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**RESTRUCTURING IN EUROPE 2011**

*Accompanying the document*

**GREEN PAPER**

**Restructuring and anticipation of change, what lessons from recent experience?**

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# **RESTRUCTURING IN EUROPE 2011**

## FOREWORD

The European economy is slowly emerging from the deepest recession in decades. The economic crisis resulted in a large drop in economic activity in the EU, along with millions of jobs lost and a high human cost. The economic and financial crisis is also speeding up new developments on the international competition front with the rise of successful companies in emerging countries that are increasingly competing with European businesses in upper segments of the market.

The competitiveness of the European economy and the preservation of activities and jobs in Europe will depend more and more on the capacity of European companies to boost their competitiveness through innovating and quickly and smoothly adapting to change.

As underlined in the Annual Growth Survey, the EU needs to use this crisis to address decisively the issue of its global competitiveness so that it comes out stronger and turns itself into a smart, sustainable and inclusive economy delivering high levels of employment, productivity, competitiveness and social cohesion.

The positive export performance of some Member States shows that success in global markets rests not only on price competitiveness but also on wider factors such as sector specialisation, innovation, and skills levels that enhance real competitiveness. In that regard, the structural weaknesses pre-dating the crisis which had not been tackled adequately are becoming glaringly obvious.

The EU has built up a strong system of employment and social protection that, combined with a relatively high level of education, has been the basis for its economic and social prosperity over the last few decades. However, at a time when the business environment is changing fast, some aspects of that system are making it more difficult to quickly and smoothly reallocate resources, and especially human resources, from declining activities to emerging ones.

On the other hand, that system, built around the principle of job stability, is less and less capable of giving individual workers a real chance of a secure professional future when their jobs are at risk, because it does not sufficiently encourage them to adapt to change.

The economic and financial crisis and the faster pace of change that it is causing make it more important than ever for Europe to address those two weaknesses. Recognising the need for economic adjustment as a vital feature of future growth and job creation, the Commission wants to encourage permanent business adaptation to fast-changing economic circumstances while maintaining a high level of employment and social protection.

The Green Paper '**Restructuring and anticipation of change: what lessons from the economic crisis?**' is a sign of the Commission's determination to put in place all possible mechanisms and frameworks that support and encourage business adaptation while at the same time creating the conditions that will allow workers and regions to accompany that process and avoid unemployment and social distress.

The present report describes the numerous actions developed by the Commission that contribute to the objectives outlined above and details the reasons why further action in

this field is needed. It covers multiple policy areas and a wide range of instruments and demonstrates an effort of internal coordination that is all the more needed as restructuring is a complex and multifaceted phenomenon that cannot be efficiently dealt with otherwise.

## EXECUTIVE SUMMARY

<p>Anticipating, managing and mitigating the negative consequences of restructuring</p>	<p>This report presents an overview of the European Union's main strategies, policies and actions that aim to help anticipate, prepare and manage restructuring and change. Particular emphasis is placed on efforts to mitigate the negative consequences of restructuring on individual workers and the wider community.</p>
<p>Coping with the crisis</p>	<p>The report has been written against the background of the most serious economic and financial crisis for many decades, which has had a severe impact on the levels of restructuring and change throughout the European Union. Over the period from 2002 to 2010, more than 11 000 cases of restructuring were recorded by the European Restructuring Monitor, with the ratio of announced job losses/job creations standing at 1.8:1. In the period 2008-2010, that ratio increased to 2.5:1. The crisis, from which the EU has not yet fully emerged, has tested the ability of both the EU and the individual Member States to cope with high levels of change and as such provides the backdrop to the report.</p> <p>The crisis of the past two years has had a severe impact on the labour market. The level of restructuring has increased considerably as companies struggle to cope with extremely challenging circumstances. Chapter 1 of the report examines the main restructuring developments across Europe, looking at recent levels of restructuring and the numbers of jobs lost and created. It looks in detail at restructuring in the automotive industry, a major sector for the EU economy (the European Restructuring Monitor announced that job losses in the sector from the first quarter of 2008 to the end of the second quarter of 2010 amounted to more than 160 000). It also gives examples of some initiatives undertaken at company level to preserve employment in the context of the economic crisis. It also looks at Member States' responses to the crisis, including labour market reforms and the widespread use of short-time working in some countries, which has served to cushion the labour market effects of the crisis. Further, it examines the role of industrial policy during the crisis, focusing in particular on the steel and</p>

	automotive industries.
Restructuring as a necessary part of business life	<p>However, it should not be forgotten that, even in normal times, restructuring is a part of daily business life, and a process that is necessary in order to ensure that organisations keep pace with change and remain competitive in a global market. Restructuring is therefore a vital and constant part of organisational life and can create as well as destroy jobs. It is also a reaction to larger-scale changes, such as global warming and climate change.</p> <p>In order to reflect the changed and changing environment in which the EU finds itself, the report looks at the likely challenges for the EU, which include finding the necessary skills to allow the EU to remain competitive in the global market in the years to come, dealing with the health consequences of restructuring, coping with global warming and climate change, including finding new and alternative sources of energy (which could produce up to 2020 a net effect of about 410000 additional jobs and a 0.24% increase in gross domestic product (GDP) in the EU) and adapting industrial policy to ensure that the EU can compete with its global neighbours.</p>
The EU's wealth of experience in dealing with restructuring	<p>Over the past few decades, the EU has built up a wealth of experience in examining and dealing with how best to anticipate and manage restructuring in order to mitigate its negative impacts as far as possible. There are many examples of best practice at the level of individual Member States, which have been drawn together and showcased in a range of recent EU-funded projects on restructuring. The challenge now is to try to build on and use this experience to formulate a framework at European level on anticipating and managing restructuring. The European Commission has, in its October 2010 Communication on industrial policy, as well as in other recent policy papers, touched on some of the relevant issues, and has indicated that it will consult the EU-level cross-sector social partners on such a framework.</p> <p>Dealing with restructuring in a positive way involves both anticipating and managing it. In order to limit the negative impact of restructuring as much as possible, it is vital that anticipatory measures are put into place as far as possible. There are examples of initiatives such as economic and financial observatories and</p>

	<p>early warning systems in some EU Member States, although these are not replicated in all of them and could be developed further in those where they are present. The anticipation of restructuring is key to mitigating the adverse effects as far as possible, as it enables the actors to plan and take action to lessen the impact in advance of the restructuring event.</p>
<p>The crucial role of competence and skills development ...</p>	<p>Competence and skills development sits at the core of forward-looking employment policy and is a subject that is integral to best practice in the management of restructuring. The demand for a highly qualified labour force remains a key source of future growth. From a market standpoint, it is essential that qualifications, competences and skills of mobile EU professionals are recognised in a fast, simple and reliable way if we are to meet this surge in demand. On 19 December 2011 the European Commission adopted a proposal to modernise the Professional Qualifications Directive<sup>1</sup> in order to adapt it to an evolving labour market. Chapter 2 of the report therefore examines competences and skills in the context of the future direction of the EU economy and the restructuring that the EU has undergone in the past few years. This includes issues such as lifelong learning and the importance of ensuring that all workers have the opportunity to develop their skills and competences throughout their working life. It is also important to ensure that skills are transferable, as this will improve employability and aid movement between companies and between sectors if necessary. A particular focus is placed on the skills needs and skills policy of the automotive sector, and on the skills needs of SMEs (in 2008, according to Eurostat figures, out of nearly 20.8 million companies in the EU, 99.8% were SMEs and they accounted for around 67.4% of all employment by enterprises). These businesses cannot offer as targeted an approach to training and skills development as their larger counterparts.</p>
<p>... and of the EU support funds</p>	<p>The EU makes a range of funds available to Member States in order to support restructuring, and this plays an important role in helping to anticipate and manage</p>

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<sup>1</sup> Directive 2005/36/EC of the European Parliament and of the Council of 7 September 2005 on the recognition of professional qualifications, OJ L 255/22, 30.09.2005.



