BRIEFING

EU Legislation in Progress
2021-2027 MFF

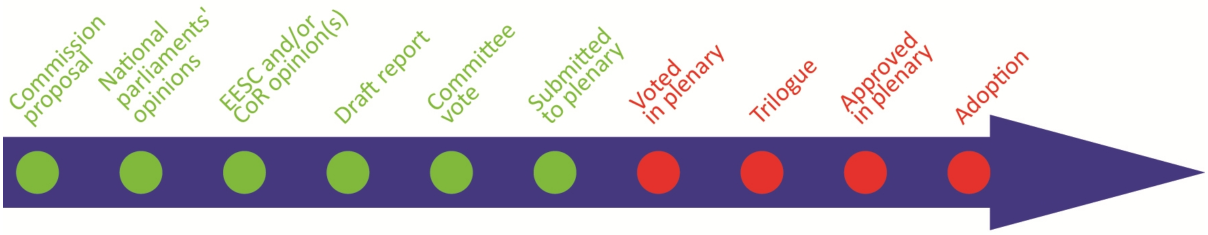
Reform of the European Globalisation Adjustment Fund

OVERVIEW

The European Globalisation Adjustment Fund (EGF) was created in 2006 to finance active labour market policies targeting workers who have lost their jobs because of trade adjustment. The fund was subsequently modified in 2009 to cover major structural changes triggered by the economic and financial crisis. The rules of the EGF are laid down in EU Regulation (EU) No 1309/2013, which stipulates that the fund will continue to be financed until 31 December 2020. In May 2018, the European Commission submitted a proposal to reform the EGF and maintain it as a special instrument outside the MFF ceiling. The proposal introduces modifications to the eligibility criteria, the co-financing rules and the mobilisation procedure. The report was voted in the EMPL committee on 27 November 2018, and the report is due to be debated in plenary in January 2019, with a view to finalising Parliament's position for trilogue negotiations.

Proposal for a regulation of the European Parliament and of the Council on the European Globalisation Adjustment Fund (EGF)

Committee responsible:	Employment and Social Affairs (EMPL)	COM(2018) 380 final 30.5.2018
Rapporteur:	Maria Arena (S&D, Belgium)	2018/0202 (COD)
Shadow rapporteurs:	Tom Vandenkenlaere (EPP, Belgium) Arne Gericke (ECR, Germany) Marian Harkin (ALDE, Ireland) João Pimenta Lopes (GUE/NGL, Portugal) Monika Vana (Greens/EFA, Austria) Laura Agea (EFDD, Italy) Mara Bizzotto (ENF, Italy)	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
Next steps expected:	First-reading vote in plenary	



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Introduction

The European Globalisation Adjustment Fund (EGF) was established by Regulation (EC) No 1927/2006 and subsequently amended by Regulation (EC) No 546/2009 and Regulation (EU) No 1309/2013. The current rules are valid for the 2014-2020 period. The EGF is a solidarity fund that targets active labour policies (such as training, job searches and business start-ups) for workers unexpectedly made redundant due to globalisation or an economic crisis. The EGF is also an emergency fund; as such, it remains outside the ceiling imposed by the multi-annual financial framework (MFF) and must be mobilised on an ad hoc basis using the budgetary procedure involving the Council of the EU and the European Parliament. A May 2018 European Commission proposal on the EGF would maintain the fund as a special instrument outside the ceiling of the 2021-2027 MFF framework, while also introducing some modifications inter alia to the eligibility criteria, the co-financing rules and the mobilisation procedure.

Context

The EGF was created with the intention to tackle trade adjustment (i.e. changes in the allocation of resources in the economy provoked by trade flows). Economic theories generally recognise that trade liberalisation leads to overall benefits for the economy through the reallocation of resources (capital and labour) away from inefficient firms or industries. However, these reallocations can lead to costs for some industries, firms and their workers. Increasingly polarised labour markets,[1] rising protectionism and the uneven distribution of gains from globalisation across society, have prompted a discussion on how to ensure that the benefits of globalisation are more equally distributed. Trade adjustment was at the centre of the G20 under the German Presidency in 2017 and of recent OECD and WTO reports.[2] In its communication on harnessing globalisation, published in May 2017, the Commission highlighted the role of the EGF as a solidarity fund but also the need to make the current instrument more operational, faster in deployment, and more flexible.

