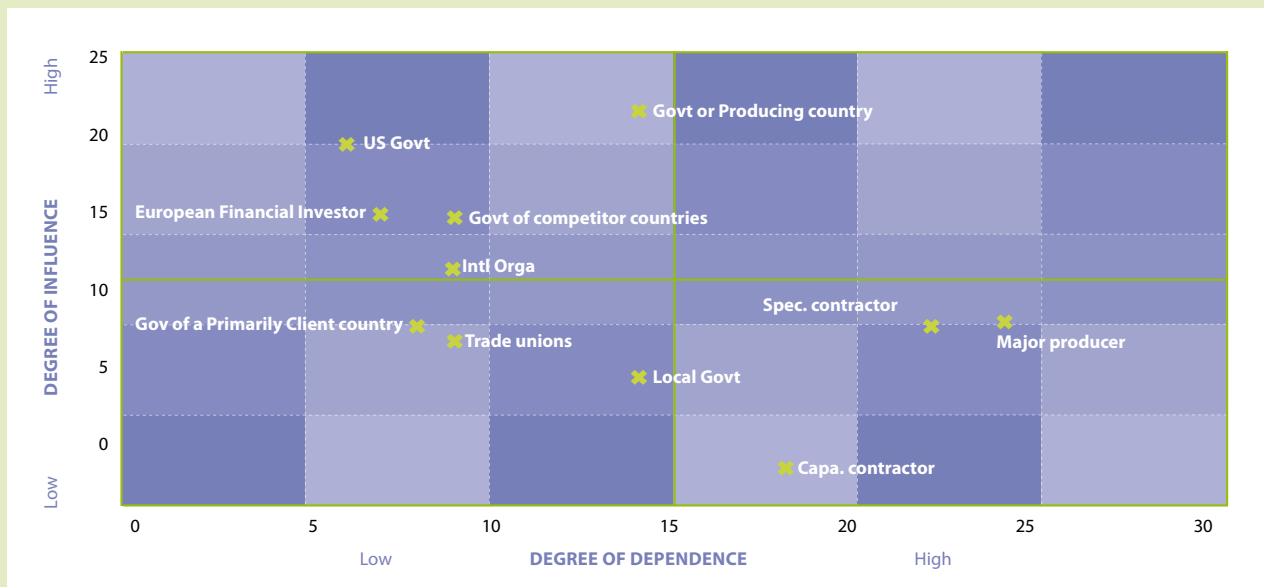
- Strengths, weaknesses, opportunities and threats facing the sector;
- Trends and drivers of change expected to shape the sector's future;
- Possible development scenarios illustrating the sort of strategic decisions that the defence industry has to make and the implications of these in terms of restructuring.



The study results

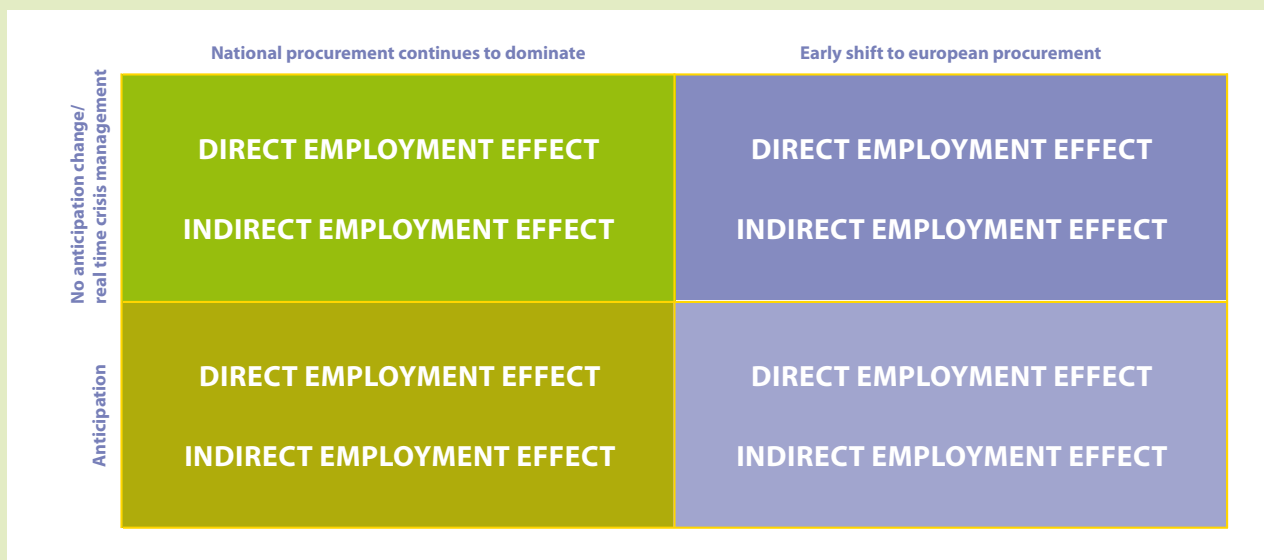
A team of experts from Germany, the United Kingdom, Sweden, Poland and France worked together. The strategic foresight method adopted to define possible future development scenarios for the EU defence industry was based on a combination of ad hoc research and the experts' views. Results were as follows: Clearly, in certain countries there are major producers that are more dominant than indicated. Similarly, the influence of 'governments of a primarily producing country' varies depending on the country concerned: the UK government for example has less influence on a primarily private defence industry than the French or Italian governments, whose governments are still the key shareholder of the larger defence firms. Yet the graph provides a good indication of the relative power of the national governments — as regulators, clients and sometimes shareholders — and the relatively little power (at present) of specialised contractors, local governments and even trade unions.

Mapping of influences/dependencies between stakeholders



The chart illustrates the chosen scenario framework. This reflects different strategies of the key stakeholders, with a particular focus on the internal consistency of the scenarios.

