COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 9.9.2008
COM(2008) 547 final

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the mobilisation of the European Globalisation Adjustment Fund

(presented by the Commission)

EXPLANATORY MEMORANDUM

The Interinstitutional Agreement of 17 May 2006[1] allows for the mobilisation of the European Globalisation Adjustment Fund through a flexibility mechanism, within the annual ceiling of EUR 500 million over and above the relevant headings of the financial framework. Eligibility rules applicable to the contributions from the Fund are laid down in Regulation (EC) No 1927/2006[2] of the European Parliament and the Council.

The Commission services have carried out a thorough examination of the applications submitted by Spain and Lithuania in accordance with Regulation (EC) 1927/2006 and in particular with Articles 2, 3, 4, 5 and 6 thereof.

The most important elements of the assessments can be summarised as follows:

Case EGF/2008/02/ES/Delphi

1. The application was presented by the Spanish authorities to the Commission on 6 February 2008. It was based upon the specific intervention criteria of 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.

2. The application concerns 1 589 redundancies, of which 1 521 occurred in Delphi Automotive Systems España, S.L.U. (hereinafter "Delphi") in Puerto Real, bay of Cadiz, Andalucía (Spain), a manufacturer of components for the automobile industry that belongs to the US-based Delphi Automotive Systems Holding Inc. with headquarters in Troy – Michigan, and 68 amongst the suppliers to Delphi during the 4-months period of reference of Article 2(a) of Regulation (EC) No 1927/2006, lasting from 31 July 2007 to 30 November 2007.

   In the case of Delphi, the production of motor vehicle components will be relocated to the tax free zone of Tangier (Morocco). This materialised in a Memorandum of Understanding signed the day after the closure of the Delphi factory in Puerto Real between Delphi (USA) and the Government of Morocco which provides for the extension of the production facilities in Tangier through an investment of EUR 27 million and an increase of the workforce by 3 000 workers.

3. Analysis of the link between the redundancies and the major structural changes in world trade patterns is based on the following information. Spain states that the redundancies result from a trend in Community Member States to transfer part of their production to third countries. In the specific case of relocation to North Africa, Spain submits that this is caused by differences in labour and environmental costs, the existence of tax benefits and special regimes for foreign investment and the proximity of the EU market.

   In addition, Spain states that, according to the International Organisation of Motor vehicle production (OICA), the Community share in world motor vehicle production decreased from 30.6% in 2001 for EU-15 to 26.9% in 2006 for EU-25, despite the

[1] OJ C 139, 14.6.2006, p. 1
[2] OJ L 406, 30.12.2006, p. 1

enlargement. The component sector is affected by these structural changes in trade patterns in motor vehicle production. Furthermore, according to the applicant Member State, the import of motor vehicle components from third countries into the EU-15 as recorded in the Integrated Tariff of the European Community (TARIC[3]) database, increased by 29% between 2002 and 2006.

4. The Spanish authorities claim that the closure of the Delphi factory in Puerto Real could not have been foreseen as the most recent industrial plan[4] for Delphi covered the period up to 31 December 2010 and contracts were running until 2012. The Spanish authorities confirmed that the 68 workers dismissed by the supplier companies, worked either in the premises of the Delphi factory or in its immediate surroundings and that their specific products/services were inputs for the production by Delphi. Delphi itself made 1 521 workers redundant. Andalucía, where Delphi is located, is the autonomous region with the second highest unemployment rate in Spain. In the first three months of 2007 the unemployment rate (as a % of the active population) reached 8.47 % for Spain, 12.51 % for Andalucía and 14.82 % for the Province of Cadiz. Due to the closure of the Delphi factory at the end of July 2007, the registered number of unemployed people in the industrial sector increased by 1 449 or 19.4 % between July and August 2007.

   In conclusion, in these circumstances, the redundancies can be seen as having a significantly negative effect on the local economy in Puerto Real, Andalucía.