	<p>restructuring. Chapter 3 of the report examines the role of state aid provided by Member States, including the Commission's policy response to the economic crisis, involving aid both to the financial sector and to the real economy. It also examines the role of the European Social Fund (over 400 000 enterprises have received assistance from the ESF and more than 7 million have been supported by activities funded by it) and the European Globalisation Adjustment Fund (a total of 29 applications were submitted to the Commission in 2009, with an amount requested per worker varying between slightly above €500 and over €15 700, with an average of €5 698); it gives examples of where the funds have succeeded in helping to manage restructuring. Finally, it looks at the impact of restructuring in the EU regions and how EU funds have helped specific regions to manage restructuring.</p>
<p>Legislation and social dialogue shape the employee involvement framework for the response to restructuring</p>	<p>Restructuring in the EU is covered by a body of legislation, in the form of a number of Directives, largely in the field of informing and consulting the workforce about changes that are likely to affect them. Chapter 4 of the report examines this framework and also looks at the implementation of EU law and the preparation of possible new initiatives in this area.</p> <p>Social dialogue also plays an important part in shaping responses to restructuring, at both EU and national level. There are a number of joint actions at EU level on the management of change, and a range of sectoral initiatives that have successfully managed change. A number of transnational agreements on restructuring also cover issues such as social responsibility, anticipating change, and mitigating the negative consequences of change.</p>
<p>Initiatives and tools available at national level to anticipate and manage restructuring</p>	<p>A wide range of measures have been taken by Member States to support restructuring, focusing on anticipation and management of the process, and Chapter 5 of the report reviews them. In particular, it examines the findings of a large-scale Commission-funded project undertaken in 2009-2010, designed to showcase examples of best practice in the anticipation and management of restructuring in each of the 27 EU Member States and to stimulate debate at both national and EU level on these issues. It also reviews the existing schemes, instruments and mechanisms</p>

	<p>providing support to workers affected by restructuring that have been set up in parallel and in addition to the typical support mechanisms of the public employment services (PES), based on a study carried out for the Commission in 2009. The chapter also provides a comparative analysis of these tools and a review of how flexicurity policies can help to anticipate and manage restructuring.</p>
Facing up to future challenges	<p>The future challenges that the EU is facing are many and varied, and Chapter 6 of the report examines the main issues and how they might be addressed. One of these is the psychosocial effects of restructuring, including the effects not only on the workers who are losing their jobs, but also on the ‘survivors’ and the line managers in an organisation. Managing the psychosocial effects of restructuring is of prime importance as this will help to ensure that the negative consequences of the restructuring process have as little effect as possible on those involved in the process.</p> <p>Climate change is another huge challenge for the EU and an issue that has been a focus for EU policy makers for some time. There are many potential impacts of climate change on employment, such as effects on specific sectors, the changes to skills policies that will be needed in a green economy and the challenges of moving to a low-carbon economy. It is likely that climate change will require a significant and coordinated response from the European Union in order to ensure that the full benefits of the green economy are harnessed by the EU economy.</p> <p>In terms of sectoral impacts, the transport sector is an industry that will be significantly affected by the move to a low-carbon economy and challenges include the development of green jobs, the types of skills that will be needed in the sector, and best practices in restructuring.</p> <p>Future challenges also include the best way forward for EU industrial policy, and most specifically the links between industrial policy and employment and skills policies. Many of the relevant issues are highlighted in the Commission’s October 2010 Communication on industrial policy, which sets out the main challenges for industrial policy in a globalised economy.</p>

<p>The challenges of economic and social change and the need for a common approach</p>	<p>As mentioned above, the EU has developed many responses to restructuring and change, and Chapter 7 of the report looks into them. It focuses in particular on how the EU is dealing with the challenges posed by economic and social change, including a review of the range of policies and practices that have been developed in order to anticipate and manage change. In particular, it looks at what the Commission has been undertaking to try to improve the process of managing change, including its consultations with the EU-level cross-sector social partners on the issue of anticipating and managing change, and the social partners' response, which took the form of joint orientations for managing change. Drawing on all this experience, the Commission has stated that 'updated orientations on restructuring can be very useful in reinforcing the capacity of businesses and workforce to adapt to a fast-changing economic environment'.</p>
<p>Tentative lessons on anticipation and management of restructuring</p>	<p>The Commission has initiated a range of activities over the past 15 years with the aim of trying to help organisations and stakeholders manage restructuring in a way that has the least possible negative impact on workers, their families and the surrounding community. These include two consultations with the EU-level social partners on the issue of managing change.</p> <p>The Commission has also, over the past two decades, funded a wide range of research, in the form of studies or analyses aimed at identifying good practices, measures or actions to better anticipate restructuring and manage it in a responsible way. There is a significant degree of convergence between the good practices and measures highlighted in these studies, enabling the following tentative messages to be identified:</p> <ul style="list-style-type: none"> <li>● Measures to anticipate and manage restructuring differ in individual Member States, depending on factors such as national culture, national industrial relations and employment systems, national welfare and social security systems and national skills and training strategies. Nevertheless, there is clearly scope for transposing initiatives or parts of initiatives across borders, adapting them to different national contexts.</li> </ul>

- Active social partner involvement is crucial in many of the schemes available to anticipate and manage restructuring.
- Where a wide range of actors participate in measures, this is a strengthening factor. Partnerships can provide a broad spectrum of expertise and human resources to support organisations that are trying to manage restructuring. This can also limit the effects of restructuring on the wider region, community and employees' families.
- SMEs have specific challenges when engaging with the anticipation and management of restructuring in a socially responsible way. They often lack the resources, both financial and in terms of personnel, to go much beyond statutory compliance.
- Anticipation of restructuring is a powerful tool that can limit its adverse effects. However, there needs to be greater emphasis on anticipation and preparation of restructuring.
- European funds play an important role in some of the newer EU Member States and in southern Europe.
- While redundancy should always be a last resort, active measures should take precedence over passive measures.
- Training is a crucial and core issue when considering the anticipation and management of restructuring.
- The impact of restructuring on the health of the individuals concerned should be monitored closely, and adverse effects, such as psychosocial but also physical impacts, should be mitigated as much as possible. This concerns those who are made redundant, those overseeing the redundancies (line managers) and the 'survivors' of restructuring.