The scenario framework



Four scenarios were envisaged, and their impact on employment quantified. The first two scenarios relate to different trends in procurement strategies and company strategies. In both cases, however, firms are assumed to adjust their human resource policy as changes occur, instead of taking a more voluntary approach to preparing for change. In the other two scenarios, the trend of change in procurement strategies and company strategies is taken to be the same as in the first two scenarios, but it is assumed that the changes have been 'anticipated' and prepared by companies and the other stakeholders (local governments, trade unions, national governments, etc.) in order to minimise their negative social effects.

Sharing information and fostering a multi-actor approach to address coming changes

The preliminary results of this study were presented to an expert group of economic, social and institutional actors at a seminar in Brussels, on 13 and 14 December 2007, i.e. a week after the 'defence package' had been launched. On the first day, the 85 participants, divided into three working groups, explored alternative scenarios for the defence industry and illustrated the decisions that need to be made, as well as the impact on employment. On the second day, preliminary recommendations in terms of anticipation methods and activities to facilitate restructuring were looked at, as well as examples of best practices and the most effective instruments.

Given the scale of the changes ahead, and in the light of ongoing work in the defence sector, such as the launch of a study 'on emerging competences and skills needs for optimal preparation and management of change in the defence industry', the Steering Committee decided to adopt a post-seminar strategy underpinned by anticipation and follow-up through mobilisation of support instruments and actors. A Forum was organised on 8 and 9 December 2008, for 300 high-level representatives from the European Union institutions, companies, social partners, central governments and regional authorities. One of the objectives of the Forum was to promote a Joint Declaration on a 'European Partnership for the anticipation and management of change in the defence sector'. That Declaration aims at maintaining and strengthening the competitive position of EU defence companies and encouraging EU defence cooperation.



4 | INITIATIVES UNDER WAY

4.1 **Comprehensive sectoral analysis of emerging competences and economic activities in the European Union**

Within the European Union, national governments each have their own views on how to deal with the restructuring processes. Some Member States have a highly developed anticipative approach with positive results, while others take more a reactive approach, based on policy measures and support instruments that are mobilised only when the crisis takes place. It is the role of the Commission to encourage Member States, regional and local authorities, social partners and companies to develop and apply good practices in the management of restructuring, by suggesting tools and policy options to try to anticipate restructuring and thus limit its negative impact on employment.

One of these tools consists in identifying future skills needs and orientating training and education programs towards those needs. In order to do so, one must be very well informed about the present state of play, which means working at the level of sectors and regions to understand the specificities of each situation. Once this analysis has been done, it is possible to draw up development scenarios for the orientation of future skills needs.

This is the purpose of a project launched at the beginning of 2008 by the Employment DG aimed at developing at European level a capacity to identify future skills needs in a fast-evolving economy. This initiative is also directly in line with the Council resolution on 'New skills for new jobs'¹⁴⁵ and the conclusions of the 2008 Spring Council.¹⁴⁶ In the framework of the project, sectoral foresight studies are currently being conducted on the basis of a common methodology to allow comparisons across sectors. This European foresight cross-sector methodology includes the following steps:

- Mapping of the sector, including analysis of the main economic and employment trends, and SWOT analysis;
- Identification of the main drivers of change and the main emerging or changing skills and competences in the sector;
- Sketching the main scenarios of plausible evolution and their implications for employment trends over a 7-year time horizon;

- Identification of implications for competences and occupation profiles in terms of jobs expanding, transforming or declining;
- Outlining strategic choices to meet the sector's skills needs;
- Identification of specific implications of the skills needs in the sector for education and training;
- Recommendations addressed at the various stakeholders (social partners, public authorities at all levels, training and education institutions).

The following 16 sectors were identified and selected as sensitive to restructuring and skills needs.

Sectors Covered

- *Textiles, wearing apparel and leather products*
- *Printing and publishing*
- *Chemicals, pharmaceuticals, rubber and plastic products*
- *Non-metallic materials (glass, cement, ceramic, etc.)*
- *Electromechanical engineering*
- *Computer, electronic and optical products*
- *Building of ships and boats*
- *Furniture and others*
- *Electricity, gas, water & waste*
- *Distribution, trade*
- *Hotels, restaurants, catering and related services*
- *Transport*
- *Post and telecommunications*
- *Financial services (bank, insurance and others)*
- *Health and social work*
- *Other services, maintenance and cleaning*

¹⁴⁵ Council Resolution of 15 November 2007 in OJ/C 290/1/ 4.12.2007.

¹⁴⁶ Brussels European Council 13/14 March 2008, 7652/08.

These studies will not limit themselves to the sector *stricto sensu*, but will take account of the importance of the value chain and outsourced services.

Social partners, other Commission services (Enterprise, Market, Transport and Energy, Education DGs) as well as other European bodies (European Parliament, European Economic and Social Committee, Committee of the Regions, European Monitoring Centre on Change in Dublin, the European Centre for the Development of Vocational Training, Cedefop) are taking part in the sectoral steering groups and/or following the development of the studies bringing their expertise to the contractors.

The studies started in January 2008 and will finish in April 2009. Results of the studies will be submitted to a panel of experts in the sectors and economic areas concerned. The objective of the expert panels is not only to benefit from the knowledge and experience of key actors in the sectors but also to build a consensus about the findings and to ensure support for recommendations.

The final reports will be disseminated to political authorities at the European, national, regional and local levels, and to social partners, to alert them on the prospects for their sector.

A forum will be organised in 2009 to present the results to a wider audience.

This foresight analysis will guide and support national, regional and sectoral activities in education and training. It is however not an end in itself. It has to be seen as the start of a process which ought to take place on a regular basis. This task should be taken over by the key stakeholders of the sector such as companies, social partners, local authorities and observatories and it should also serve as a springboard to stimulate the dialogue, build partnerships and develop joint actions with the common goal of adapting the management of human resources to face future needs.

