



European Globalisation Adjustment Fund Tackling job losses due to changes in trade patterns

SUMMARY *Created in 2007, the European Globalisation Adjustment Fund (EGF) is the flexibility instrument in the EU budget for interventions in case of mass redundancies caused by major changes in global trade. It aims to help dismissed workers find new jobs through a package of tailor-made services. From May 2009 to December 2011, the EGF was also able to support workers who had lost their jobs as a result of the financial and economic crisis.*

Since 2007, 20 Member States have submitted 110 requests for EGF funding to the European Commission. These concerned services for 100 000 workers. The total contributions paid by the EGF have so far amounted to €416 million.

In 2011, an evaluation of the EGF based on 15 cases highlighted both positive results and shortcomings in the Fund's functioning. On average, 41.8% of the workers had new jobs immediately after the end of the EGF funding. But this figure differed significantly from one case to another. A recurrent criticism, including in a special report by the European Court of Auditors, concerns the length of time taken for the procedures.

Parliament and Council are discussing the proposed rules governing the EGF beyond 2013. In its February 2013 conclusions on the 2014-20 Multiannual Financial Framework, the European Council cut the proposed maximum annual budget to €150 million.

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Background

The term [globalisation](#) usually refers to the interconnection of economies, cultures and societies across the world. International trade is considered to play an important role in the phenomenon, for example as regards its economic implications. Some analysts claim trade with newly industrialised countries results in lower demand for unskilled labour in advanced economies, which would thus experience either higher unemployment or lower wages. Other economists say that these aspects may not be directly linked, with many additional factors possibly explaining trends in employment and wages¹.

[Article 3 TFEU](#) includes commercial policy among the exclusive competences of the European Union (EU). This means that individual Member States (MS) are not entitled to legislate on trade matters or to conclude international agreements in this field, since only the EU has this power. In addition, [free and fair trade](#) is one of the basic principles of the EU. In a [reply](#) to a Parliamentary question, the European Commission (EC) says that protectionist measures could endanger 25 million jobs in Europe which depend on EU exports. Trade creates opportunities for economic growth, adds the Commission, but adaptation needs to take place so as to seize them².

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In this context, the [European Globalisation Adjustment Fund \(EGF\)](#) aims to tackle job losses caused by major changes in global trade patterns, such as a significant increase of imports into the EU, a swift decline of the EU market share or "delocalisation" outside the single market.

Unlike trade, employment policies are mainly the competence of MS. The [European Employment Strategy](#) promotes policy coordination, with the Commission giving support and guidance. Examples of this include the [annual growth survey](#) and the [Green Paper on restructuring](#) and anticipation of change. In this area, for many years the EU has supported the concept of "flexicurity", a model developed in the Nordic countries that aims to ensure both labour market flexibility and individual security. Some researchers³ see the EGF as an EU instrument to address the challenges globalisation poses to labour markets through the principles of "flexicurity".

How the EGF works

Legal basis and rationale

[Regulation \(EC\) 1927/2006](#) of the Parliament and Council, as [reviewed](#) in 2009, sets out the rules governing the fund. The EGF can be called upon in the event of mass redundancies due to structural changes in global trade that severely affect a labour market, a local economy or a wider region over a relatively short period. Its legal basis ([Article 175 TFEU](#)) is linked to the strengthening of the economic, social and territorial cohesion of the EU.

The EGF is one of the [flexibility instruments](#) in the EU budget. Its maximum annual budget is €500 million, outside the ceilings of the [Multiannual Financial Framework](#) (MFF). This means the Fund is used only in case of a specific crisis, when an MS requests financial support under the scheme and the relevant

intervention criteria are met. In this respect, the EGF differs from the [European Social Fund \(ESF\)](#), which finances measures in the field of employment on a regular basis, addressing long-term goals.

Scope and eligible actions

The Fund contributes to financing active labour market measures with a view to helping individual workers find new jobs.

Eligible actions include: tailor-made training; job-search assistance; entrepreneurship promotion; and measures addressing the needs of disadvantaged or older workers.