Existing situation

The current rules

EU Regulation No 1309/2013 extended the financing of the EGF, created back in 2006, until 31 December 2020. Applications for EGF funding must comply with a series of eligibility criteria:

- *Cause of redundancies* (Article 2): redundancies must have been caused by major structural changes in world trade patterns due to globalisation, and must have resulted in a serious disruption of the local, regional or national economy, or in the continuation of (or the start of a new) global financial and economic crisis.
- *Minimum threshold of workers dismissed* (Article 4): an application is eligible for funding if, over a period of reference of four months, there are at least 500 redundancies, including dismissals of workers in a firm established in a Member State or the ceasing of activities of self-employed persons as its suppliers or downstream producers. Alternatively, there must be at least 500 redundancies (including workers and self-employed persons) over a period of nine months in the same sector (at NACE revision 2 level) in one or two contiguous regions (defined at NUTS 2 level), or in more than two contiguous regions, provided that there are more than 500 redundancies in two of the regions combined. There is a derogation from the 500-worker threshold for smaller labour markets or for collective applications by SMEs. The derogation is admissible only in situations where the Member State can prove that the redundancies have a serious impact on employment and the local, regional or national economy.

By way of derogation and until the end of 2017 (Article 6), the EGF Regulation allowed Member States to extend support to young people not in employment, education or training (NEETs). Member States applying for EGF support have to design a coordinated package of measures and decide on the amount of assistance they will be requesting (there is no limit on the amount). The

EGF funds active labour market measures and the Regulation excludes passive labour market policies from the scope of the EGF, as they are the responsibility of the individual Member States. Time-limited allowances are capped at 35 % of the total costs (Article 7), and a limit is placed on technical assistance to Member States for the purpose of financing the preparation and monitoring of, data gathering for and creation of a knowledge base relevant to the implementation of the EGF (Article 11). The current co-financing rate stands at 60 % (Article 13). The current budgetary procedure (Article 15) envisages a two-fold involvement of the legislators in the process. Where the Commission has concluded that an application is eligible for funding, it submits a proposal to the European Parliament and the Council in order for them to mobilise the fund. At the same time, the Commission presents a proposal to the European Parliament and the Council for a transfer to the relevant budgetary lines.

Uneven use of the fund by Member States and calls for reforms

The EGF has been used unevenly by the different EU Member States, with several countries not using it at all. In a November 2017 briefing, EPRS reported on the results of a survey among national authorities over the summer of 2017, launched to provide a clearer picture of the reasons for the uneven use of the EGF fund. The replies – submitted by 13 Member States[3] – highlighted certain differences among them with respect to the issues they had in using the EGF. A few authorities gave some indications as to what they were expecting from the reforms. Others mentioned that they had not yet reached a national position (replies to the EPRS questionnaires were received in **July-August 2017**, i.e. prior to the issuing of the Commission proposal).

Box: Member States' authorities replies to EPRS questionnaires Summer 2017:

On average, the main problem appeared to be the eligibility criteria. Among other things, properly taking account of the specificities of SMEs was deemed difficult, given the current constraints. Germany specifically mentioned the issue that the fund did not cover dismissals due to technological change. For post-2004 enlargement countries, the main problem appeared to be the co-financing rule, which was less favourable than the requirements of other funds (such as the ESF). The limited added value of the fund was a problem mentioned by Denmark and Sweden. The Irish authority highlighted in particular that the short duration of the EGF programmes was challenging for workers seeking to enrol in higher education programmes. It considered problematic any further reduction of time-limited allowances (mobility, subsistence and training allowances) below the current 35 % threshold, as this could create disincentives for the beneficiaries' participation in education and training programmes. Finally, it also proposed to extend the fund to cover Brexit-related adjustments. The Swedish authority also considered the capping of allowances problematic and challenged their qualification as a passive measure. It also found the capping of technical assistance as being a problem and suggested that such funding should be equivalent to the funding available under the ESF. The Swedish authority had problems justifying EGF projects as they ended up costing more than using the regular national service. The German authority highlighted the need to include dismissals resulting from economic change due to digital technologies or automation, within the scope of the fund, and to consider transforming the EGF into a European adjustment fund covering a variety of restructuring cases. It also advocated a reduction of the administrative burden generated by the fund and more flexibility in the application criteria, focusing more on the local impact of redundancies (relaxing the threshold of workers to 400, the NACE rev2 and NUTS2 level requirements). It also proposed to introduce a lump sum for project-dependent technical assistance (without the need to classify those costs in sub-classes), and a share of project-independent technical assistance, equal to the ESF amount, for drawing up EGF applications, monitoring the labour market situation and establishing a knowledge base relevant to the implementation of the EGF. The Lithuanian authority suggested that it would have been better to have co-financing rates higher than 65 %. The Danish authority expressed hopes that the fund would be terminated; if it were to be kept, it should have a larger scope. The Latvian authority pointed out that Latvia had never applied to the fund and that it had no interest in prolonging the fund unless some adjustments made it easier for smaller states to apply for assistance. The Latvian authority saw potential in strengthening the European structural and investment funds, including the ESF, by integrating instruments, such as the EGF and the Youth Employment Initiative, into them. The Spanish authority advocated lowering the 500-worker threshold and extending the EGF to the next programming period. A lower threshold (300-350 workers) was also seen as a priority by the Czech authority. The Austrian and Hungarian authorities saw no urgent need to reform the EGF.