A transversal analysis of the sectoral studies, to identify connections between sector activities and identify the main horizontal activities, is also planned as a complement to the sectoral studies. The analysis should depict possible transfers of occupations between sectors. This study will be launched in 2009, once the sector studies have been completed.

ENTR DG has also launched a study with the same kind of methodology for the construction sector 'Future Qualification & Skills Needs in the Construction Sector'.

A pilot study - the automotive industry

In the wake of the Forum, the Commission launched a study aimed at providing an overview of the European automotive industry, the possible developments within the automotive industry¹⁴⁷ in Europe, and an assessment of the impact of future developments as regards jobs and skills. The document¹⁴⁸ confirms that while the European automotive industry has major assets which should contribute to ensuring its sustainability and growth, it will face far-reaching changes on volumes and job locations (in the short term) and on skills and competencies (in the long term). Moreover, the authors emphasise that the response of the European automotive industry will depend on its dual capacity to innovate and to expand into international markets; they present two scenarios:

Table 2: Summary of the two European scenarios and level of impact

LEVEL OF IMPACT	Scenario 1 'Less attractiveness of automotive industry'	Scenario 2 'New cars for safe and sustainable transport'
OEMs (original equipment manufacturers)	Generalist: <ul style="list-style-type: none"> • Massive restructuring • Consolidation, hostile takeover risk Specialist: <ul style="list-style-type: none"> • Continuing in niche segment and export 	Generalist: <ul style="list-style-type: none"> • Restructuring through mergers / acquisitions and purchase of new activities • Opportunity for joint ventures with Asian partners • Innovation and cost strategies • New form of cooperative Specialist: <ul style="list-style-type: none"> • Continuing in niche segment and export
Equipment Suppliers	<ul style="list-style-type: none"> • Major restructuring: closure and voluntary liquidation • Consolidation with newcomers from emerging countries • Hostile takeover risk 	<ul style="list-style-type: none"> • Regrouping of major system manufacturers through external growth • Creation of hierarchy of value chain — systems, modules, components • Relocation of component manufacturers • Creation of large component suppliers
Regional	<ul style="list-style-type: none"> • Major problems for EU-15, incl. Germany (leading producer in EU) • Temporary resistance of NMS 	<ul style="list-style-type: none"> • Improvement of transport conditions • Specialisation in Europe around high-innovation car design centres • NMS: leading equipment manufacture area
Jobs	<ul style="list-style-type: none"> • Restructuring • Major decline of car industry activities in Europe 	<ul style="list-style-type: none"> • Restructuring, but also creation of jobs • Major training needs • Major need for qualified labour in Central and Eastern Europe

¹⁴⁷ The automotive industry's NACE code [European activity code] is 34.00

¹⁴⁸ 'Comprehensive analysis of the evolution of the automotive sector in Europe', Groupe Alpha, Alphametrics, http://ec.europa.eu/employment_social/restructuring/forum_en.htm

The report also examines the structure of jobs in the automotive industry across the EU, its recent developments and its implications for the future pattern of job profiles and skills needs. According to its findings whatever the future developments in the automotive industry, there will almost certainly be a continuing shift in the structure of employment towards activities requiring higher education and skill levels (engineers, marketing professionals, business professionals and accountants, electrical mechanics and managers). Therefore, it is important that the industry is able to attract suitable recruits which depend on the capacity of the industry to offer the prospect of growth and a high rate of innovation.

Table 3: Summary of implications for occupations and skills

OCCUPATIONS	REGIONS	Scenario 1		Scenario 2		
		EU15	NMS	EU15	NMS	
Employment in general		--	+	-	++	+ in Germany
Managers		+	+	+	+	HR Mgmt to organise training of worker
Production				+	+	
Other				+	+	Driver aids and control systems
Professionals + technicians				+	+	
Engineers		+	+	++	++	+ direct innov. Process, develop new markets and maintain competitiveness
Computer specialists				+	+	
Other professionals				+	+	Produce new equipment, emission control systems, ...
Business, finance, sales (marketing)		+		+	+	
Administrative + other		-	+			
Office workers						
Sales + service workers						
Skilled manual workers		-		-	-	
Metal moulders		--		-	-	
Tool makers		--		-	-	
Mechanics		--		-	-	
Electricians + others		+		+	+	
Semi-skilled workers		--	++	-	++	
Machine operators		--	++	-	++	
Drivers		--	++	-	++	
Low skilled workers		--	++	-	++	

The findings were presented and discussed on the 'Skills Experts' Panel Workshop' through the prism of employment, skills and competences. This event was organised by the Employment DG and was held on 18 and 19 March 2008, in Brussels. It brought together around 40 experts from companies, research, education, training or consultancy services, and from various services of the Commission and other EU bodies.

The need to reinforce investment on skills in order to guarantee the future competitiveness of the European automotive industry requires a proper identification of future skills needs and a full cooperation between the public sector, the industry and the educational establishments in ensuring that the training being offered is in line with the needs of companies and innovation processes. It also requires an ongoing effort from companies to train and retrain their workers and sectoral initiatives to make sure subcontractors and providers can take the same route to avoiding skills shortages and facilitating employment transitions.

The work carried out so far will be the basis for a Work Programme to be developed in 2008 and 2009 by the Commission, the social partners and industry organisations and national and regional authorities. It constitutes an inspiring example of a sectoral follow-up as proposed in the Commission's Communication of 31 March 2005¹⁴⁹, which will be replicated in other economic sectors faced with the prospect of massive restructuring.

¹⁴⁹ COM/2005/0120 final.

