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Proposal for a

**DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**on the mobilisation of the European Globalisation Adjustment Fund in accordance with point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (application EGF/2010/025 DK/Odense Steel Shipyard from Denmark)**

## EXPLANATORY MEMORANDUM

Point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management<sup>1</sup> allows for the mobilisation of the European Globalisation Adjustment Fund (EGF) through a flexibility mechanism, within the annual ceiling of EUR 500 million over and above the relevant headings of the financial framework.

The rules applicable to the contributions from the EGF are laid down in Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund<sup>2</sup>.

On 6 October 2010, Denmark submitted application EGF/2010/025 DK/Odense Steel Shipyard for a financial contribution from the EGF, following redundancies in Odense Steel Shipyard in Denmark.

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

### SUMMARY OF THE APPLICATION AND ANALYSIS

<b>Key data:</b>	
EGF Reference no.	EGF/2010/025
Member State	Denmark
Article 2	(a)
Primary enterprise	Odense Steel Shipyard
Suppliers and downstream producers	0
Reference period	13.4.2010 – 31.7.2010
Starting date for the personalised services	1.10.2010
Application date	6.10.2010
Redundancies during the reference period	710
Redundancies before and after the reference period	646
Total eligible redundancies	1 356
Redundant workers targeted for support	950
Expenditure for personalised services (EUR)	20 874 362
Expenditure for implementing EGF <sup>3</sup> (EUR)	943 948
Expenditure for implementing EGF (%)	4,3
Total budget (EUR)	21 818 310
EGF contribution (65 %) (EUR)	14 181 901

1. The application was presented to the Commission on 6 October 2010 and supplemented by additional information up to 8 March 2011.
2. The application meets the conditions for deploying the EGF as set out in Article 2(a) of Regulation (EC) No 1927/2006, and was submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.

<sup>1</sup> OJ C 139, 14.6.2006, p. 1.

<sup>2</sup> OJ L 406, 30.12.2006, p. 1.

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

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

3. In order to establish the link between the redundancies and the global financial and economic crisis, Denmark argues that shipyards in Europe over the last decades have been losing substantial market shares to Asia. The global financial and economic crisis then further affected the global shipbuilding market, such that, according to the Community of European Shipyards' Associations (CESA), the global orderbook dropped from 194,2 million CGT<sup>4</sup> to 156,2 million CGT between 2008 and 2009, while new orders dropped from 43,0 million CGT to 16,5 million CGT during the same period.
4. In its annual report for 2009-2010, CESA writes that this reduction in the world orderbook was leading to a fast shrinking of shipyards' workloads. Since the collapse of demand in the standard cargo ships segments, the European yards' market shares in the tankers, container ships and bulk carriers segments contracted further as approximately 1,5 million CGT, roughly 17 % of the current orderbook of CESA members were cancelled since the second half of 2008. According to CESA, the high value and complexity of ships completed in 2009 helped reduce the impact in terms of turnover – 5 % as compared with 20 % decrease in terms of tonnage. The full impact of the current conditions on the European yards would, however, be delayed due to long production leadtimes. Since 2008, the new orders intake in the CESA shipyards had reduced dramatically. In terms of employment, at the end of 2009, on average about 20 % of the jobs at shipyards had already been affected. Without new contracts before the summer of 2010, CESA estimated that an employment crisis with half the jobs at stake could be unavoidable. Numerous European shipyards were increasingly resorting to short-time work, announcing or executing lay-offs. Some yards had already declared bankruptcy, triggering a chain reaction to their suppliers.
5. This is the third EGF case in the shipbuilding sector, and the arguments presented in the two previous cases (EGF/2010/001 DK/Nordjylland<sup>5</sup> and EGF/2010/006 PL/H. Cegielski-Poznan<sup>6</sup>) remain valid.