Although a range of innovative policies and practices have been highlighted by all these studies, at national, regional, sectoral and organisational level, there is a general lack of coordination and consistency in the implementation of socially responsible restructuring.

	More emphasis therefore needs to be placed on coordinating measures.
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<b>FOREWORD</b>	<b>2</b>
<b>EXECUTIVE SUMMARY</b>	<b>4</b>
<b>CHAPTER 1: RESPONDING TO THE CRISIS</b>	<b>17</b>
1: RECENT LEVELS OF RESTRUCTURING IN THE EUROPEAN UNION	18
1.1: THE EMPLOYMENT IMPACT OF RESTRUCTURING IN EUROPE	22
1.2: RESTRUCTURING ACTIVITY DURING THE ECONOMIC CRISIS	24
1.3: JOB LOSSES	25
1.4: RESTRUCTURING INVOLVING JOB CREATION	34
1.5: EMPLOYMENT-MAINTAINING INITIATIVES DURING THE CRISIS	37
1.6: TENTATIVELY EMERGING FROM RECESSION?	40
2: LABOUR MARKET REFORMS	46
3: SUPPORTING LABOUR MARKETS DURING THE CRISIS: SHORT-TIME WORKING	54
3.1: SHORT-TIME WORKING ARRANGEMENTS	54
3.2: PHASING OUT CRISIS-RELATED LABOUR MARKET MEASURES	59
3.3: THE WAY FORWARD	60
4: THE ROLE OF INDUSTRIAL POLICY IN RESTRUCTURING DURING A PERIOD OF CRISIS	62
4.1: CHALLENGES AND OPPORTUNITIES DRIVING FUTURE RESTRUCTURING	63
4.2: IMPLICATIONS FOR INDUSTRIAL POLICY MEASURES	68
4.3: SECTOR-SPECIFIC INDUSTRIAL POLICIES FOR RESTRUCTURING	69
4.4: THE WAY FORWARD	74
5: ACCESS TO FINANCE IN THE CRISIS	74
<b>CHAPTER 2: DEVELOPING COMPETENCES</b>	<b>79</b>
1: THE IMPORTANCE OF LIFELONG LEARNING	81
1.1: PLANNED NEW PROPOSAL ON THE VALIDATION OF INFORMAL LEARNING	83
1.2: THE EUROPASS FRAMEWORK	83
1.3: EU POLICY ON LIFELONG LEARNING AND SKILLS DEVELOPMENT	84
2: THE ROLE OF SKILLS IN IMPROVING LABOUR MARKET MOBILITY	86

2.1: GENERAL VS SPECIFIC COMPETENCES	86
2.2: TRANSFERABLE SKILL SETS	88
2.3: FUTURE SKILLS NEEDS	90
2.4: THE ROLE OF DIFFERENT ACTORS IN SKILLS DEVELOPMENT	90
3: SECTOR STUDIES AND THE NEW SKILLS FOR NEW JOBS INITIATIVE	94
3.1: NEW SKILLS FOR NEW JOBS INITIATIVES	94
3.2: SECTORAL STUDIES OF INNOVATION, SKILLS AND JOBS	95
3.3: EVOLUTION OF OCCUPATIONS IN THE EU	97
3.4: EMERGING COMPETENCES	102
3.5. WORK AND LIFE QUALITY IN NEW AND GROWING JOBS	103
4: EUROPEAN SECTOR COUNCILS ON JOBS AND SKILLS	106
4.1: FEASIBILITY STUDY'S RECOMMENDATIONS AND POLICY OPTIONS	108
4.2: MODEL CHOSEN BY THE COMMISSION	110
4.3: FIRST PILOT SECTOR COUNCILS ON JOBS AND SKILLS	111
5: SKILLS INITIATIVES IN THE AUTOMOTIVE SECTOR	113
5.1: EUROPEAN PARTNERSHIP FOR THE ANTICIPATION OF CHANGE IN THE AUTOMOTIVE INDUSTRY	114
5.2: ANTICIPATION OF SKILLS NEEDS — TOWARDS A EUROPEAN SECTOR COUNCIL	117
6: TRAINING IN SMALL AND MEDIUM-SIZED ENTERPRISES	119
6.1: SMEs IN EUROPE	119
6.2: GUIDE FOR TRAINING IN SMEs	121
6.3: TRAINING — A KEY TO SUCCESS AND ADAPTATION	123
6.4: FINANCIAL AND ORGANISATIONAL MEANS	124
6.5: HR AND SKILLS DEVELOPMENT POLICY	125
6.6: LESSONS LEARNED	127
<b>CHAPTER 3: EU ROLE WITH REGARD TO RESTRUCTURING SUPPORT</b>	<b>129</b>
1: THE ROLE OF STATE AID	130
1.1: THE COMMISSION'S POLICY RESPONSE TO THE FINANCIAL CRISIS	131
1.2: WAY FORWARD	135
2: THE ROLE OF THE EUROPEAN SOCIAL FUND	137
2.1: ADAPTABILITY IN THE ESF OPERATIONAL PROGRAMMES FOR DURING 2007-2013	138
2.2: ESF INTERVENTIONS AT THE DIFFERENT STAGES OF THE RESTRUCTURING AND CHANGE PROCESS	140

---

3: THE ROLE OF THE EUROPEAN GLOBALISATION ADJUSTMENT FUND	146
3.1: THE FUNCTIONING OF THE EGF	146
3.2: OVERVIEW OF APPLICATIONS RECEIVED IN 2009	148
3.3: NEXT STEPS	152
4: THE IMPACT OF RESTRUCTURING IN THE EU REGIONS	154
4.1: THE INFLUENCE OF GLOBALISATION	154
4.1.3: 'SMART SPECIALISATION STRATEGIES' AND THE SMART SPECIALISATION FORUM	160
4.2: MANAGEMENT OF RESTRUCTURING UNDER THE EUROPEAN REGIONAL DEVELOPMENT FUND	162
<b>CHAPTER 4: DIALOGUE AND LAW</b>	<b>167</b>
1: EU LABOUR LAW AND RESTRUCTURING	168
1.1: MAIN EU LABOUR LEGISLATION RELATING TO RESTRUCTURING	168
1.2: IMPLEMENTING AND ADAPTING LEGISLATION	170
1.3: PREPARATION OF NEW INITIATIVES	174
2: EUROPEAN-LEVEL SOCIAL DIALOGUE ON MANAGEMENT AND ANTICIPATION OF CHANGE	175
2.1: UNDERSTANDING WHAT HAPPENS	175
2.2: SECTOR-LEVEL SOCIAL DIALOGUE	178
3: TRANSNATIONAL COMPANY AGREEMENTS AND RESTRUCTURING	184
3.1: AN EMERGING PHENOMENON	184
3.2: ADDRESSING SPECIFIC RESTRUCTURING EVENTS	184
3.3: SOCIALLY RESPONSIBLE MANAGEMENT OF FUTURE RESTRUCTURING	186
3.4: ANTICIPATING CHANGE	188
3.5: ADDRESSING RESTRUCTURING IN GLOBAL AGREEMENTS	189
3.6: COMMISSION'S ROLE IN PROMOTING TRANSNATIONAL COMPANY AGREEMENTS	190
4: CROSS-BORDER MERGERS	192
4.1: EMPLOYEE PARTICIPATION IN CROSS-BORDER MERGERS	192
4.2: EUROPEAN COMPANIES (SEs)	193
<b>CHAPTER 5: MEMBER STATE ACTIONS TO SUPPORT RESTRUCTURING</b>	<b>198</b>
1: RESTRUCTURING IN THE MEMBER STATES	198
2: ORGANISING TRANSITIONS	206
2.1: CLASSIFYING EXISTING SCHEMES AND MECHANISMS	207