4.2 Restructuring and health issues

The debate on company restructuring in the EU has focused on how to find ways to cope with the challenges of globalisation. Health considerations have been limited to the need for a 'healthy organisation' when faced with global competition. What has been widely neglected is individual employee health, of those forced to leave the company, the 'victims of layoffs', and of those who remain in the company, the so-called 'survivors-of-layoffs'. It is known that, after restructuring, those who leave the company as well as those who remain are liable to face (sometimes serious) health problems.¹⁵⁰ What is less well known is the fact that restructuring processes themselves have a negative impact health.¹⁵¹

Damaging for the individual and creating higher costs for the health system, the health aspects of company restructuring should be considered as central. Health is a crucial part of employment and relevant for the future performance of companies. New social actors have joined the debate, such as the company-based health insurances in Germany who have shown great interest in utilising their specific knowledge of the restructuring process.

The main challenges for the future are likely to be the development of specific help for vulnerable groups (victims and survivors), as well as focused support strategies for managers involved in restructuring decisions. Resources should maintain and strengthen available support systems and reduce the negative stress associated with the restructuring process. A crucial point seems to be the involvement of the employees and unions in the decision process from the beginning.

The Commission has supported an ESF Article 6 project on 'Monitoring Innovative Enterprise Restructuring in Europe' (MIRE). MIRE¹⁵² did not focus on the health dimension of restructuring initially. However, results pointed to the often neglected health aspects of these changes; the project revealed a widespread absence of preventive strategies for dealing with the health aspects of restructuring in Human Resources Management (HRM) and Occupational Health Services (OHS), even though pioneering experiments do exist. An analysis was made of approaches to positively influencing workers health and helping them to adapt to organisational changes. There was one striking result. The full process of restructuring could be managed in a smoother way and the outcomes could be achieved more effectively when the health dimension was considered from the beginning as a relevant issue and was integrated into the social dialogue of the social actors. This changed the notion of restructuring from being an accident and moved it towards a continuous process of organisational adaptation.

The 2007 Progress programme of the Employment DG builds on MIRE results and seeks to gain additional evidence regarding the effects and opportunities to influence the restructuring process in a more balanced way. This could lead to the reduction of the hysteresis effect of unemployment ('the longer unemployment lasts, the more barriers to re-employment will develop') and help to overcome barriers to organisational change. It can also contribute to a concept of 'social convoy' where partial responsibility for these transitions is linked to Corporate Social Responsibility (CSR), thus facilitating the coping process of the individuals involved. The programme supports four networks, a study and the development of macro level indicators.

¹⁵⁰ See the SOCOSE project: <http://www.ipg.uni-bremen.de/socose/>

¹⁵¹ Pioneering studies have been made on this topic in Sweden. See 'Does job loss shorten life?' *Marcus Eliason and Donald Storrie*.

¹⁵² See <http://www.mire-restructuring.eu/>

Networks

HIRES: 9 countries involved		
Output	Outcomes	Impact
Improving the knowledge and understanding of organisational restructuring effects on health and well-being of survivors, 'victims', and the related community.	Increased recognition of the health issue in change management. Influence company behaviour by providing evidence of the importance of health in regard to economic development.	Stimulating a culture to address the health issues of restructuring permanently and constructively and hence lessen the health and social burden on the economy.
CBI/UKWON: 8 countries involved		
Output	Outcomes	Impact
Identify how health contributes to maintaining motivation within a company so they may retain their competitive edge during restructuring. Case studies will be used to provide a story and act as a tool to inspire other organisations	Company behaviour influenced so as to actively target health as an important part of ensuring employees are focused on the organisation's mission.	Increase in successful outcomes of reorganisations by harnessing employee engagement and maintaining or improving well-being to provide greater contribution to company performance.
CGT: 5 countries involved		
Output	Outcomes	Impact
Inventory of practices concerning way in which health dimension is taken into account during restructuring in each country. Inventory will serve as the basis for scenarios to be communicated in a comic strip format.	Communication will be targeted at employees with an aim to improve their appreciation (anticipation) of the health dimension and stimulate them to take preventive action (preparation)	Fewer health problems presented during restructuring due to increased awareness of the problem and advice regarding preventive action.
FIOH: 6 countries involved		
Output	Outcomes	Impact
The main aim of the programme is the creation of a European network and learning environment. Other products of the programme will constitute new tools, good practices, and concepts.	Sectors can identify role of well-being at work and appreciate what benefits will be achieved by using a particular method and how to target the method to deliver the benefit.	Marketing of well-being at work. Recognising good practices in well-being at work and how working atmosphere will be developed. Health promotion effects on individual level.

Study of health issues associated with restructuring

The aim of the study is to explore the relationships between health and restructuring in France, UK, Sweden and Hungary. Evidence based on the holistic health issues in the context of restructuring will be examined. The study will assess the current practices which accompany individuals during restructuring and will identify the good practices mitigating the negative impact of restructuring on human health, as well as methods existing to increase adaptability and reduce stress in workers. Recommendations will be developed to support individuals and advise organisations in the context of radical reorganisation.



Development of macro level indicators of restructuring and workers' health

Restructuring is usually assumed to represent an intrinsic component of modern economic growth. It is also believed to be a highly beneficial phenomenon, especially in the long term, for the European populations.

Recent scholarly evidence has begun to question restructuring and whether it is a beneficial phenomenon from a health point of view. Developing macro-level measures will assist scientific research and monitoring of industrial change, and will guide economic health policy to protect the health and well-being of working populations. Indicators will be evaluated at regional, national and European level in five domains related to restructuring and its potential health effects: (1) globalisation process, (2) productivity and technological change, (3) overall health, (4) governmental policy and social support and (5) work stress. The methodology is aimed at determining the availability, validity and reliability of these measures. The indicators will be tested to determine their usefulness for analysis.

Useful macro-level measures will be provided for scientific research purposes as well as for the monitoring of industrial

change and economic health policy to protect the health and well-being of working populations.