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

6. Denmark submitted this application under the intervention criteria of Article 2(a) of Regulation (EC) No 1927/2006, which requires at least 500 redundancies over a four-month period in an enterprise in a Member State, including workers made redundant in its suppliers and downstream producers.
7. The application cites 710 redundancies in Odense Steel Shipyard during the reference period from 13 April 2010 to 31 July 2010 as well as a further 646 during the period from 10 August 2009, when the shipyard closure announcement was

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<sup>4</sup> Compensated Gross Tonnage (CGT) is an indicator of the amount of work that is necessary to build a given ship and is calculated by multiplying the [tonnage](http://en.wikipedia.org/wiki/Compensated_gross_tonnage) of a ship by a coefficient, which is determined according to type and size of a particular ship ([http://en.wikipedia.org/wiki/Compensated\\_gross\\_tonnage](http://en.wikipedia.org/wiki/Compensated_gross_tonnage))

<sup>5</sup> COM(2010)451 final.

<sup>6</sup> COM(2010)631 final.

made, to January 2011 (incl.). The applicant Member State chose not to use the full four months for the establishment of its reference period, as the figure reached in three and a half months was sufficient to establish eligibility. All of these redundancies were calculated in accordance with the first indent of the second paragraph of Article 2 of Regulation (EC) No 1927/2006.

### **Explanation of the unforeseen nature of those redundancies**

8. The Danish authorities argue that the closure of the shipyard and the resulting redundancies could not have been foreseen. The shipyard owners invested heavily into the yard until 2009; this would not have happened if the closure had been expected. It must be noted that this is one of the biggest and most modern shipyards in Europe, holding records such as that of having built (in 2006-08) the biggest container ships in the world, Emma Maersk and her E-class sister. The yard has been known for designing and building innovative vessels that apply the newest technology in design and equipment.

### **Demonstration of the redundancies and identification of the dismissing enterprises**

9. The application relates to 1 356 redundancies in total in Odense Steel Shipyard. Following a survey, the applicant Member State has concluded that close to 70 % of the workers affected will wish to benefit from the EGF measures.

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

<b>Category</b>	<b>Number</b>	<b>Percent</b>
Men	903	95,0
Women	47	4,9
EU citizens	950	100,0
Non EU citizens	0	0,0
15-24 years old	58	6,1
25-54 years old	726	76,4
55-64 years old	162	17,1
> 64 years old	4	0,4

11. There are no workers with longstanding health problems or disabilities among either the affected or the targeted workers.

12. In terms of occupational categories, the break-down is as follows:

<b>Category</b>	<b>Number</b>	<b>Percent</b>
Professionals	30	3,2
Technicians and associated professionals	616	64,8
Clerks	19	2,0
Service workers and shop and market sales workers	153	16,1
Elementary occupations	132	13,9

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

## **Description of the territory concerned and its authorities and stakeholders**

14. Odense is Denmark's third largest city with almost 200 000 inhabitants. The city is in the centre of the island of Funen, where the total population is close to 500 000. Funen is the eastern part of the region of Southern Denmark, which has a total of 1 200 000 inhabitants. The infrastructure of both Funen and the region is well developed and the working population increasingly commutes to work outside their home towns. In the case of the Odense Steel Shipyard workers, however, commuting cannot be seen as the solution to their employment problem, as there are few employment opportunities for workers elsewhere on the island and no labour shortage in Denmark as a whole in the metallurgical sector. Major efforts will therefore have to be made to prepare the redundant workers for new jobs.
15. Odense has access to the sea via a canal and the Odense Fjord, on which Odense Steel Shipyard is located in the small town of Munkebo (5 500 inhabitants). Munkebo is part of Kerteminde Municipality, forming the northeast part of Funen.
16. In 2008, the total workforce in Odense and Kerteminde was 109 000 people. The direct losses at Odense Steel Shipyard covered by this application therefore amount to more than 1 % of the workforce, to which must be added further job losses from subcontractors, which will arise at a later stage, and further losses from the shipyard itself, when it closes down completely. It is estimated that the indirect job losses will eventually be as heavy as the direct ones, so that the shipyard closure is regarded as a major crisis in the regional economy.  
  
The educational standard of the employed workforce in Kerteminde is below both the national average and the average in Funen. In 2008, about 27,3 % of the workforce in Kerteminde had received some further education, while the corresponding figure for Funen was 33 % and the national average was 34,8 %.
17. Both the municipalities of Odense and Kerteminde are closely involved in this application, which they have supported from the outset.