---

2.2: RESULTS OF A COMPARATIVE EVALUATION	212
2.3: THE ROLE OF FLEXICURITY IN SECURING TRANSITIONS	213
<b>CHAPTER 6: ISSUES AND CHALLENGES</b>	<b>219</b>
1: PSYCHOSOCIAL EFFECTS OF RESTRUCTURING AND MENTAL HEALTH IN THE WORKPLACE	220
1.1: THE EU FRAMEWORK, STRATEGIES AND ACTIONS	220
1.2: THE PSYCHOSOCIAL RISKS OF RESTRUCTURING AND CHANGE	225
1.3: MENTAL HEALTH AND WELL-BEING AT WORK	231
2: THE IMPACT OF CLIMATE CHANGE ON EMPLOYMENT	235
2.1: OVERALL IMPACT OF CLIMATE CHANGE ON EMPLOYMENT	235
2.2: SECTORAL IMPACT OF CLIMATE-CHANGE POLICIES	236
2.3: CLIMATE-CHANGE POLICIES AND SKILLS	238
2.4: THE TRANSITION TO A LOW-CARBON ECONOMY	239
3: THE IMPACT OF RENEWABLE ENERGY POLICY ON EMPLOYMENT	241
3.1: THE BENEFITS OF THE RES SECTOR	243
3.1.1: THE EMPLOYMENT BENEFITS OF RES	244
3.1.2: THE FUTURE IMPACT OF RES ON EMPLOYMENT	245
3.1.3: LOOKING TO THE FUTURE	247
4: CHALLENGES FOR THE TRANSPORT SECTOR	248
4.1: OVERVIEW OF THE EU TRANSPORT SECTOR	252
4.2: DECARBONISATION AND GREEN JOBS	253
4.3: DEMOGRAPHY: HEADING FOR SKILL AND LABOUR SHORTAGES	257
4.4: INTEGRATION IN THE TRANSPORT SECTOR	259
4.5: FROM NATIONAL PUBLIC MONOPOLIES TO EUROPEAN PRIVATE MONOPOLIES?	260
4.6: THE EFFECTS OF THE ECONOMIC CRISIS	261
4.7: EXISTING PRACTICES IN RESTRUCTURING	263
4.8: EU ACTIONS TO SOFTEN THE SOCIAL EFFECTS OF RESTRUCTURING	264
4.9: OBJECTIVES FOR THE FUTURE	266
5: THE FUTURE OF INDUSTRIAL POLICY	267
5.1: AN INTEGRATED INDUSTRIAL POLICY FOR THE GLOBALISATION ERA	267
5.2: IMPROVING THE FRAMEWORK CONDITIONS FOR INDUSTRY	268
5.3: INDUSTRIAL INNOVATION	268
5.4: IMPROVING THE EU'S SKILLS BASE	269

---

5.5: TACKLING STRUCTURAL EXCESS CAPACITIES	269
5.6: THE ROLE OF MANAGEMENT AND WORKER REPRESENTATIVES	270
5.7: TOWARDS A NEW EU GOVERNANCE FOR INDUSTRIAL POLICY	271
5.8: SUSTAINABLE INDUSTRIAL POLICY	271
5.9: ENERGY-INTENSIVE INDUSTRIES AND INTERNATIONAL ASPECTS	275
5.10: DEVELOPING A SUSTAINABLE INDUSTRIAL POLICY	277
5.11: THE FUTURE	278
<b>CHAPTER 7: MAIN ECONOMIC AND SOCIAL CHALLENGES: THE RESPONSE OF THE EU</b>	<b>280</b>
1: PRINCIPLES EXPRESSED IN AND RESULTING FROM THE COMMISSION'S CONSULTATIONS OF EUROPEAN SOCIAL PARTNERS	281
1.1: THE 2002 CONSULTATION OF THE EUROPEAN SOCIAL PARTNERS ON ANTICIPATING AND MANAGING CHANGE	281
1.2: THE 2003 EUROPEAN SOCIAL PARTNERS' WORK ON MANAGING CHANGE	284
1.3: THE 2005 CONSULTATION OF THE EUROPEAN SOCIAL PARTNERS ON RESTRUCTURING AND EMPLOYMENT	286
2: PRINCIPLES RESULTING FROM ANALYTICAL WORK AND STAKEHOLDERS' VIEWS	288
2.1: SOURCES: STUDIES, REPORTS, RESTRUCTURING FORA	288
3: MAIN ISSUES RELATING TO THE ANTICIPATION AND MANAGEMENT OF CHANGE	294
3.1: THE IMPORTANCE OF TIMELY ACTION	294
3.2: A MULTI-LEVEL, MULTI-ACTOR ISSUE	296
<b>CHAPTER 8: CONCLUSIONS</b>	<b>302</b>
1: TEN TENTATIVE LESSONS ON THE ANTICIPATION AND MANAGEMENT OF RESTRUCTURING	303
SOURCES AND FURTHER READING	310
<b>BIBLIOGRAPHY</b>	<b>313</b>

## CHAPTER 1: RESPONDING TO THE CRISIS

The economic crisis of the past two years has had a severe impact on the labour market, as organisations are obliged to make redundancies in significant numbers in order to try to respond to the external environment. Over the period from 2002 to 2010, over 11 000 cases of restructuring were recorded by the European Restructuring Monitor, based at the European Foundation for the Improvement of Living and Working Conditions (Eurofound) in Dublin, with a ratio of 2:1 regarding announced job loss to announced job creation. The level of recorded restructuring announcements has, of course, increased over the past two years, accompanied by higher levels of job loss, although it would seem that both announced job loss and cases of restructuring peaked during the first quarter of 2009.

The crisis has, however, had an uneven impact in terms of sector, with some sectors hit much harder than others. The automotive sector, which is a manufacturing sector for the EU, has been hit hard by the crisis, due to reduced demand. By contrast, other sectors, such as the retail sector, appear to have weathered the crisis comparatively well, with job creation, certainly more recently, outweighing job loss in this sector.

In terms of employment, the automotive sector is vital in the EU, both in terms of direct and indirect employment. In order to weather the recent crisis, employers in this sector have resorted to a range of initiatives, the most common of which has been short-time working, which aims to bridge difficult but temporary economic circumstances.