Tools will be elaborated in order to: (a) assist in the development of European social legislation, (b) reinforce the collection and use of information on national systems, (c) promote understanding of innovative and effective practices of restructuring, and (d) support the preparation of the future report by the Commission on Restructuring in Europe.



4.3 Work organisation restructuring in Europe and its impact on employees

«Work organisation and restructuring in a knowledge society» (WORKS) is a research project funded under the Socio-economic Sciences and Humanities Programme, whose primary aim is to investigate work organisation restructuring in globalised value chains, including workplace innovation, use of knowledge and flexibility as well as the impact of this restructuring on time use,

skills and the quality of life of individuals. All the outputs and conclusions of the project are available at: www.worksproject.be.

Works project

• Objectives of the research

An Integrated Project of the 6FP of the European Community on:

- > work organisation restructuring in globalised value chains;
- > workplace innovation, use of knowledge and flexibility;
- > time use, skills and the quality of life of individuals;
- > the role of institutions and the social dialogue.

• Scientific approach / methodology

- > Innovating theories and concepts on changes in work.
- > Valorising existing statistics and contributing to their convergence.
- > Combining organisations, individuals and policy in case studies.
- > Comparing changes in work from a regional perspective.
- > Applying gender mainstreaming.

• New knowledge and/or European added value

- > The business function is used as a window to understand the restructuring of value chains across industries and regions.
- > Fragmentation, standardisation and work intensification are important effects.
- > The differences in knowledge-intensity, working conditions and power between units in the value chain cause inequalities.

• Key messages for policy-makers, businesses, trade unions and civil society actors

- > National policies related to Health and Safety and Quality of Work should address work intensification and standardisation.
- > Social partners should improve instruments to regulate and monitor working conditions across industries and borders.
- > Corporate innovation strategies should be based on an educated workforce, collaborative and learning jobs and security.

Bibliography

Chapter 1.

- > *The EU Economy: 2005 Review on «Rising international economic integration. Opportunities and challenges», European Economy n. 6, European Commission, 2005*
- > *«Globalisation: Trends, Issues and Macro Implications for the EU», EU Economic Paper n. 254, European Commission, 2006*
- > *«Global Trade Integration and Outsourcing: how well is the EU coping with the new challenges», EU Economic Paper n. 259, European Commission, 2006*
- > *«Steps towards a deeper economic integration: the Internal Market in the 21st century. A contribution to the Single Market Review», European Economy, Economic Paper n. 271, European Commission, 2007*
- > *Europe's reality today. Bureau of European Policy Advisers European Commission (2007).*
- > *Technology and Industry Scoreboard 2005 – Towards a knowledge-based economy OECD (2005)*
- > *Communication ' – Research and Innovation – A Common Approach' European Commission (2005)*
- > *Employment in Europe 2005 European Commission (2005)*
- > *Employment in Europe 2006 European Commission (2006)*
- > *Employment in Europe 2007 European Commission (2007)*
- > *Combating Climate Change: the EU leads the way*
- > *Leading global action to 2020 and beyond*
- > *Research and development to fight climate change*
- > *EU emissions trading: an open system promoting global innovation*
- > *Working with developing countries to tackle climate change*
- > *Profiting from enlargement – CER July 2001 (http://www.cer.org.uk/enlargement_new/publications_enlargement_new.html)*
- > *Ensuring EU enlargement is a success; UNICE position paper; May 2002*
- > *Enlargement Strategy and Main Challenges 2006 – 2007 – Including annexed special report on the EU's capacity to integrate new members*
- > *Communication 'Enlargement, Two Years After – An Economic Success' May 2006*
- > *The Economic Impact of Enlargement. Enlargement Papers EC DG ECFIN 2001 (http://ec.europa.eu/economy_finance/een/publications_en.htm)*
- > *European Business: By Simon Mercado, Richard Welford, Kate Prescott; 2001 http://books.google.be/books?id=TLQ_JpTtQMkC&hl=en*

Chapter 4.

- > 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).
- > http://eur-lex.europa.eu/pri/en/oj/dat/2002/c_142/c_14220020614en00010022.pdf
- > 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. 45–68.
- > <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:327:0045:0068:EN:PDF>
- > Council Resolution of 27 June 2002 on lifelong learning (2002/C 163/01).
- > <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2002:163:0001:0003:EN:PDF>
- > Commission Communication 'Towards Common Principles of Flexicurity: more and better jobs through flexibility and security.' COM (2007) 359.
- > <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0359:FIN:EN:PDF>
- > 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.
- > http://ec.europa.eu/education/policies/educ/eqf/rec08_en.pdf
- > 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). http://ec.europa.eu/education/policies/2010/doc/resolution2004_en.pdf
- > Commission Proposal for a Recommendation of the European Parliament and of the Council on the establishment of the European Qualifications Framework for lifelong learning (SEC(2006) 1093),(SEC(2006) 1094).
- > <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0479:FIN:EN:PDF>
- > 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.
- > <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:390:0006:0020:EN:PDF>
- > Conclusions of the Council and of the representatives of the Governments of the Member States meeting within the Council on Common European Principles for the identification and validation of non-formal and informal learning (May 2004).
- > http://ec.europa.eu/education/policies/2010/doc/validation2004_en.pdf
- > Commission Communication 'Delivering lifelong learning for knowledge, creativity and innovation.' Draft 2008 joint progress report of the Council and the Commission on the implementation of the 'Education & Training 2010 work programme' (SEC(2007) 1484).
- > <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0703:FIN:EN:PDF>
- > Council Resolution on education and training as a key driver of the Lisbon strategy, OJ C 300/1, 12.12.2007.
- > <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:300:0001:0002:EN:PDF>
- > Council Resolution of 15 November 2007 on the new skills for new jobs, 2007/C 290/01.
- > <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:290:0001:0003:EN:PDF>
- > Cedefop. Future skill needs in Europe. Medium-term forecast: synthesis report. Luxembourg: Office for Official Publications of the European Communities, 2008.
- > See also the Commission's website on the renewed Lisbon Strategy for Growth and Jobs:
- > http://ec.europa.eu/growthandjobs/index_en.htm