5. As regards the fulfilment of the criteria set out in Article 6 of Regulation (EC) No 1927/2006 the application provided the following elements: Spain has 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 and has given assurances that the actions provide support for individual workers and are not to be used for restructuring companies or sectors. The Spanish authorities confirmed that the eligible actions do not receive assistance from other Community financial instruments.

In conclusion, for the reasons set out above, it is proposed to accept application EGF/2008/02/ES/Delphi submitted by Spain relating to the redundancies in Delphi and its supplier companies, as evidence has been provided that these redundancies result from major structural changes in world trade patterns which have led to a serious economic disruption, which affects the local economy. A coordinated package of eligible personalised services for the amount of EUR 20 943 557 has been proposed of which the requested contribution of the EGF is EUR 10 471 778.

---

[3] TARIC code 8708 "parts and accessories of motor vehicles"

[4] Expediente de Regulación de Empleo (ERE) Resolución Junta de Andalucía E.R.E. 33/2005, acta final 25 noviembre, http://usodelphi.es/httpdocs/Seccion%20Sindical/ERE.htm

Case EGF/2008/03/LT/Alytaus Tekstile

1. The application was presented to the Commission by the Lithuanian authorities on 8 May 2008. It was based upon the specific intervention criteria of 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.

2. The application concerns 1 089 redundancies following the closing down of Alytaus Tekstile, a textile manufacturing company during the 4-months reference period of Article 2(a) of Regulation (EC) No 1927/2006, lasting from 30 October 2007 to 29 February 2008.

3. Analysis of the link between the redundancies and the major structural changes in world trade patterns is based on the following information: Lithuania argues that the redundancies are the result of a general migration of worldwide textile and clothing production towards lower-cost Asian countries, in particular China. Before its accession, Lithuania's textile exports went predominantly to Community Member States. However, since the expiration of the Multi Fibre Arrangement (MFA) on 1 January 2005, Lithuania has come under increased competition from outside the Community, and particularly from low-cost Asian producers.

4. The application uses World Trade Organisation (WTO) and EUROSTAT trade statistics to illustrate the rise - between 2000 and 2006 - of textile and clothing imports into the Community and its impact on intra-Community trade.

   Following the expiry of the WTO Multi Fibre Arrangement and the subsequent abolition of quantitative restrictions on imports of textile and clothing articles, imports of Chinese articles into the EU-25 almost doubled, from EUR 11.8 billion in 2000 to EUR 22.9 billion in 2005. The comparative advantage of most Asian countries lies in lower production costs: the average cost to spin and weave 1 tonne of cotton yarn in Alytaus Tekstilė before its closure was EUR 160, against EUR 40 in China. The Lithuanian authorities state that, between 2000 and 2006, volumes of intra-Community trade in cotton yarns and fabrics dropped by 50% in quantity, while imports from China rose by 115%. These major changes in world trade patterns have had a significant negative impact on enterprises like Alytaus Tekstilė, operating in the lower value market segments.

5. In relative terms, Lithuania has the largest textile and clothing industry among the new Member States. In 2006, the textile and leather sectors contributed 10.4% of the value added generated by the domestic manufacturing industry and employed 22.6% of the total manufacturing industry labour force. Besides, Lithuania has a small domestic market, which explains why around 80% of its textile and clothing production is export-oriented. The closure of Alytaus Tekstile was unforeseen as several major customers of the company relocated their low value-added production to Asian countries and the company had to face an unexpected rise in energy costs.

6. The territory concerned by the redundancies is the whole territory of Alytus County, particularly the Alytus city municipality which is facing a faster decline in its population and a slower growth of employment than the country as a whole. Almost all of the 1 089 dismissed workers live in Alytus city municipality, where the share of the unemployed in the working-age population went up from 3% in November

2006 to 3.9% in November 2007 (i.e. after Alytaus Tekstilė had gone bankrupt), whereas in the country as a whole this figure decreased from 3.3% to 2.9%.

The Lithuanian economy has therefore been significantly affected by increased competition since the liberalisation of the textile trade.