In response to these challenges, the EU institutions have been trying to put into place a sustainable labour market policy response, in the form of an integrated strategy based on factors such as interventions in employment protection, lifelong learning and activation policies. These may help to improve the adjustment capacity of labour markets and smooth the employment and social impact of restructuring. Increasing participation, and enhancing workers' employability through better skills. The ultimate goal is to return to strong growth. The Europe 2020 strategy, which is based on seven flagship policies, contains two policies that are relevant for the labour market: an agenda for new skills and new jobs, aimed at modernising the labour market, notably by developing skills which better match with labour market needs and enhancing labour mobility prospects; and the 'Youth on the Move' initiative, which aims to remove obstacles to reaching greater educational attainment and higher employment rates for young people.

More widely around the EU, short-time working has been one of the major policy responses of organisations, and one that appears to have had the desired effect in terms of maintaining employment levels. However, there are limitations to this measure, and it is particularly important to ensure that short-time working is phased out correctly and not viewed as a long-term option, as this will undermine recovery and growth.

It is not easy to see a clear way forward, following on from the recent crisis, but it is clear that recovery will come and that EU employment and industrial policy must be in a position

to face up to the challenges of the future, in order to ensure that recovery and growth in the EU is strong and smooth. To this end, industrial policy has begun to be more active in supporting the transition of industries by setting up public private partnerships, fostering innovation and coordinating Member States' policies. In addition, in its strategies on restructuring, industrial policy is also trying to better incorporate initiatives from other policies, as it is clear that only a holistic approach will lead to sustainable growth in the future. The Commission's October 2010 Communication on industrial policy makes this clear.

## **1: RECENT LEVELS OF RESTRUCTURING IN THE EUROPEAN UNION**

The European Restructuring Monitor (ERM), operated by Eurofound, Dublin, records restructuring announcements in establishments, based on media reporting. The ERM has been in operation since 2002 and now constitutes a dataset of over 11000 individual cases of restructuring which, notwithstanding certain biases (see below), is the best single, publicly available source of EU data on the employment impacts of large-scale organisational restructuring.

Using a network of national correspondents based in each of the EU27 Member States plus Norway, the ERM captures basic descriptive and quantitative data concerning each reported case of restructuring involving over 100 announced job losses or job creations or, in the case of companies employing more than 250 persons, announced restructurings affecting at least 10% of the workforce.

It should be noted that this definition only captures reported mass or large-scale restructuring processes. It therefore only corresponds to the tip of the iceberg in terms of job creation and loss most likely to be captured by national media. First, the information does not include the impact on subcontractors unless these also satisfy the thresholds, and ignores local spill-over effects indirectly generated on employment in a given area. Second, it is well known that the main flows of job loss and creation in a given country overwhelmingly come from small-scale loss and creation. However, these large-scale processes are highly meaningful, for several reasons. They are dramatic in scope and affect a large number of people, both the workers given notice, their dependants and their families. Further, as they often relate to major employers in a location, they can have a disproportionate impact on the local and sometimes the regional economy, often including important spill-over effects.

The value of the ERM database also stems from the distinctions it allows regarding various organisational dimensions of restructuring. Box 1.1 summarises the types of restructuring identified in the ERM.

**Box 1.1: Type of restructuring**

Relocation: When the activity stays within the same company, but is relocated to another location within the same country.

Outsourcing: When the activity is subcontracted to another company within the same country.

Offshoring/delocalisation: When the activity is relocated or outsourced outside of the country's borders.

Bankruptcy/closure: When an industrial site is closed or a company goes bankrupt for economic reasons not directly connected to relocation or outsourcing.

Merger/acquisition: When two companies merge or during an acquisition, which then involves an internal restructuring programme aimed at rationalising an organisation by cutting personnel.

Internal restructuring: When the company undertakes a job-cutting plan, which is not linked to another type of restructuring defined above.

Business expansion: Where a company extends its business activities, hiring new employees. This form of restructuring has been introduced to the ERM database in order to reflect the positive effects of certain restructuring processes on employment.

Box 1.2 below gives information about the methodology used by the ERM

**Box 1.2: Measuring the employment effects of restructuring, the ERM methodology**

The information contained in the ERM comes from correspondents in each of the EU Member States, together with Norway, who submit fact sheets on the basis of articles published in national newspapers and the business press in the country in question of enterprise restructuring, where this is defined as cases which:

- affect at least one EU Member State;
- entail an announced or actual reduction of at least 100 jobs; or
- involve sites employing more than 250 people and affecting at least 10% of the workforce; or
- create at least 100 jobs.

In principle, all instances of restructuring that meet these criteria should be included in the ERM, although how far this is the case in practice depends on both the diligence of the national correspondents concerned in reviewing the sources in question and the

extent to which the news sources (a selection of three to five business or economy-oriented newspapers is screened in each country) actually report relevant cases. Both may vary between Member States, partly with the size of the country, since a case of restructuring involving the loss of, say, 30 jobs at a worksite employing 250 people is likely to be more newsworthy in a small country than a large one.

The cases excluded because they do not meet the criteria defined because of either the worksite concerned or the job losses involved being too small, are also likely to vary between countries. In this case, the cases excluded might be expected to vary inversely with the size of the country, though this is not necessarily so, since the typical size of enterprise itself tends to vary across countries, there being a much larger number of small and medium-sized enterprises in the southern Member States in particular than in other parts of the EU.

There is an acute lack of solid evidence on the employment effects of restructuring at European level. While the ERM is not fully representative of the employment effects of restructuring, it is the only EU-wide attempt to measure restructuring directly. Moreover, the ERM is very timely<sup>2</sup> and is based on publicly available information. This characteristic, together with the fact that it identifies the companies and establishments undergoing restructuring, makes the ERM a particularly useful measure from a policy perspective.

#### **Potential biases in ERM**

The ERM defines job loss as intended redundancies, which are not notified to any public authority but rather ‘announced’ either in the media or some other public domain. The thresholds for inclusion in the ERM database are: at least 100 jobs or involving sites employing more than 250 people and affecting at least 10% of the workforce. There is no stipulation of the time within which the intended job loss is to occur.

The major advantage of the ERM is that it occurs very early in the dismissal process and that it will capture those who come to leave very early in the dismissal process. It will, however, almost certainly overestimate the actual number affected by the restructuring. The early warning feature of the ERM is one of its major strengths as information is usually available long before the reduction of the workforce is enacted. Another major strength of the ERM is that it is based on information in the public domain. There are no issues of privacy and the identification of specific cases allows the process of structural change to be observed at the company level.

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<sup>2</sup> Indeed, ERM is to some degree anticipatory in that it records announcements of job losses; these announcements are often only one stage in a multi-step process in which factors such as social dialogue and negotiation play a role in affecting the ultimate employment outcomes.

However, the major problem with the ERM is whether the macro picture that it tells is representative of job loss in general. How then can we expect the ERM to be biased with respect to job loss in general? *A priori*, there is reason to suppose the following.

*Firm size bias* occurs by definition due to the ERM thresholds. Moreover, even within the firm size definitions there will almost certainly be an over-representation of large firms and large workforce reduction as these are more likely to be reported in the media. As firm size is correlated with a number of important factors such as economic sector, size bias will lead to many types of bias. For example, the large firm bias probably leads to a higher reporting rate in the ERM for manufacturing relative to services. The manufacturing bias may in turn lead to bias as regards region and gender. The fact that the sampling error will be greater when firms are small may lead to inconsistencies over time (if firm size varies over time) and between countries with differing firm size distributions. The most obvious impact of large firm bias impacts on small Member States such as Malta and Cyprus as they have very few firms of the size that fall under the ERM thresholds. Indeed, the ERM database provides very poor information on restructuring in these countries.