Comparative elements

The EGF was born as a trade-specific adjustment programme. Similar programmes exist in other countries, such as the US and South Korea; unlike the EU programmes, the US and Korean ones also provide assistance to firms and not only to workers or farmers. The main differences between EU and US assistance to workers (trade adjustment assistance) are detailed in the 2017 EPRS briefing mentioned above. In particular, the US programme simply specifies that a significant proportion of the firm's employees need to have been partially or totally dismissed, or need to have been threatened to become partially or totally dismissed. Similarly in South Korea, where assistance was initially targeted at SMEs, displaced workers are eligible if the firm qualifies for assistance (a firm qualifies if it experiences a 10 % reduction in sales or production due to the implementation of a free trade agreement). Other countries, such as Australia and Japan, have assistance programmes for displaced workers, but these are not trade-specific. Canada had trade-specific adjustment assistance until the late 1980s, when the Advisory Council on Adjustment, set up by the government, recommended replacing the trade-specific programme by an adjustment programme covering dismissals caused by a variety of reasons and not only by trade.

Parliament's starting position

The European Parliament adopted an implementation report on the EGF in July 2016, acknowledging the importance of the EGF as an emergency and a solidarity fund. The report stressed the need for additional data to ensure the EGF's transparency and efficiency, and to improve the assessment of its impact. It also asked to include a specific assessment of the fund's activities with respect to NEETs in the next review. It called for increased synergies between the EGF and the European structural and investment funds. It highlighted the importance of SMEs and the need to support their redundant workers. Finally, it pointed out that the EGF cannot be a substitute for an industrial policy.

Council and European Council starting position

The Rome Declaration of 25 March 2017 underlined the EU and its Member States' commitments, inter alia, for embracing technological transformation, promoting free and fair trade, and fighting against unemployment and social exclusion. The European Council conclusions of 22-23 June 2017 reaffirmed the benefits of free trade, while at the same time mentioning that the EU would tackle citizens' concerns and promote social, regulatory and environmental standards. On November 2017, the Council endorsed the European Pillar of Social Rights proclamation jointly with the European Parliament and the Commission. The proclamation recognised that the challenges faced by labour markets and societies can also arise from globalisation and the digital revolution. On 21 June 2018, the Bulgarian Presidency organised an EPSCO lunch debate around the ESF+ and the EGF. In a note published after the debate, the presidency mentioned that the EGF would remain the main tool for offering assistance in emergency situations of mass dismissals caused by restructuring events, and asked the Member States to specify the best ways for creating synergies and complementarities between the ESF+ and the EGF.

Preparation of the proposal

In its report on the EGF activities in 2015-2016, the Commission mentioned that from 2007 to 2016, it had received 147 applications from 20 Member States, targeting 137 601 workers. The ex-post evaluation of the EGF, published by the Commission in 2015, found that the fund had added value, as no other fund tackles trade adjustments. Re-employment rates were at 49 % on average (varying extensively from 4 to 86 % across cases). The characteristics of the workers' profiles (such as low skill levels, employment history and education) as well as certain regional characteristics had an impact on re-employment, suggesting that structural issues also play a role in trade adjustments. The ex-post evaluation highlighted that it was important not to include the EGF in the European structural and investment funds. It also made a number of recommendations, such as: ensuring better monitoring of the use of the budget; streamlining the procedure; and making the EGF more flexible in order to accommodate further requests that might arise after an application is filed. A DG Trade chief economist note highlights the political relevance of having a fund tackling trade adjustment for the whole of the EU. In its 2016 implementation assessment of the EGF, the EPRS noted the unequal use of EGF funds by Member States. Moreover, it found that some countries' applications were concentrated on a limited number of large companies, at the expense of SMEs. EGF action was also found to have chiefly concentrated on certain sectors, pointing to the need for a more balanced delivery. Yet again, the assessment established that crisis-related cases outnumbered trade globalisation ones, suggesting that the fund no longer corresponded to its initial aim.