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

18. The general employment situation deteriorated sharply in Denmark during 2009 and 2010. Unemployment rose from a record low of 3,3 % for the year 2008 to 8,2 % in December 2010 (source: Eurostat<sup>7</sup>).
19. The industrial structure of Kerteminde is characterised by a high share of employment in manufacturing, particularly in metallurgy. Many jobs in this industry have already been lost to other countries with lower wages. The shipyard workers being dismissed have a high technical expertise which is difficult to apply in other industries in Funen or even the whole of Denmark.

In addition, the shipyard is being wound down in stages, with groups of workers being dismissed as the final ship orders are completed. It is expected that a further 1 100 workers will be dismissed in three waves in 2011. Without significant retraining, it will be hard for these workers to find new employment.

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<sup>7</sup> [http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)

20. Since the announcement of the closure in August 2009, a consortium of local, regional and national stakeholders has discussed and formulated a strategy for new growth opportunities in the region. It is this strategy that guided the choice of measures in the application.

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

21. The Region of South Denmark is, on the one hand, defining and designing measures which can be taken under the Lisbon goals with the objective of strong European competitiveness. The regional Growth Forum uses both ESF and ERDF funding, as well as national labour market assistance to achieve these long-term goals of promoting new growth industries in the area.
22. In order to help these immediate redundancies, however, more specific activities need to be undertaken. These include education, training, employment incentives and support for entrepreneurship. The target group of workers are already highly skilled, but in a field where the outlook for future employment looks bleak. Hence, the measures proposed for them will be somewhat more costly than would be the case for other workers in mass layoffs, which often concern people with relatively low skills.
- Diagnosis, clarification and basic course: It is estimated that this will be taken up by some 70 % of the redundant workers. The course will run over an average period of four weeks and will contain both group-based teaching and additional one-to-one counselling. The objective is to help the workers to understand their own situation and to acquire the motivation to accept a complete reorientation, to understand the opportunities open in the region, to identify their own competencies, to identify opportunities of interest to them, and to decide on further measures they wish to take. This measure will involve much more intensive and personalised counselling than the Job Centres are normally able to provide.
  - Vocational training and general education: It is estimated that this too will be taken up by 70 % of the redundant workers, opting for various fields of education and retraining. Some of the workers may need to reinforce their general education before they can benefit from the training options.
    - The first of these options will be in Energy Technology, involving power generation, energy storage, energy infrastructure and energy efficiency -- the emphasis being on green energy in these areas. This is a new training area which is not provided by the Job Centres so far.
    - The second will be in Construction and Landscaping, for which there are already large public commitments to be implemented in coming years. The course will include specific learning in energy efficient building. These are innovative training measures which depart from what is available in the area.

- The third will be in Robotics, an area of strong growth, where Denmark is successful at international level. Main focus areas would be industrial production, play and learning, and biological production. This is not currently provided by Job Centres, but could be taken on by them in future, if this scheme works well.
  - The fourth will be in Welfare Technology, the development of which is already centred around Odense. The demand for public welfare in hospitals and healthcare services is expected to increase in future. The main focus will be a general introduction to technology and a practical upgrading of skills. This course too is not currently provided by Job Centres, but may offer good employment opportunities in the future.
  - The fifth is General Education, which may be a prerequisite for many of the redundant workers so as to enable them to take up the training offered. It is estimated that a quarter of the total target group will take up this measure, which is scheduled to last for an average of 22 weeks per person. While this is being offered by Job Centres, they are currently flooded with demand from unemployed workers and not always able to cope.
- Attract and retain the youth / higher education: This will guide the young workers to return to education, provide support and fund training costs for up to one year. The support provided here goes beyond that which is normally available from Job Centres.
  - Employment Incentives -- Teaching in Enterprises: This will help the redundant worker in transition to new employment, by facilitating learning and adjustment for both the employer and the new employee. It will most often take place in addition to one of the other measures preparing the worker for a new job. In practical terms, it will be a course given to new employees at one to three days per week and over a period of six to ten weeks. It will greatly facilitate the decision for new employers to take on the redundant workers, as they will be helped to adapt to their new workplace more quickly.
  - Incentives to start a new business: Entrepreneurship in Denmark is at a low level, but increasing, and is particularly low in the two municipalities most affected. The level of interest in this measure expressed by the redundant workers was, however, above average, and almost a third (285) of the workers expressed interest. The workshops planned will help these workers to develop ideas and creativity, the screening of ideas will help them to focus on the best cases for further development, an entrepreneurship course of six weeks' duration will enable those who decide to go down this route (estimated at 95 workers) to focus on how a business is run; a smaller number (estimated at 45 workers) will then be helped with advice on how to develop a product and with the necessary market analysis. Some 20 new entrepreneurs will receive guidance and coaching in the early start-up phase, and mentoring by means of a number of sessions during the first year. Those who successfully start businesses will be helped with marketing and public relations, including branding. Entrepreneurs who fulfil stringent conditions can apply for a loan -- it is estimated that some ten applicants will qualify for this final stage of support.