*Regional bias*, apart from that which follows from the large firm bias mentioned earlier, is likely to occur when media coverage is not evenly spread throughout the country. While most of the designated newspapers are formally national, there may well be some national or regional capital city bias.

*Country size bias* is also likely. In absolute numbers, there is obviously much more job loss in large countries. In terms of national impact, restructuring involving for example 100 employees will be a less frequently occurring and more media-prominent event in Portugal or Greece than in Germany or the UK. This suggests that the reporting frequency will be higher in small countries than in big ones. This could seriously flaw comparisons between countries (but not over time). Note that because there are more large firms in large countries, this leads to better coverage in the ERM. Thus there are likely to be conflicting tendencies to bias as regards country size, leaving little indication on the size and direction of the bias.

*Type of restructuring bias* (in terms of internal restructuring, relocation, closure etc.) may also occur if public and media focus is more concentrated on certain types of restructuring. Otherwise there is little to suggest that bias occurs in this aspect of the ERM.

The ERM also reports cases of job creation. As the major part of ERM cases are identified in newspapers, one could presume, in accordance with the journalist adage that 'the best news is bad news', a higher rate of reporting of job loss relative to job creation.

Regarding the information collected, the sample ERM fact sheet below illustrates the basic data that the system is designed to capture.

This section of this chapter gives a basic descriptive overview of the employment effects of large-scale restructuring in EU27 and Norway from the ERM dataset from 2002 to the end of the second quarter of 2010. Then it turns to look in more detail at recent data covering the period 2008 to the second quarter of 2010, which covers the mini-cycle both before, during and after the acute economic and financial crisis from the fourth quarter of 2008 to the first quarter of 2009, when restructuring activity also peaked. The section includes brief features looking at instances of early retirement captured in ERM cases in the recent period and at restructuring developments in the car manufacturing sector. It concludes with some short examples of company and social partner initiatives which have helped to mitigate the negative employment impacts of the most severe European recession in recent memory.<sup>3</sup>

### 1.1: THE EMPLOYMENT IMPACT OF RESTRUCTURING IN EUROPE

Between the beginning of 2002 and the end of the second quarter of 2010, over 11 000 cases of large-scale restructuring in EU Member States (including the new central and eastern European Member States from 2005 onwards) were recorded by the ERM. The ratio of cases of announced job loss to announced job creation was around 2:1 over the period.<sup>4</sup> The cases recorded<sup>5</sup> were associated with announced job losses totalling just above 3.8 million and announced job creation of just over 2.0 million. The annual median size of restructuring cases varied between 200 and 250 over the period covered for both job gain and job loss. For details, see table 1.1 below.

**Table 1.1: Large-scale restructuring in Europe: an overview of ERM cases from 2002 to 2010\***

	Cases		Employment		Median case size	
	Job loss	Job gain	Job loss	Job gain	Job loss	Job gain
2002-7	4 341	2 622	2 509 713	1 532 048	210	250
2008	1 032	535	527 124	278 781	227.5	200
2009	1 650	359	651 557	203 295	200	220
2010*	345	183	144 162	61 566	230	200
Total	7 368	3 699	3 832 556	2 075 690	205	231

Source: ERM (\*2010, q1 and q2 only).

As the chart below indicates, the distribution of announced employment gains and losses is heavily concentrated in larger-scale restructurings. In part this is for reasons of large-firm

<sup>3</sup> The source for these cases is not the ERM itself. They were identified in desk research for the ERM annual report 2009 (Eurofound 2009).

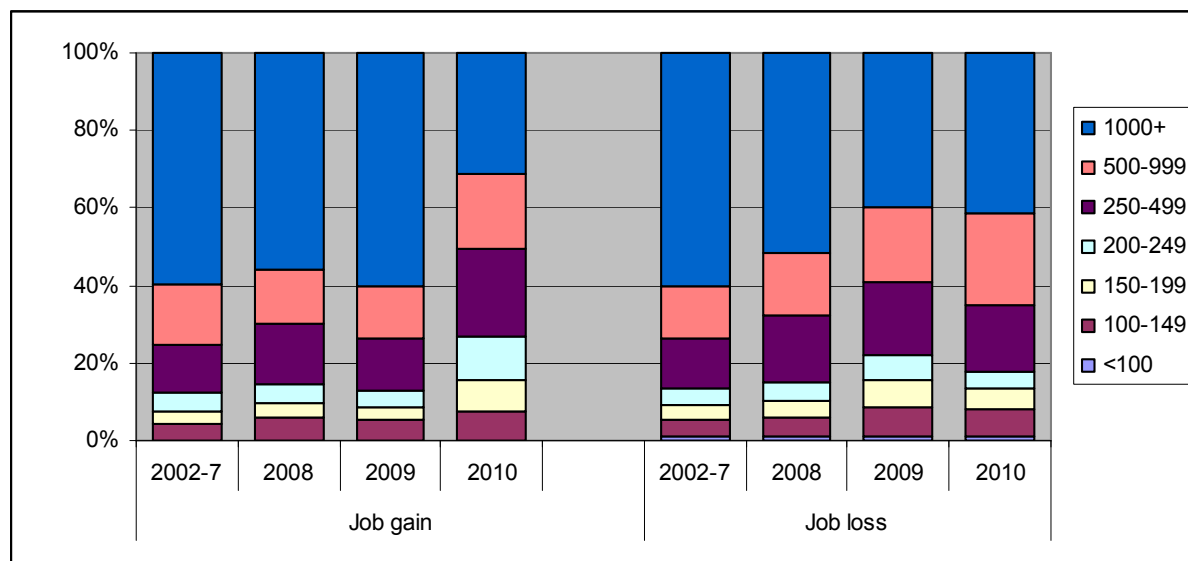
<sup>4</sup> Though note that ERM only began recording announced job creation cases towards the end of 2003.

<sup>5</sup> Excluding cross-national EU or World cases (to avoid double counting).



bias and media coverage bias which are inherent to ERM (see box 1.2). It is possible to discern patterns comparing year-on-year shifts in the composition of announced job loss by case size. The share of announced job loss in large-scale cases involving at least 1000 job losses has varied between 40% and 60% over the period (share of cases on the other hand varies between 7% and 11% by year). The share of medium-sized cases and smaller cases increased markedly during the crisis (2008-9) before beginning to fall back in early 2010. For details, see figure 1.1 below.

**Figure 1.1: Share of ERM-recorded announced job loss/gain by case size, 2002-10\***



Source: ERM (\*2010, q1 and q2 only).

In terms of announced job gain, large-scale cases involving at least 1000 new jobs account for the majority (c.60%) of overall job gains recorded on ERM in the period 2002-2009. The pattern in the first semester of 2010 as growth has resumed has, however, been quite distinctive: the share of jobs in medium-sized cases involving 150-499 jobs has doubled (from 21% to 42%).