On the other hand, the EGF cannot be used for passive social protection measures such as unemployment allowances or retirement pensions. Nor can it fund the restructuring of a company or a sector. The EGF is purely addressed to workers.

Intervention criteria and mechanisms

Currently, the threshold for activating the fund is 500 redundancies. These must have occurred within a period of four months, and relate to an enterprise in an MS, including its suppliers and downstream producers. The time-frame is extended to nine months when the redundancies affect

Following the Lisbon Treaty ([Articles 207 and 218 TFEU](#)), the EP has greater powers in the field of trade policy. It is co-legislator on an equal footing with the Council as regards its framework (for example trade preferences and anti-dumping rules). All trade agreements must get the consent of the EP before being ratified. In addition, the EC must report regularly to the Parliament on the status of trade negotiations.

companies – particularly small or medium-sized enterprises – involved in a single economic activity under the [NACE2](#) classification and located in no more than two neighbouring [NUTS2 level](#) regions (basic EU regions). In exceptional circumstances, applications may be admissible even if these conditions are not fully met, but the impact on employment and the local economy is serious.

Only MS can apply for financial aid under the EGF to the Commission. They must do so within ten weeks from the date when the relevant conditions are met. The application should outline the package of tailor-made services MS intend to provide to

the affected workers in order for them to develop new skills and find new jobs, including possible complementarity with actions funded under the Structural Funds. The estimated costs of the measures should be detailed.

If the Commission deems the request to meet the EGF criteria, it submits a funding proposal to Parliament and Council, as budgetary authority. Once they agree on the proposal, the relevant funds are mobilised usually by transferring them from unused appropriations⁴. The EU contribution can cover 50% of the estimated total costs of the measures. The EGF is meant to complement MS' actions, not replace them.

Currently, MS must carry out eligible actions within 24 months from the application date. An execution report has to be presented to the Commission by the MS at the latest six months after the end of the time-frame for implementation.

Crisis-related provisions

In 2009, Parliament and Council [adopted](#) temporary provisions in order to use the fund as a tool to respond to the crisis. For the period 1 May 2009 to 30 December 2011, the EGF could also be called upon in case of mass redundancies due to the financial and economic crisis. During the same period, the co-financing rate was temporarily increased from 50% to 65%.

In addition, the legislators agreed on some permanent changes with the aim of increasing the effectiveness of the EGF. They allowed *inter alia* for the eligibility threshold to be lowered from 1000 to 500 redundancies and the duration of support to be extended from 12 to 24 months.

In September 2011, the EP [voted](#) in first reading to support a Commission proposal to extend the temporary provisions until the end of 2013. However, the Council has not reached agreement on this.

An overview since 2007

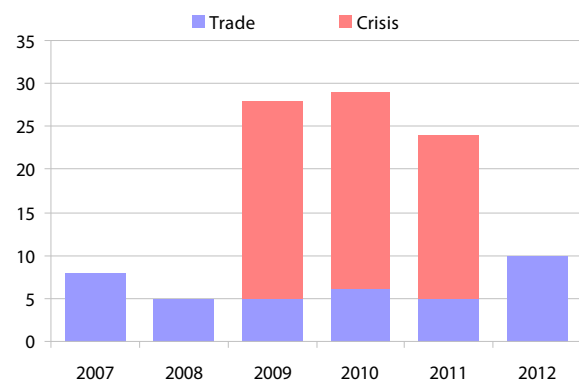
The EGF became operational in 2007. Some analysts [questioned](#) its logic and/or size, while others [considered](#) that the role of the Union in trade policy justified the existence of such a fund at EU level. Several emphasised that the EGF includes a symbolic component in terms of solidarity. In some cases, the Fund was also seen as an attempt to increase public acceptance of international economic integration.