Chapter 6

- > 'Changing regions — structural changes in the EU regions' DG REGIO 2007
- > 'Évaluation du soutien du Fond Social Européen à l'anticipation et la gestion du changement économique et de la restructuration' DG EMPL 2007
- > Study on 'FDI and regional development' DG REGIO 2006.
- > 'Enlargement, two years after: an economic evaluation' BEPA, DG ECFIN 2006
- > 'EU competitiveness and industrial location' BEPA 2005.
- > Summary conclusions of DG-ECFIN workshop on 'The effects of relocation on economic activity: An EU perspective'. DG ECFIN 2005
- > 'Industrial restructuring in the accession countries'. DG EMPL 2004.
- > 'A Study on the Factors of Regional Competitiveness' DG REGIO 2003.
- > 'European Competitiveness Report' (annual issue) DG ENTR
- > 'Public Aid and Relocation within the European Community' DG ENTR 2000.
- > Sixth Periodic Report on the regions. DG REGIO 1996.
- > Second, Third and Fourth Report on Economic and Social Cohesion.
- > 'A sectoral survey of relocation: a factual background' 2006 European Economic and Social
- > 'The OECD Input-Output database: 2006 Edition', OECD
- > 'Building Competitive Regions. Strategies and Governance.' 2005, OECD
- > 'The impact of structural policies on trade-related adjustment and the shift to services.' Economics Department Working Papers No 427. 2005, OECD
- > 'Trade and structural adjustment.' 2005, OECD
- > 'Trade and structural adjustment policies in selected developing countries'. Working Papers No 245. 2005, OECD
- > 'Désindustrialisation, délocalisations'. Conseil d'analyse économique (France), La Documentation française. Paris, 2005 - ISBN: 2-11-005822-6
- > 'Rapport d'information sur la globalisation de l'économie et les délocalisations d'activité et d'emplois' by Jean ARTHUIS, 2005, Sénat français
- > 'Rapport d'information sur la délocalisation des industries de main-d'œuvre' by Francis GRIGNON 2004, Sénat français

Chapter 7

- > *Global Economic Prospects: Managing the Next Wave of Globalization (2007)*
- > *Key Indicators of the Labour Markets, 4th Edition, ILO, Geneva, 2005.*
- > *Decent Work: Universality and Diversity by Dharam Ghai, International Institute for Labour Studies, ILO, March 2005.*
- > *Protected mobility for employment and decent work, Peter Auer, ILO, 2005.*
- > *World FDI 2004, UNCTAD, 2005.*
- > *Service offshoring takes off in Europe, UNCTAD, 2004.*
- > *The World Investment Report 2004: The Shift Towards Services, UNCTAD, September 2004.*
- > *Offshoring and the internationalization of Employment – A Challenge for a fair globalization? Proceedings of France/ILO Symposium. Edited by Peter Auer, Geneviève Besse and Dominique Méda, International Institute for Labour Studies, International Labour Office, Geneva, 2006.*
- > *PILOT, Policy and innovation in low-tech, Knowledge Formation, Employment & Growth Contribution of the 'Old Economy' Industries in Europe, February 2006.*
- > *Comparative study and questionnaire in relocation of production and industrial relations, EIRO on line, February 2006.*
- > *The evolution of labour law (1999–2003), Silvana Sciarra, IUE, 2006.*
- > *Economic Assessment of the Euro Area: Forecasts and Policy Analysis, When Jobs Disappear and Workers Do not: International Relocation of Production and the European Economy, European Forecasting Network- Euroframe, 2005.*
- > *The impact of structural policies on trade-related adjustment and the shift to services, OECD, April 2005.*
- > *Globalisation driving increase in international offshoring of research and development centres, finds OECD report 2005*
- > *Outsourcing of ICT and related services in the EU, European Foundation for the Improvement of Living and Working Conditions, EMCC, Luxembourg, Office for the Official Publications of the European Communities, December 2004*
- > *Les conditions du licenciement collectif pour motif économique, comparaison entre 7 pays d'Europe, Groupe Brunhes, by Yves Chassard, Dorothée Bedok, Barbara Louis, Monique Tessier, May 2002.*
- > *Corporate restructuring report coordinated by Alpha Consulting, 2002.*
- > *La gestion des crises industrielles locales en Europe, Groupe Bruhnes, September 2000.*
- > *Études de cas sur le traitement des conséquences sociales des grandes restructurations d'entreprises, Brunhes Report, 1999.*
- > *Final report on «Economic Restructuring and Labour Markets in the Accession Countries» (December 2004)*
- > *The changing nature of manufacturing in OECD economies (La mutation du secteur manufacturier dans les économies de l'OCDE), 13 February 2006*

Contributors

ECFIN DG Three units in particular contribute to different aspects of the European response to challenges related to anticipation of change and restructuring:

Unit B3 contribute to the achievement of the EU's economic policy objectives of growth, high employment and economic dynamism by monitoring and evaluating labour market performance and reforms and providing policy advice.

http://ec.europa.eu/economy_finance/analysis_structural_reforms/structural_reforms225_en.htm

Unit B1 defines ECFIN DG's input into the European strategy for growth and jobs (Lisbon Agenda). It is responsible for assessing the impact of structural reforms on the macroeconomic performance of the euro area and the EU as a whole and contributes to the assessment of the impact of structural reforms on the macroeconomic performance of individual Member States.

http://ec.europa.eu/economy_finance/analysis_structural_reforms/growth_and_jobs249_en.htm

Unit B2 contributes to strengthening the EU's competitiveness and raising its growth potential, notably through the monitoring of structural reforms aimed at creating better-functioning goods and services markets.