Over the period from 2002-2007 to 2010, the median number employed in companies announcing major job loss has risen from 800 to 900 and the share of larger employing units<sup>6</sup> (500 or more employed in the affected units) announcing job loss has not decreased; in fact it has increased, from 58% to 60%.

In summary, the trends appear to be for a declining share of large-scale restructuring-related job loss or gain to be in very large cases (those leading to the announced dismissal of

<sup>6</sup> ERM records numbers of workers employed in the units affected by the individual restructuring event. While this bears no necessary relationship to either firm-level or establishment-level employment, we use it as a proxy of both here in the absence of other data.

over 1 000 individuals). At the same time, a consistently high share (around 60%) of job loss cases involves larger employing units (those with more than 500 employees).

**Box 1.3: What is the employment impact of restructuring?**

The word ‘restructuring’ has several meanings and some definitions of restructuring might include events that do not have any impact on employment levels or that, through a reorganisation of work, may have an impact on the workforce in some other way. Similarly, the relationships between restructuring and employment are neither simple nor straightforward.

The term ‘restructuring’ has come to be associated with the enactment of structural change below the macro or national level: there are reports of the restructuring of sectors, companies and establishments. Restructuring is also seen as more of an active process initiated by employers, in contrast to the more passive and deterministic long-term forces of structural change and economic development. Even if it is driven by the need to maintain or enhance profitability, and to ensure by so doing the survival of the company (and thus jobs) in the long term, restructuring is primarily perceived as having a negative impact on employment levels at particular workplaces.

Nonetheless, the more abstract concept of structural change, ie the reallocation of resources to more productive uses, is generally viewed in positive terms. Job creation in new companies and sectors of the economy is, together with cheaper goods and services, the main benefit of structural change. However, to define this job creation as restructuring is both contrary to public perceptions of the term, as well as being somewhat illogical. It is also a complex theoretical problem insofar as restructuring is also often defined by its negative effect on jobs and no clear-cut definition has yet emerged.

Nonetheless, job creation is related to restructuring in the short term in one particular context – when jobs are lost in one company or location in order to be moved to another company or location. This occurs either through the process of outsourcing or offshoring. Jobs may be lost due to offshoring, for example, in Germany, but not from the EU. Some evidence, for instance in the ERM, indicates that much job creation in the newer Member States emanates from companies located in the old EU15. Similarly, significant technological changes have already triggered restructuring processes in which the loss of (unskilled) jobs has gone hand in hand with the creation of (skilled) jobs. In the meantime, it is obvious that not all job creations are linked to change, let alone to restructuring.

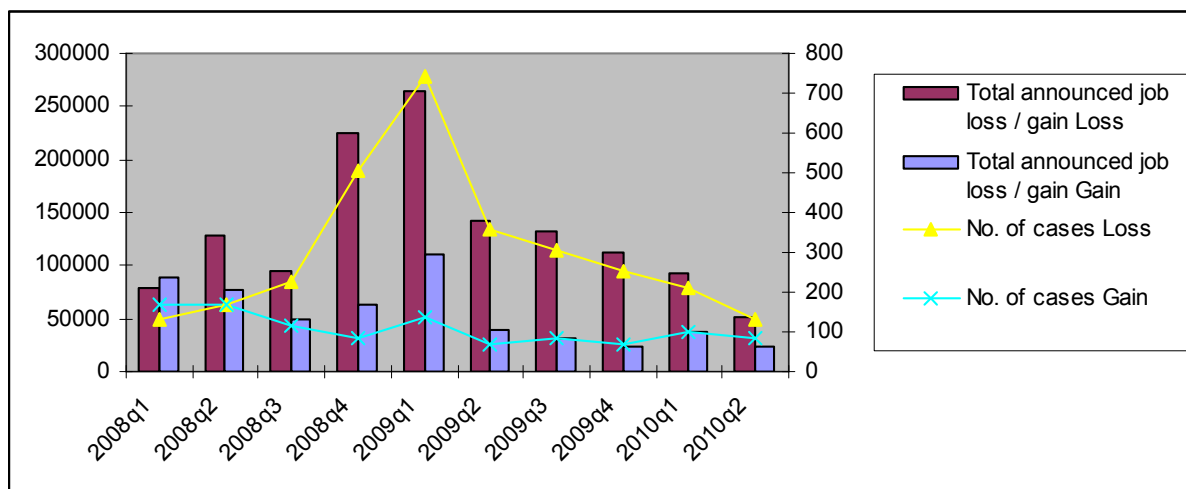
**1.2: RESTRUCTURING ACTIVITY DURING THE ECONOMIC CRISIS**

As noted at the beginning of this chapter, the past two years have been extremely difficult for the EU economy, due to the financial and economic crisis that it has been experiencing during this time, and from which it has not yet fully emerged. The crisis has, naturally,

caused the level of restructuring in the EU to increase, due to the higher incidence of bankruptcies and closures. The trends of the past two years have been captured by ERM data.

As stated above, the ERM has been in existence since 2002 and tends on average to record approximately 90-100 large-scale restructurings per month. Restructuring activity recorded on ERM peaked in the last quarter of 2008 and the first quarter of 2009 almost immediately following the global financial crisis triggered by the collapse of Lehman Bank in September 2008. In this period, monthly case totals climbed to over 300 and featured a much higher share of job loss cases. For details, see figure 1.2 below.

**Figure 1.2: Restructuring activity during the crisis (by quarter)**



Source: ERM.

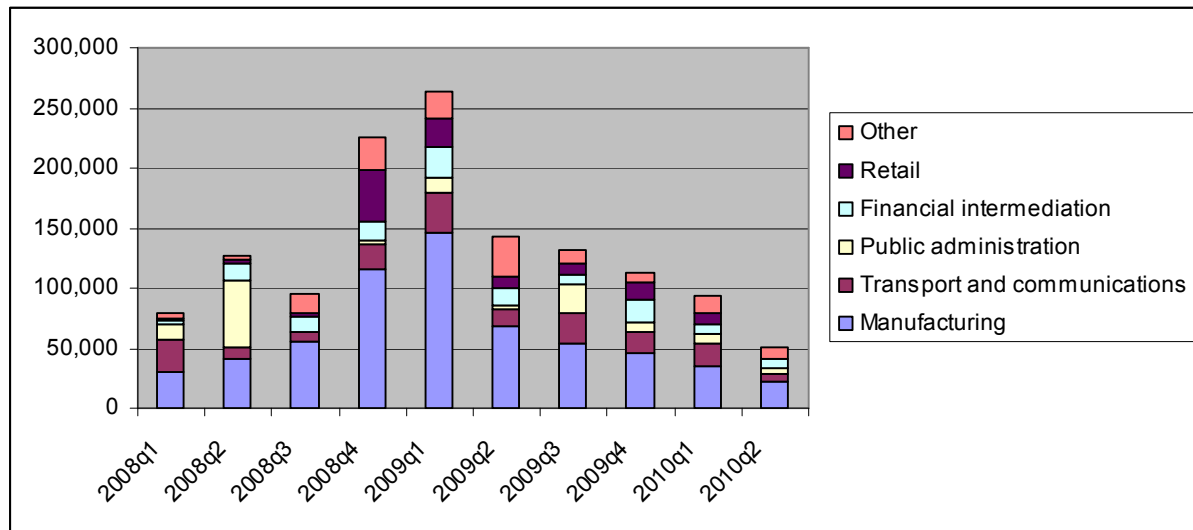
Declining ERM restructuring activity since the second quarter of 2009 coincides with the onset of recovery in output, although unemployment levels only began to stabilise at the end of the first quarter of 2010.