The proposal in the framework of the 2021-2027 MFF

The Commission decided to keep the EGF as a special instrument outside the MFF ceilings; if the EGF were to remain within these ceilings, it would have to operate under a fixed budget, which could lead to spending beyond what is necessary, as the aim would be to fully utilise the funds. Keeping the EGF outside the MFF allows it to maintain its 'emergency relief' fund characteristics. The proposal introduces some significant modifications to the current regulation. These are as follows:

- The proposal presents a more general objective – to offer assistance in case of unexpected major restructuring events – and contains a non-exhaustive list of causes for the resulting redundancies, which now go beyond globalisation-related challenges and financial or economic crises, to include the transition to a low-carbon economy and the consequences of digitalisation and automation.
- The threshold of redundancies has been lowered to 'more than 250 workers', while at the same time maintaining the exception for smaller labour markets. For situations where the minimum threshold of redundancies is not reached within one single firm, the proposal introduces a shorter reference period. There is no derogation for NEETs.
- The co-financing rate would be aligned with the highest ESF+ co-financing rate attributed to the respective Member State.
- The procedure has been modified to make it faster. The European Parliament and the Council would adopt only the budgetary transfer, while the Commission would adopt the financial contribution by means of an implementing act, which would only enter into force after the adoption of the budgetary transfer.
- The maximum amount that the EGF could use over the 2021-2027 period would be about €1.6 billion (at current prices), which means an average of €225 million per year compared to the €170 million per year set for the current financial framework.
- As the maximum level of technical assistance equals 0.5 % of the EGF annual maximum amount, the maximum amount of technical assistance has also been increased.

Advisory committees

For this dossier, there is a mandatory consultation of the European Economic and Social Committee (EESC) and the European Committee of the Regions (CoR). The EESC adopted its opinion on 12 December, while the CoR had adopted its opinion the previous week, on 5 December.

National parliaments

National parliaments were invited to react to the proposal in the framework of the subsidiarity procedure. The deadline for submitting a reasoned opinion was 6 September 2018. The Irish, the Lithuanian, the Maltese, the Portuguese and the Spanish parliaments considered the proposal to be in compliance with the subsidiarity and proportionality principles. The Polish Senate supported the document with reservations. While in an expert report the Polish Sejm gave the proposal a favourable assessment, it also pointed out that the proposal could lead to a greater financial burden. Furthermore, it mentioned that it would have originally preferred to see the EGF included in ESF+.

The Swedish Riksdag submitted a reasoned opinion stating that the EGF proposal conflicts with the principle of subsidiarity, maintaining that Member States are responsible for achieving the aim of the proposed European Globalisation Adjustment Fund.

Stakeholders' and academic views[4]

The European Trade Union Confederation (ETUC) has already issued a position on the 2021-2027 EU budget, which also discusses the reform of the EGF. ETUC wants the EGF to be transformed into a European transition fund, which would make it better coordinated with ESF+ for the sake of ensuring coherence, and would help it anticipate and manage the restructuring processes more efficiently. ETUC therefore welcomes the expansion of the scope of the fund to cover structural trends such as digitalisation, decarbonisation and automation. A policy paper published by Bruegel before the Commission's reform proposal was made, gave the following main recommendations: to collect better data so as to enable proper evaluation of the fund effectiveness; to revise the eligibility criteria for getting assistance, suggesting no threshold (as in the US TAA) or a substantially lower threshold; to use the same co-funding rates as for the ESF programmes; to enlarge the scope of the EGF to policy-induced sources of adjustment including intra-EU trade and offshoring, and transition to a low-carbon emissions economy; to increase the funding amount to cope with the eligibility criteria and co-financing rates reforms; ideally including the fund in the MFF and creating a specific budget line; for the Commission to use the European Restructuring Monitor (ERM) database proactively, in order to detect redundancies and recommend to national authorities to apply for EGF assistance. A 2018 OECD paper suggests expanding national labour market programmes to assist displaced workers, rather than expanding the EGF to make it the major source of assistance. Still, the paper also recommends making the EGF more effective by considering integrating it into the MFF to speed up the approval procedure, and broadening its scope to cover workers displaced by automation. The OECD proposes to improve support and guidelines for Member States for preparing their applications and tailor-made measures for redundant workers. It also recommends improving the quality of datasets used for evaluating the benefits of the fund. Last but not least, the OECD points out that policies aimed at displaced workers are not sufficient and must be complemented with policies targeting the demand side of labour markets (i.e. the firms): lowering barriers to entry, while also promoting entrepreneurship and start-up assistance.