Facts and figures

The European Commission has received 110 requests for EGF funding since 2007⁵. These concerned services for 100 022 workers, with the average financial support requested per worker €4 711. On 8 August 2013, 14 requests were under examination. Only one has been rejected to date. In addition, MS withdrew ten requests before their examination was completed. These are not included in the statistics or in the graphs. The total financial contribution paid since the creation of the EGF amounts to €416.3 million.

Requests show a dramatic increase between 2009 and 2011. Despite being operational for a limited period of 32 months, the crisis-related temporary provision accounts for over 60% of all requests.

Figure 1 - EGF applications by category



Data source: Elaboration on European Commission [data](#).

Countries and sectors concerned

So far, 20 MS have applied for EGF funding. With 18 cases, Spain has submitted the

highest number of requests, followed by the Netherlands (16), Italy (12) and Denmark (10).

Applications relate to more than 30 different sectors, suggesting that the crisis and/or changes in global trade patterns have had an impact on a range of economic activities in the EU. In a wider perspective, labour markets have experienced difficult years. At the end of 2011, the EU had 6.4 million more people unemployed than in 2008. In 2012, the figure worsened further, with the total number of unemployed people close to 25.8 million in September (i.e. over 2.5 million more in nine months), a negative trend in a majority of countries and disparities between MS at a record peak⁶.

The United States has run a federal programme tackling negative effects of trade for some decades. Introduced by the Kennedy administration in 1962, the programme ([Trade Adjustment Assistance](#) or TAA) was expanded in 1974. Its [results](#) are much debated by academics.

On average, 41.8% of the workers had got new jobs immediately after EGF funding ended. This figure tended to increase in the medium term. But results differed significantly from one case to another, with re-employment rates ranging from 4% to 78%. In line with the subsidiarity principle, MS themselves designed the packages of tailor-made services aimed at helping affected workers, and so the mix of measures varied across MS.

EGF funding, say the evaluation's authors, tends to be more successful when it complements other forms of assistance which MS make available outside the

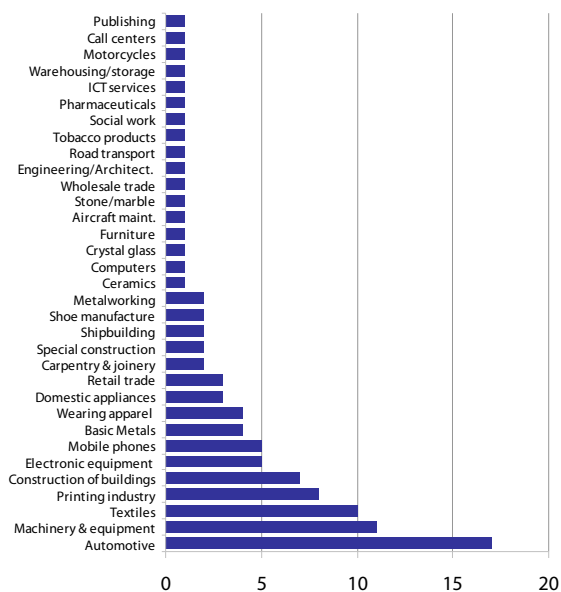
EGF scheme. In addition, the re-employment rate is higher when the proportion of beneficiaries with low education levels is relatively small. The economic and labour market conditions of the locality where aid is provided may have significant impact on the results as well.

The study notes a series of positive outcomes that various stakeholders derive from the EGF. For example, beneficiaries can upgrade their skills and employability, while enhancing their confidence. Public services implementing measures under the scheme can improve their management of large-scale redundancies. EGF actions can also contribute to avoiding a worsening of the unemployment situation in a locality. The authors also put forward recommendations with a view to increasing the effectiveness of the fund. These include streamlining the approval process, which can be lengthy⁷ and have a negative effect on the time available for the implementation of the services. Monitoring and reporting should be improved as well. A final evaluation of the EGF is due by the end of 2014.

Criticisms and recent developments

In 2010, an [article](#)⁸ strongly criticised the EGF and its rationale, suggesting that it should be replaced by a fund promoting national labour market reforms.

Figure 2 - EGF applications by sector: 2007-2012



Data source: Elaboration on European Commission [data](#).