http://ec.europa.eu/economy_finance/analysis_structural_reforms/structural_reforms285_en.htm

ENV DG includes two units focusing entirely on climate change. However, the topic involves people across the DG, for example, in the water and biodiversity units plus we have an energy unit. The two 'dedicated' units are:

ENV.C.1 — Climate Strategy, International Negotiation and monitoring of EU action

ENV.C.2 — Market-Based Instruments including Greenhouse Gas Emissions Trading

The website includes all relevant information (past and forward looking), and is http://ec.europa.eu/environment/climat/home_en.htm

EAC DG

Unit B5 deals with the development of policy in the field of vocational education and training under the umbrella of the 'Copenhagen' process on enhanced European cooperation in Vocational Education and Training. At the same time, the unit is responsible for the management of Leonardo da Vinci programme whose objective is, among others, to support the quality, innovation and attractiveness of vocational education and training systems, as well as to support programme participants in training and further training activities to acquire and use knowledge, skills and qualifications to facilitate personal development, employability and participation in the European labour market.

http://ec.europa.eu/education/lifelong-learning-policy/doc60_en.htm

INFSO DG

The Information Society and Media Directorate General supports the development and use of Information and Communication Technologies (ICTs) for the benefit of all citizens.

http://ec.europa.eu/dgs/information_society/index_en.htm

EMPL DG

Unit A1 (ESF coordination) is responsible for the coordination of the European Social Fund, as well as the monitoring of the national policies of Member States in the framework of the Lisbon strategy's Integrated Guidelines - particularly in the field of employment - and of the social protection and social inclusion process. For the ESF the Unit provides guidance in the relevant policy areas, including the anticipation and management of economic change and restructuring (see related Fiche on http://ec.europa.eu/employment_social/esf/docs/economic_change_en.pdf; short version: http://ec.europa.eu/employment_social/esf/docs/tp_restructuring_en.pdf)

Unit B4 (Equal Community Initiative & EGF) has three main missions:

- Implementing programmes for the ESF (2000–06) Equal Community Initiative. This includes monitoring and evaluating programmes but also coordinating many activities at EU level, such as thematic networks to facilitate the exchange of best practice and to encourage mainstreaming;
- Supporting and coordinating transnational projects and networks in the framework of the 2007–13 ESF programmes;
- Implementing the European Globalisation adjustment Fund (EGF).

http://ec.europa.eu/employment_social/egf/index_en.html

Unit C4 (Art 6 ESF and Readaptation, CELFI and ESF Archives)

http://ec.europa.eu/employment_social/esf/fields/innovative_en.htm

Unit D1 (Employment Analysis) carries out the analyses required to increase the knowledge base for the development of the EES in the European Union and deals with the employment aspects of the enlargement process. The annual 'Employment in Europe' report is the main tool of our DG for the analysis of employment performance and labour market developments in the Union in the international context.

http://ec.europa.eu/employment_social/employment_analysis/index_en.htm

Unit D2 (European Employment Strategy, CSR, Local Development) manages especially questions concerning flexicurity and the European Employment Strategy.

http://ec.europa.eu/employment_social/employment_strategy/index_en.htm

Unit E1 (Social and Demographic Analysis) monitors the social and demographic situation of the European Union and seeks to identify challenges and potentials that are relevant for policy makers, including those of the knowledge society. To that end, the unit collects information notably through ad hoc studies and surveys on specific social and demographic issues, a European Observatory on the Social Situation and Demography and grant support for scientific networking. The unit presents the main trends in regular reports on the social situation and on demography which highlight the policy implications of these trends.

http://ec.europa.eu/employment_social/spsi/demo_and_social_situation_en.htm

Unit F1 (Social Dialogue, Industrial Relations) has the missions: To develop a participatory and open approach to European social and employment policy through the active involvement of social partners at all levels.

- To promote inter-professional and sectoral social dialogue in both consultation and negotiation dimensions.
- To monitor the implementation of social dialogue agreements at national level.
- To stimulate the debate on industrial relations and promote the contribution of the social partners to modernising the employment market and implementing the Lisbon strategy.
- To manage the European Commission's relations with the European Foundation for Living and Working Conditions.

http://ec.europa.eu/employment_social/social_dialogue/index_en.htm

Unit F2 (Labour Law) has the mission to define and implement actions for the improvement of working conditions and the exercise of the right to information and consultation at national and transnational level, pursuant to Article 137 of the Treaty. The main objectives of the Unit are:

- To ensure correct transposition and implementation by the Member States of Community labour law, in particular in the areas of working conditions and information and consultation of workers.
- To evaluate and review the application of Community labour law, and to develop proposals for the adaptation of legislation, also taking into account the evolution of jurisprudence.

http://ec.europa.eu/employment_social/labour_law/directives_en.htm

Unit F3 (Working conditions and adaptation to change) has the mission: To monitor the developments regarding the evolution of industrial change and financial participation schemes in cooperation with the European Foundation in Dublin, other Commission departments and networks and research activities, for example by organising studies and identifying good practices; to coordinate DG EMPL's policies on adaptation to change and anticipation and management of corporate restructuring and to cooperate with all relevant Commission services developing policies in these fields with the aim of reinforcing the coherence of EU policies, for example, by leading the 'Restructuring' Taskforce; and to develop amongst all stakeholders a positive and proactive attitude towards the anticipation of change and restructuring and promote the development of financial participation schemes through awareness raising and exchange of information and best practices, for example, by organising the Restructuring Forum.

http://ec.europa.eu/employment_social/restructuring/index_en.htm

Unit I4 (Evaluation and impact assessment)

http://ec.europa.eu/employment_social/evaluation/index_en.html

ENTR DG

Unit B2 (industrial policy) contributes to the development of the European Industrial Policy. This policy is based on an integrated approach that comprises a number of horizontal and sectoral initiatives that aim in a non-interventionist way at improving the framework conditions for industrial competitiveness in Europe and increasing the capacity of the economy to adjust to structural change.