7. As regards the fulfilment of the criteria set out in Article 6 of the EGF Regulation, the application provided the following elements: Lithuania has 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 and has given assurances that the actions provide support for individual workers and are not used for restructuring of companies or sectors. The Lithuanian authorities confirmed that the eligible actions do not and will not receive assistance from other Community financial instruments.

In conclusion, for the reasons set out above, it is proposed to accept application EGF/2008/03/ LT/Alytaus Tekstile submitted by Lithuania relating to the redundancies following closing down of Alytaus Tekstile manufacturing company, as evidence has been provided that these redundancies result from major structural changes in world trade patterns which have led to a serious economic disruption, affecting the local economy. A co-ordinated package of eligible personalised services for the amount of EUR 597 987 has been proposed of which the requested contribution of the EGF is EUR 298 994.

Financing

The total annual budget available for the European Globalisation Adjustment Fund is EUR 500 million. An amount of EUR 3 106 882 has already been mobilised for two applications leaving an amount of EUR 496 893 118 available.

The Commission's proposed allocation under the Fund is based on the information made available by the applicants.

On the basis of the applications for support from the Fund submitted by Spain in which the automobile sector was affected by redundancies in Delphi and its suppliers, and by Lithuania for redundancies in the textiles sector, total estimates of the coordinated packages of personalised services to be funded are as follows:

	Personalised services to be funded (in EUR)
Spain: Delphi 02/2008	**10 471 778**
Lithuania: Alytaus Tekstile 03/2008	**298 994**
Total	**10 770 772**

In the light of the examination of these applications[5], and considering the maximum possible amount of a grant from the Fund determined in accordance with Article 10 of Regulation (EC) N° 1927/2006 as well as the scope for reallocating appropriations, the Commission proposes to deploy the European Union Globalisation Adjustment Fund for a total amount of **EUR 10 770 772**, to be allocated under heading 1a of the financial framework.

This amount of support will leave more than 25 % of the maximum annual amount earmarked for the European Globalisation Adjustment Fund available for allocation during the last four months of the year 2008, as required by Article 12 (6) of Regulation (EC) N° 1927/2006.

By presenting this proposal to deploy the Fund, the Commission initiates the simplified trialogue procedure, as required by Point 28 of the Inter-institutional Agreement of 17 May 2006, in view of securing the agreement of the two arms of the budgetary authority on the need to use the Fund 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 trialogue meeting will be convened.

[5] Communications to the Commission on an application to mobilise the European Globalisation Adjustment Fund introduced by Spain in the case of Delphi (SEC(2008) 2307) and of Lithuania in the case of Alytaus (SEC(2008) 2369) setting out the analysis of the Commission of these requests.

The Commission will also present a transfer request in order to enter in the 2008 budget specific commitment and payment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the mobilisation of the European Globalisation Adjustment Fund

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to the Inter-institutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management[6], 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[7], and in particular Article 12(3) thereof,

Having regard to the proposal from the Commission[8],

Whereas:

(1) The European Globalisation Adjustment Fund (the "Fund") was established to provide additional support to redundant workers who suffer from the consequences of major structural changes in world trade patterns and to assist them with their reintegration into the labour market.

(2) The Interinstitutional Agreement of 17 May 2006 allows the mobilisation of the Fund within the annual ceiling of EUR 500 million.

(3) On 6 February 2008 Spain submitted an application to deploy the Fund, in respect of redundancies in the automobile sector, specifically for workers made redundant by Delphi. The application complies with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006.

(4) On 8 May 2008 Lithuania submitted an application to deploy the Fund, in respect of redundancies in the textile sector, specifically for workers made redundant by closing down of Alytaus Tekstile. The application complies with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006.

(5) The Fund should, therefore, be mobilised in order to provide a financial contribution for the applications,

6 OJ C 139, 14.6.2006, p. 1.
7 OJ L 406, 30.12.2006, p. 1.
8 OJ C […], […], p. […]

HAVE DECIDED AS FOLLOWS:

Article 1

For the general budget of the European Union for the financial year 2008, the European Globalisation Adjustment Fund shall be mobilised to provide the sum of EUR **10 770 772** in commitment and payment appropriations.

Article 2

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

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*