

# UEAPME<sup>1</sup> opinion on the European Globalisation Adjustment Fund: crisis derogations and future of the instrument

(EC No. 1927/2006 and EC No. 546/2009)

## Introduction

In view of the European Commission's recent proposal to extend the crisis derogations<sup>2</sup>, currently due to expire at the end of 2011, and reflections on the future of the European Globalisation Adjustment Fund (EGF), UEAPME would like to make the following comments.

The EGF was established for the period 2007-2013 with an annual budget of up to 500 million euros. Its original purpose is to serve as a solidarity fund by supporting workers made redundant due to globalisation through active labour market policy measures, such as assistance with job searches, training and mobility allowances.

In the meantime due to the crisis the EGF was amended aimed at increasing its uptake by introducing derogations, i.e. a rise in co-financing from 50 to 65% and broadening the scope of the EGF to workers made redundant as a result of the crisis, as well as some permanent changes that concern lowering the eligibility threshold for EGF applications of redundant workers and extending the implementation period from 12 to 24 months.

## General comments

UEAPME recalls that the challenges of globalisation and even more the crisis have an unprecedented impact on companies of all sizes and all workers. It requires constant adapting to change to ensure competitiveness of the economy and notably SMEs as well as employability of individuals equipped with the right set of skills and competences.

UEAPME recognises that changes to the EGF in 2009 and notably lowering the eligibility threshold of redundant workers in an undertaking, sector or region from a 1000 to 500 have led to some improvement in the access of workers from SMEs, even if the overall low take up rate and uneven use of the EGF among Member States poses some serious questions about the adequacy of the instrument and complexity of its management rules.

As the nature of the fund has changed and is now primarily used for integrating redundant workers to cushion the social and labour market impact resulting from the crisis and since the crisis and its negative consequence on employment are far from being surmounted UEAPME considers it appropriate that the derogations are extended until the end of 2013. But the prolongation should be accompanied by simplification measures. The difficult and heavy budgetary procedures should be simplified in particular by shortening the period of pre-financing required by Member States to reduce uncertainties associated with the use of the fund.

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<sup>1</sup> UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is 55820581197-35.

<sup>2</sup> EC proposal adopted on 10 June 2011

## Specific comments

### Part I – How to improve the current EGF up to 2013

As UEAPME we identified a number of shortcomings of the EGF that should be tackled to improve its functioning for the remaining period until 2013.

#### **On subject and scope**

The original purpose of the EGF “is to provide support for workers made redundant as a result of major structural changes in world trade patterns due to globalisation...” Given that the extension of the EGF to workers made redundant as a result of the economic and financial crisis in 2009, has subsequently become the main reason for its use, UEAPME considers it is important to extend the derogations until the end of 2013, to continue tackling the high levels of unemployment that persist in many parts of Europe.

However, at the same time the EU should give support to a better implementation of structural reforms in Member States.

#### **On intervention criteria**

Article 2 of Regulation EC No. 546/2009 outlines the interventions criteria for the EGF as follows:

- b) *“At least 500 redundancies over a 9-month period, particularly in SMEs, in a NACE 2 division (sectoral definition) in one region or two contiguous regions at NUTS II level (regional definition).”*
- c) *“In small labour markets or in exceptional circumstances, where duly substantiated by the Member State concerned, an application for a contribution from the EGF may be considered admissible even if the intervention criteria laid down in points a) or b) are not entirely met, when redundancies have a serious impact on employment and the local economy...The aggregated amount of contributions in exceptional circumstances may not exceed 15% of the annual maximum amount of the EGF.”*

UEAPME points out that the rising number of applications during 2009-2010 shows a clear demand for interventions based on criteria 2 b) and c) for 500 workers or below<sup>3</sup>, higher than for criteria 1 a) for 500+ workers. However, despite lowering the threshold it is likely that certain problems persist for SMEs and even more for small companies related to administration of applications, information and lack of resources.

#### **On applications**

The application procedure is in relative terms more complex for SMEs due to their size and lack of economies of scale. Further, the decision-making process for EGF applications remains slow and bureaucratic and the need for Member States to pre-finance the interventions is challenging, notably in times of tight public budgets and austerity measures. It is therefore crucial that budgetary procedures are simplified for the remaining period until the end of the current EGF in 2013.