- In addition to these measures, Denmark proposes a subsistence allowance of EUR 100,67 per worker per day of activity.
23. The expenditure for implementing the EGF, which is included in the application in accordance with Article 3 of Regulation (EC) No 1927/2006, covers preparatory, management, information and publicity as well as control activities. All partners involved in the measures are committed to communicating the EGF support being provided.
  24. The personalised services presented by the Danish authorities are active labour market measures within the eligible actions defined by Article 3 of Regulation (EC) No 1927/2006. The Danish authorities estimate the total costs of these services at EUR 20 874 362 and the expenditure for implementing the EGF at EUR 943 948 (4,3 % of the total amount). The total contribution requested from the EGF is EUR 14 181 901 (65 % of the total costs).



Actions	Estimated number of workers targeted	Estimated cost per worker targeted (EUR)	Total costs (EGF and national cofinancing) (EUR)
<b>Personalised services</b> (first paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Diagnosis, clarification and basic course	950	1 610,74	1 530 203
Vocational training in energy technology	190	10 067,11	1 912 751
Vocational training in construction and landscaping	140	5 369,13	751 678
Vocational training in robotics	75	10 067,11	755 033
Vocational training in welfare technology	70	12 080,54	845 638
General education	235	7 973,15	1 873 690
Attract and retain in higher education	110	6 711,41	738 255
Teaching in enterprises	190	3 221,48	612 081
Stimulating entrepreneurship	285	268,46	76 511
Screening of ideas	140	134,23	18 792
Entrepreneurship course	95	5 637,58	535 570
Course in product development	45	3 758,39	169 128
Market analysis and feasibility study	20	4 026,85	80 537
Business start-up cases	20	5 637,58	112 752
Mentoring	20	1 342,28	26 846
Advertisement and branding	20	4 026,85	80 537
Start-up loan	10	26 845,60	268 456
Subsistence allowance	950	11 037,80	10 485 906
<b>Sub total personalised services</b>			<b>20 874 362</b>

**Expenditure for implementing EGF** (third paragraph of Article 3 of Regulation (EC) No 1927/2006)

Preparatory activities		74 260
Management		482 694
Information and publicity		185 652
Control activities		201 342
<b>Sub total expenditure for implementing EGF</b>		<b>943 948</b>
<b>Total estimated costs</b>		<b>21 818 310</b>
<b><i>EGF contribution (65 % of total costs)</i></b>		<b><i>14 181 901</i></b>

\* The totals do not entirely tally due to conversion from DKK and rounding.

25. Denmark confirms that the measures described above are complementary with actions funded by the Structural Funds and that all double financing will be prevented.

**Date on which the personalised services to the affected workers were started or are planned to start**

26. Denmark started the personalised services to the affected workers included in the co-ordinated package proposed for co-financing to the EGF on 1 October 2010. This date therefore represents the beginning of the period of eligibility for any assistance that might be awarded from the EGF.

**Procedures for consulting the social partners**

27. The Region of Southern Denmark, and the Municipalities of Odense and Kerteminde prepared the application together. This work has involved a number of social partners, professional organisations, unions and educational institutions. Joint meetings have been held, at which detailed strategies for growth and extraordinary actions in the transition plan were discussed and designed by the parties.
28. The Danish authorities confirmed that the requirements laid down in national and EU legislation concerning collective redundancies have been complied with.