Legislative process

The proposal follows the ordinary legislative procedure. The draft report was published on 23 July 2018. The vote in the EMPL committee took place on 27 November.

The main changes proposed in the report adopted by the EMPL committee aim at:

- *Facilitating the mobilisation of the fund:* The report proposes to enlarge the scope of the fund to cover transformations resulting from globalisation, technological and environmental changes, and, accordingly, changes the fund's name to European Fund for Transition (EFT). The report lowers the minimum number of dismissals needed to be eligible, to 200 (as opposed to the 250 proposed by the Commission), and extends the reference periods for reaching the minimum number of redundancies. It also reintroduces the possibility to include NEETs in the activities financed by the fund. The proposal also extends the lists of possible special time-limited measures, and it increases the investment funding for self-employment from 20 000 to 25 000 euros per displaced worker.
- *Ensuring the value added of the fund:* In particular, it further specifies the measures that cannot be eligible for funding. It also highlights that applications must clearly state the measures already undertaken by Member States for the assistance of displaced workers and the complementarity of the funds requested. The application must also give an overview of the Union funds received by the dismissing firm in the five years preceding the collective redundancies. Finally, the application must contain a statement that the proposed actions are complementary with actions funded by the structural funds.

- *Operationalising the fund better:* The proposal reduces the time for the Commission's assessment of a request to 40 days (this can exceptionally be extended to 60 days), while still maintaining the double role of the legislator in adopting decisions for mobilisation of the fund and for the transfer to the relevant budgetary lines. While it makes sure that the annual maximum is not breached, it allows the Commission to propose to cover the needs with the funds available for the subsequent year if the fund's resources available in the year of an event's occurrence have already been exhausted. The report also introduces some changes to ensure more effective assistance to Member States, including by the setting up of an helpdesk.

The FEMM, INTA, REGI, CONT and BUDG committees all adopted opinions on the proposal.

The EMPL committee report is due to be debated in plenary in January, with a view to fixing the Parliament's position for interinstitutional negotiations.

In the Council, the proposal has been discussed in the Social Questions Working Party on several occasions. According to an Austrian Presidency progress report from November 2018, while many elements of the text had been agreed among Member States, there were still some points under discussion at that stage.

EP SUPPORTING ANALYSIS

L. Puccio, Policy Measures to respond to trade adjustment costs, Briefing, EPRS, European Parliament, November 2017.

S. Reynolds, The European Globalisation Adjustment Fund 2007-2014, European Implementation Assessment, EPRS, European Parliament, March 2016.

C. Scheinert, Reflection paper on harnessing globalisation, Briefing, EPRS, European Parliament, September 2017.

M. Tuominen, European Social Fund Plus and European Globalisation Adjustment Fund, Initial Appraisal of a European Commission Impact Assessment 2021-2027 MFF, EPRS, October 2018.

OTHER SOURCES

European Parliament Legislative Observatory, European Globalisation Adjustment Fund (EGF) 2021–2027, 2018/0202(COD).

ENDNOTES

[1] Trade and technological changes do not necessarily impact the overall demand for labour but can provoke shifts in demand for different kind of skills. Job polarisation signifies that demand for labour 'polarises' toward demand for high-skilled and low-skilled workers, while demand for middle-skilled workers decreases. Job polarisation is an industry phenomenon; there are industry sectors that will experience less polarisation than others. For more information, see: K. Breemersch, J. P. Damijan, J. Konings, Labour Market Polarisation in Advanced countries: Impact of global value chains, technology, import competition from China and labour market institutions, OECD 2017.

[2] WTO, World Trade Report 2017: Trade, technology and jobs, 2017; OECD, Making Trade Work for All, May 2017; IMF, World Bank and WTO, Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment, 2017; OECD, Productivity and Jobs in a Globalised World (How) Can All Regions Benefit?, 2018.

[3] 13 countries (Austria, Bulgaria, the Czech Republic, Germany, Denmark, Spain, Finland, Sweden, Ireland, Latvia, Lithuania, Hungary and Portugal) replied to the questionnaire.

[4] This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis'.

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