Mid-term evaluation

In 2011, the EC published a [mid-term evaluation](#) of the EGF, as required by the regulation. The analysis focused on 15 cases implemented in eight MS and addressing 13 135 workers in three sectors (automobile, telecommunications and textile).

A [2012 paper](#) focuses on the length of the approval process. The structure of the EGF prevents it from being a rapid response mechanism in the event of a crisis. The current financial arrangements⁹, argues the author, play a role in the complexity of the procedures, hindering the planning of assistance. Providing the Fund with its own budgetary allocations within the MFF would improve its effectiveness. The extra-budgetary burden on MS, concludes the author, would be limited.

In 2013, the EGF budget line includes [payment appropriations](#) of €50 million to streamline the procedures. This follows the EP's requests to avoid transfers from other budget lines as far as possible, since these can hold back the functioning of the Fund. The Commission also considers that the budget line should have some payment appropriations at the beginning of the year to cover needs arising early. In a [2013 resolution](#), the EP called for other improvements to further speed up the mobilisation of the EGF.

On [25 June 2013](#), the European Court of Auditors (ECA) presented a [special report](#) on the Fund, which was based, amongst other evidence, on on-the-spot audits of eight cases in four MS. The Court concludes that most eligible workers were offered personalised and well-coordinated services. However, the ECA recommends that the EC and MS improve the quality of their datasets on workers' re-integration into employment, as it considers that the current ones do not allow assessment of whether objectives have been achieved. The length of the approval procedure is also criticised as unfit for an emergency fund. To tackle this issue, says the ECA, the possibility to provide this kind of support under an adapted ESF should be explored. In addition, EU support could focus on measures providing EU added value. The EC's replies to the Court are annexed to the report.

The future of the Fund

Commission proposals

In June 2011, the EC proposed to continue the Fund as an EU solidarity tool beyond 2013. In its [proposal](#) for the 2014-20 MFF, the Commission kept the EGF outside the ceilings of the MFF proper, with a maximum annual budget of €429 million. This would mean a 14% reduction from the current figure.

In October 2011, the Commission submitted to Parliament and Council the text of a [draft regulation](#) establishing the fund for the period 2014 to 2020. Proposed changes to current rules aim to improve the functioning of the fund, as well as broadening its scope.

In addition to tackling severe disruption caused by global trade patterns, the EGF could also be used in case of unexpected crises seriously affecting the local, regional or national economy (as the temporary provision allowed until December 2011).

Under specific conditions, MS would be able to request funding for agricultural sectors, products or regions significantly affected by new trade agreements. The EGF would help farmers adapt to a different market situation. Up to five sixths of the proposed budget could be used to this end.

Categories of workers currently excluded from the scheme – such as temporary workers, farmers, and owner-managers of small businesses – would be able to benefit from the fund. The normal co-financing rate would be 50% of the costs of the eligible actions. But the EC could raise it to 65% under specific circumstances¹⁰.

European Council

In its February [conclusions](#) on the 2014-20 MFF, the European Council kept the EGF outside the ceilings of the MFF and further reduced its maximum annual budget, setting it at €150 million (2011 prices). Thus, the amount put forward by the Commission in its proposal would be cut by around 65%.

European Parliament

Following the Lisbon Treaty ([Article 312 TFEU](#)), the European Parliament (EP) has to give its consent on the MFF before the Council can adopt it. In March 2013, the EP adopted a resolution [rejecting](#) the conclusions of the European Council in their current form. Parliament called for more flexibility so as to ensure an optimal use of available funds. In addition, the EP supported a review of MFF spending at a later stage so that the next Parliament and Commission can have their say on the budgets under which they will have to work.

On 27 June 2013, Parliament and Council reached political agreement on the next MFF. The [deal](#) includes more flexibility, the possibility to bring forward expenditure in some areas and a compulsory review in 2016. Parliament's consent vote on the MFF is expected in Autumn. In parallel, the EP is examining the legal bases for the next generation of EU programmes and funds, including the new rules for the EGF put forward by the Commission. Their adoption is subject to the ordinary legislative procedure, which puts Parliament and Council on an equal footing.