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<sup>3</sup> See EC statistical portrait of the EGF 2007-2010. Until 01/07/2010 Austria, Denmark, Finland, Lithuania, Malta, Netherlands, Portugal lodged applications under criterion 2ce and 2cl.

### **On eligible actions**

UEAPME believes the eligible actions are too limited and do not allow to deal with new challenges on the labour market linked to the crisis, such as in Spain where there are now many temporary workers who have lost their job and are not eligible for any EGF funding. UEAPME therefore insists on the essential role of the flexicurity approach. Effective measures as part of Active Labour Market Policies and Lifelong Learning strategies are essential to rapidly reintegrate redundant workers into jobs and ensure smooth transitions to tackle unemployment.

At the same time, on the demand side measures are clearly needed to foster job creation and economic growth. In this respect UEAPME recognises the value of entrepreneurship promotion and support for self-employment activities in the current EGF, but it needs to be accompanied with adequate measures to be successful, in particular for the early phase of the business.

### **On the complementarity and coordination with the ESF**

Article 6 outlines that the EGF aims at “complementing actions in Member States, including those financed by structural funds”.

UEAPME points out the overlap between the actions of the EGF and ESF as both finance ALMP. Moreover, as outlined by UEAPME in a previous position<sup>4</sup> the concern remains that the EGF could be inappropriately used to make redundancies of workers less expensive due to the general co-financing coming from the Fund combined with other sources (e.g. large companies with access to funding for social plans). There is a risk of replacing measures which should have led to restructuring of companies or sectors.

## **Part II - On the future of the EGF after 2013**

### **Relationship between the EGF and structural funds**

Concerning the discussion on the EGF either to remain independent outside the ESF or to integrate the role and functions of the EGF into the ESF, UEAPME strongly favours the second option, due to the obvious weaknesses of the EGF.

For the long term UEAPME calls for the EGF to be integrated into the ESF post 2013, i.e. when the current regulation ends, in order to find a more effective solution to speedily integrate redundant workers into the labour market.

Given the nature of the ESF, which has been referred to by the Commission as a “hospital” and the EGF to an “ambulance”, it makes sense for the ESF to take over as a tool providing more long-term support and using a broader approach. Moreover, unlike the ESF the EGF is neither used in areas of high unemployment nor for prevention and early intervention.

It is a matter of urgency to address the segmentation of labour markets and the high levels of unemployment in many parts of the EU, Member States should be strongly encouraged to tackle structural reforms, enhance employability of the workforce, support innovation and foster job creation. An appropriate economic framework is needed for businesses to adapt structurally to new economic and social challenges, rather than relying on the EGF which is difficult to access for small businesses and hardly visible as a support for workers

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<sup>4</sup> [http://www.ueapme.com/docs/pos\\_papers/2006/060404\\_EGAF.pdf](http://www.ueapme.com/docs/pos_papers/2006/060404_EGAF.pdf)

### **Role of social partners**

For the successor of the EGF post 2013 and future structural funds, it is crucial that Member States involve social partners and intermediary bodies representing the interests of SMEs, such as sectoral and/or regional professional bodies, chambers of craft and commerce appropriately in terms of multi-level governance, identifying economic priorities and potential company closures, in order to ensure timely support and interventions for viable companies. .

### **Conclusions**

- Despite lowering the eligibility threshold for EGF access of redundant workers in 2009 - which appears to have had some positive but still extremely limited impact on the uptake for workers of SMEs - UEAPME remains clearly concerned about the many shortcomings of the instrument.
- UEAPME considers the EU should extend the crisis derogations and simplify the budgetary procedures for the remaining period until the end of 2013, whilst in a long term perspective the EGF should be integrated into the ESF to allow for more consistency and efficiency.
- UEAPME insists on the need to fully apply the flexicurity principles, including job creation, ALMP and lifelong learning to rapidly integrate redundant workers into the labour market and to smooth transitions on the labour market, in order to improve the labour market participation rate.
- Social partners play an important role in dealing with restructuring issues and thus should be better involved in the EGF.
- Member States should be strongly encouraged to implement necessary structural reforms. An appropriate economic framework is needed for businesses to adapt to new economic and social challenges, rather than relying on short-term more marketing oriented instruments, such as the EGF.

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