Unit B3 (Lisbon strategy coordination & economic reforms) promotes the growth and jobs agenda in the EU and its Member States by coordinating the Commission's work on the assessment of microeconomic reforms in and providing policy recommendations to the EU Member States and actively contributing to the overall design of and priorities for the growth and jobs strategy and related policy proposals of the Commission.

http://ec.europa.eu/enterprise/enterprise_policy/industry/index_fr.htm

Unit E4 (SME POLICY DEVELOPMENT) the main mission of the unit is to ensure the horizontal coordination of the policies and activities having an impact on SMEs. Coordination takes place within Enterprise and Industry DG, in relation with other EC services and with Member States. The unit also provides support to the SME Envoy.

http://ec.europa.eu/enterprise/sme/index_fr.htm

COMP DG

The mission of the Directorate General for Competition is to enforce the competition rules of the Community Treaties, in order to ensure that competition in the EU market is not distorted and that markets operate as efficiently as possible, thereby contributing to the welfare of consumers and to the competitiveness of the European economy.

http://ec.europa.eu/comm/competition/index_en.html

REGIO DG

Unit D2 its mission is to develop ways of providing support for the other units of the Directorate-General on thematic issues (equality, environment, energy, transport, development, etc.) and on innovation, as well as to carry out actions under the innovative actions programme 2000–06.

http://ec.europa.eu/regional_policy/index_fr.htm

RTD DG

The Directorate General's mission is: to develop the European Union's policy in the field of research and technological development and thereby contribute to the international competitiveness of European industry; to coordinate European research activities with those carried out at the level of the Member States; to support the Union's policies in other fields such as environment, health, energy, regional development etc; to promote a better understanding of the role of science in modern societies and stimulate a public debate about research-related issues at European level.

http://ec.europa.eu/dgs/research/index_en.html

ELARG DG

http://ec.europa.eu/enlargement/the-policy/index_en.htm

AIDCO DG

http://ec.europa.eu/europeaid/index_fr.htm

MARKT DG

Its main role is to coordinate the Commission's policy on the European Single Market and to seek the removal of unjustified obstacles to trade, in particular in the field of services and financial markets.

http://ec.europa.eu/dgs/internal_market/index_en.htm

AGRI DG

The mission of the Directorate-General for Agriculture and Rural Development is to promote the sustainable development of Europe's agriculture and to ensure the well-being of its rural areas.

http://ec.europa.eu/dgs/agriculture/index_en.htm

EMCC

The European Monitoring Centre on Change (EMCC) is an information resource established to promote an understanding of how to anticipate and manage change. It was set up in 2001 within the European Foundation for the Improvement of Living and Working Conditions, Dublin, with the full support of the European Parliament, the Commission and the social partners.

<http://www.eurofound.europa.eu/emcc/about.htm>

CEDEFOP

European Centre for the Development of Vocational Training (Cedefop) is the EU's agency for vocational education and training (VET). Its mission is to help develop European VET policy by carrying out thorough applied research and comparative analyses of VET issues, trends and challenges; providing an expert and independent European perspective, developing and encouraging European approaches, principles and tools to improve VET and achieve common aims; being a unique forum bringing together diverse VET interests of policy-makers, social partners, researchers and practitioners to encourage mutual learning and debate proposals for policy and research; raising awareness and understanding of how VET is evolving, its role in lifelong learning and its contribution to other policies.

<http://www.cedefop.europa.eu/>

CCMI (EESC) (The European Economic and Social Committee's Consultative Commission on Industrial Change) continues to cover those areas of the coal and steel industries and their production and consumption chains in which the Community is active; has been progressively extended to the handling of industrial change in other sectors of activity and its repercussions on employment, social and structural policy measures, aid and competition policy, research and technological development, environmental and sustainable development policy, energy policy, trade policy; and includes a particular emphasis on the challenges posed by industrial change in the new Member States.

http://www.eesc.europa.eu/sections/ccmi/index_en.asp

CoR (The Committee of the Regions) is the political assembly that provides local and regional authorities with a voice at the heart of the European Union.

<http://www.cor.europa.eu/pages/HomeTemplate.aspx>

European Commission

Restructuring in Europe 2008 - A review of EU action to anticipate and manage employment change

Luxembourg: Office for Official Publications of the European Communities

2009 — 184 pp. — 21 x 29.7 cm

ISBN 978-92-79-10570-8

doi 10.2767/8159

This report reviews all the European Union's policies and instruments of a mainly structural nature that contribute to facilitating economic and financial 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.

This publication is available in printed format in English, French and German.

How to obtain EU publications

Publications for sale:

- via EU Bookshop (<http://bookshop.europa.eu>);
- from your bookseller by quoting the title, publisher and/or ISBN number;
- by contacting one of our sales agents directly. You can obtain their contact details on the Internet (<http://bookshop.europa.eu>) or by sending a fax to +352 2929-42758.

Free publications:

- via EU Bookshop (<http://bookshop.europa.eu>);
- at the European Commission's representations or delegations. You can obtain their contact details on the Internet (<http://ec.europa.eu>) or by sending a fax to +352 2929-42758.

Are you interested in the **publications** of the Directorate-General for Employment, Social Affairs and Equal Opportunities?

If so, you can download them at
http://ec.europa.eu/employment_social/publications/about_us/index_en.htm

or take out a free online subscription at
http://ec.europa.eu/employment_social/publications/register/index_en.htm

ESmail is the electronic newsletter
from the Directorate-General for Employment,
Social Affairs and Equal Opportunities.

You can subscribe to it online at
http://ec.europa.eu/employment_social/emplweb/news/esmail_en.cfm

<http://ec.europa.eu/social/>