In a [2011 resolution](#), the EP had set out a series of recommendations concerning the future of the EGF. In January 2013, the [EP's Employment and Social Affairs Committee](#) (rapporteur Marian Harkin, ALDE, Ireland) adopted a report with more than 100 amendments to the Commission's text. The Committee welcomed the proposal to include unexpected crises within the scope of the EGF. On the other hand, it considered that farmers should be able to access funding under the same conditions applicable to other workers. Due to its size, the fund would not be adequately equipped to address the possible negative impact of trade agreements on the agricultural sector. Other amendments aim to improve the functioning of the EGF. For example, the Committee proposes higher co-financing

rates ranging from 60% to 80%, in order to address the current underuse of the fund (as the rate proposed by the EC would prevent some MS from applying for assistance to which they would be entitled). In addition, workers or their representatives would always be involved in defining the packages of services.

Council of the European Union

On 20 June 2013, the Council agreed on a mandate to start negotiations with the EP. According to [press sources](#), progress has been made on some sensitive issues such as the return of crisis-related provisions and the rejection of the specific clauses for the agricultural sector proposed by the EC. However, several points remain contentious, including the co-financing rate.

Further reading

[Mid-term evaluation of the European Globalisation Adjustment Fund](#)/ GHK, 2011, pp. VIII-109.

[European Flexicurity and Globalisation: A Critical Perspective](#)/ De Vos, M., in: The International Journal of Comparative Labour Law and Industrial Relations 25, no. 3, 2009, pp. 209-235.

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<http://www.library.ep.ec>

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Endnotes

- ¹ Globalisation, labour standards and economic development/ Singh A. and Zammit A., in: [The handbook of globalisation](#), edited by Michie, J., 2011, pp. 234-238.
- ² As far as industry is concerned, the [European Competitiveness Report 2012](#) examines current challenges and opportunities.
- ³ De Vos, M., [op.cit.](#)
- ⁴ Point 28 of the 2007-13 [Inter Institutional Agreement \(IIA\)](#) states that funds "can be drawn from any margin existing under the global expenditure ceiling of the previous year, and/or from cancelled commitment appropriations from the previous two years[...] The appropriations will be entered in the general budget of the European Union as a provision through the normal budgetary procedure as soon as the Commission has identified the sufficient margins and/or cancelled commitments [...]". It sets the maximum annual budget of the EGF at €500 million up to 2013.
- ⁵ Data as of 8 August 2013, excluding ten requests withdrawn by MS. Source: [summary table of EGF applications](#).
- ⁶ [Employment and Social Developments in Europe 2012](#) / European Commission, 2013, pp. 19-24 and p. 403.
- ⁷ As far as the first 73 EGF cases are concerned, the [Statistical portrait of the EGF 2007-2011](#) shows that, on average, it took 223 days (around seven months) to handle a request and pay the EU contribution. Further to simplification in 2010, merging two phases of the approval procedure, it now has three main steps: 1) Commission case handling (112 days); 2) EP and Council case handling (60 days); 3) Commission financing decision and payment (51 days). However, the first step is calculated from the date on which an application is considered as "complete" (for example further to a Commission request for additional documents). Therefore, the time elapsed between the initial application date and the payment date is usually longer.
- ⁸ [How to Spend It: Putting a Labour Market Modernisation Fund in place of the European Globalisation Adjustment Fund](#). Koutsiaras, Nikos. *Journal of Common Market Studies*, June 2010, v. 48(3), pp. 617-640.
- ⁹ The EGF being outside the ceilings of the MFF, each funding decision must be approved by the budgetary authority. In addition, the Commission usually needs to identify unused margins and/or cancelled commitments from previous budgets.
- ¹⁰ Applications submitted by MS with at least one less-developed region, which is eligible under the Convergence objective of the Structural Funds.