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

29. As regards the criteria contained in Article 6 of Regulation (EC) No 1927/2006, the Danish authorities in their application:
- confirmed that the financial contribution from the EGF does not replace measures which are the responsibility of companies by virtue of national law or collective agreements;
  - demonstrated that the actions provide support for individual workers and are not to be used for restructuring companies or sectors;

- confirmed that the eligible actions referred to above do not receive assistance from other EU financial instruments.

### **Management and control systems**

30. Denmark has notified the Commission that the financial contribution will be managed and controlled by the same bodies as the European Social Fund, which also has the Danish Enterprise and Construction Authority as Managing Authority. The Certifying Authority will be vested in a different department of the same body. The Auditing Authority will be the EU Controllerfunction in the Danish Enterprise and Construction Authority.

### **Financing**

31. On the basis of the application from Denmark, the proposed contribution from the EGF to the coordinated package of personalised services is EUR 14 181 901, representing 65 % of the total cost. The Commission's proposed allocation under the Fund is based on the information made available by Denmark.
32. Considering the maximum possible amount of a financial contribution from the EGF under Article 10(1) of Regulation (EC) No 1927/2006, as well as the scope for reallocating appropriations, the Commission proposes to mobilise the EGF for the total amount referred to above, to be allocated under heading 1a of the financial framework.
33. The proposed amount of financial contribution will leave more than 25 % of the maximum annual amount earmarked for the EGF available for allocations during the last four months of the year, as required by Article 12(6) of Regulation (EC) No 1927/2006.
34. By presenting this proposal to mobilise the EGF, the Commission initiates the simplified dialogue procedure, as required by Point 28 of the Interinstitutional Agreement of 17 May 2006, with a view to securing the agreement of the two arms of the budgetary authority on the need to use the EGF and the amount required. The Commission invites the first of the two arms of the budgetary authority that reaches agreement on the draft mobilisation proposal, at appropriate political level, to inform the other arm and the Commission of its intentions. In case of disagreement by either of the two arms of the budgetary authority, a formal dialogue meeting will be convened.
35. The Commission presents separately a transfer request in order to enter in the 2011 budget specific commitment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

### **Source of payment appropriations**

36. As the 2011 budget includes payment appropriations of EUR 47 608 950 on budget line 04.0501 "European Globalisation Adjustment Fund (EGF)", this budget line will be used to cover the amount of EUR 14 181 901 needed for this application.

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management<sup>8</sup>, and in particular point 28 thereof,

Having regard to Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 establishing the European Globalisation Adjustment Fund<sup>9</sup>, and in particular Article 12(3) thereof,

Having regard to the proposal from the Commission<sup>10</sup>,

Whereas:

- (1) The European Globalisation Adjustment Fund (EGF) was established to provide additional support for workers made redundant as a result of major structural changes in world trade patterns due to globalisation and to assist them with their reintegration into the labour market.
- (2) The scope of the EGF was broadened for applications submitted from 1 May 2009 to include support for workers made redundant as a direct result of the global financial and economic crisis.
- (3) The Interinstitutional Agreement of 17 May 2006 allows the mobilisation of the EGF within the annual ceiling of EUR 500 million.
- (4) Denmark submitted an application to mobilise the EGF, in respect of redundancies in the enterprise Odense Steel Shipyard, on 6 October 2010 and supplemented it by additional information up to 8 March 2011. This application complies with the

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<sup>8</sup> OJ C 139, 14.6.2006, p. 1.

<sup>9</sup> OJ L 406, 30.12.2006, p. 1.

<sup>10</sup> OJ C [...], [...], p. [...].

requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006. The Commission, therefore, proposes to mobilise an amount of EUR 14 181 901.

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

HAVE ADOPTED THIS DECISION:

*Article 1*

For the general budget of the European Union for the financial year 2011, the European Globalisation Adjustment Fund (EGF) shall be mobilised to provide the sum of EUR 14 181 901 in commitment and payment appropriations.

*Article 2*

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

Done at [Brussels/Strasbourg],

*For the European Parliament*  
*The President*

*For the Council*  
*The President*