### 1.3: JOB LOSSES

The sectors most affected by large-scale restructuring job loss during the peak quarters of the economic crisis were manufacturing, retail and financial intermediation. Public administration, which had accounted for 17% of restructuring-related job loss announcements in 2006-2007, represented a much smaller share of announced job loss in the most recent period. This may be due to the fact that public sector employment levels often have a counter-cyclical nature, ie they can rise during private sector downturn. Nevertheless, there have been some high-profile announcements of job losses in public administration most recently, in countries such as the UK, although these announcements will affect actual employment levels over a longer period than announcements in the private sector.

For details, see figure 1.3 below.

**Figure 1.3: Announced job loss in ERM restructuring cases by major sector, 2008-2010q2**



Source: ERM.

The next part of this chapter looks in more detail at recent restructuring activity in the automotive sector, which is a major manufacturing sector for the EU, and one that has experienced a significant level of restructuring in recent years.

### 1.3.1: SECTOR IN FOCUS: AUTOMOTIVE MANUFACTURING

Within the broad manufacturing sector, announced job losses were most acute in automotive manufacturing, which accounted for over a quarter of all manufacturing job losses. Demand for cars and trucks has been severely affected by the economic downturn. Europe's automotive industry, with the assistance of the public authorities, has experimented with various remedies to endure and survive the slump while preparing for the next generation of vehicles and consumers.

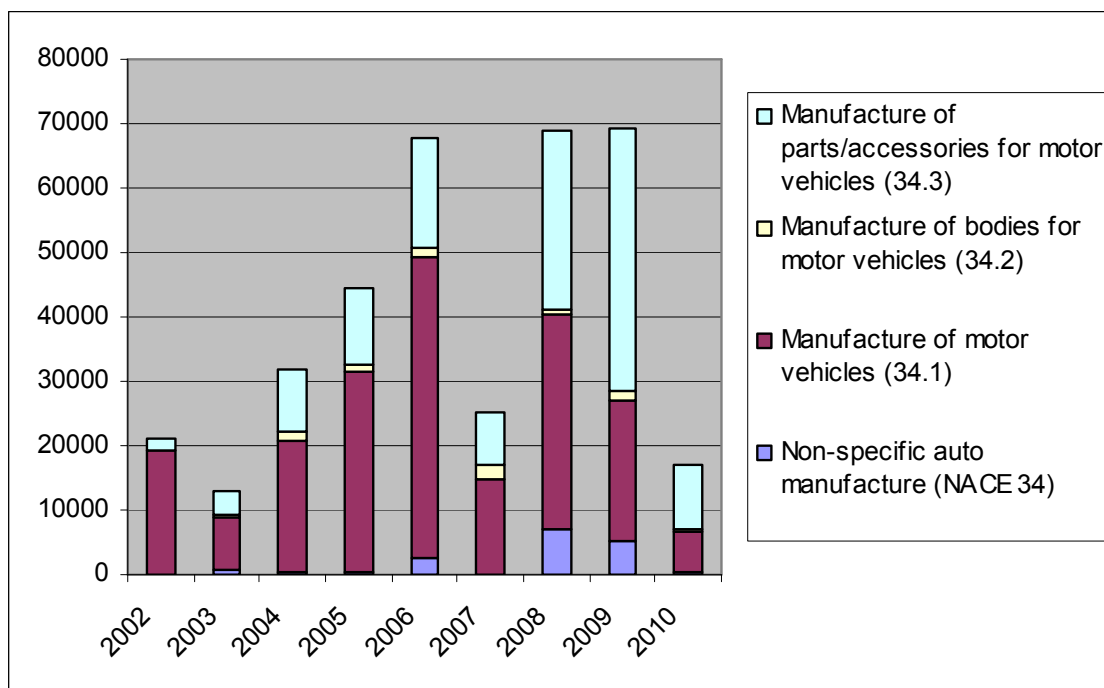
The automotive sector remains vital as an employer in Europe — more than 2 million workers are directly employed and nearly 10 million work in supply-chain activities. It is also a major hub of research and development activity, a source of tax revenues and a positive contributor to the EU's trade balance with the rest of the world. This last fact is important as it signals that the industry in Europe is internationally competitive.

Nonetheless, the scale of the slump in demand for cars has raised questions over the viability of parts of the automotive industry, especially in a context of local and global overcapacity, estimated to be in the range of 20% to 30%. Two main stimulus paths have been identified for the sector, one short-term and the other more medium-term, both involving relatively large public investment. In the short term, car scrappage premia introduced by a number of Member State governments have provided a boost to

production and sales, especially of smaller, economy cars. In the medium-term, climate-change imperatives are motivating large-scale public investment such as the European Investment Bank's European Clean Transport Facility, which will underwrite research, development and production of less polluting, more energy-efficient vehicles.<sup>7</sup>

Various flexibility measures — including short-term working, shift reductions and temporary plant closures — have been deployed to confront the consequences of a fall-off in demand for passenger vehicles, which was over 25% year-on-year at the height of the crisis.<sup>8</sup> While these measures may have absorbed some, perhaps many, potential job losses, according to Eurostat short-term business statistics data there was nonetheless a net decline of nearly 8% in automotive sector employment between the first quarter of 2008 and the first quarter of 2009. The sector also accounted for the largest single share of announced job losses by sector in ERM restructuring cases during 2008-2010. For an overview, see figure 1.4 below.

**Figure 1.4: Breakdown of ERM job losses by sub-sector (within NACE 34, automotive manufacture)**



Source: ERM (\*2010, q1 and q2 only).

As figure 1.4 above illustrates, announced ERM job losses in the sector in the 30-month period from the first quarter of 2008 to the end of the second quarter of 2010 amounted to

<sup>7</sup> See also Mandl, Storrie, Bober 2009.

<sup>8</sup> ACEA 2009.

more than 160 000. Of these, the majority were in supply-chain firms (NACE 34.3) rather than in original equipment manufacturers (OEMs, NACE 34.1), in contrast to the earlier period, when OEM job loss announcements predominated. The increasing share of job loss announcements in the manufacture of auto parts/accessories is suggestive evidence that the combination of negotiated flexibility and public measures to stem unemployment in the sector have been more effective at avoiding restructuring job loss in the main auto manufacturers rather than in their supply chains. This may reflect the political importance of the principal manufacturers (and their employees) and also the pragmatic fact that OEMs lie at the centre of an extensive network of high-end manufacturing activity and are its least dispensable components. Another possible contributing factor is the fact that during the recession the main car producers have moved certain ancillary functions in house that had been previously outsourced to supplier firms.

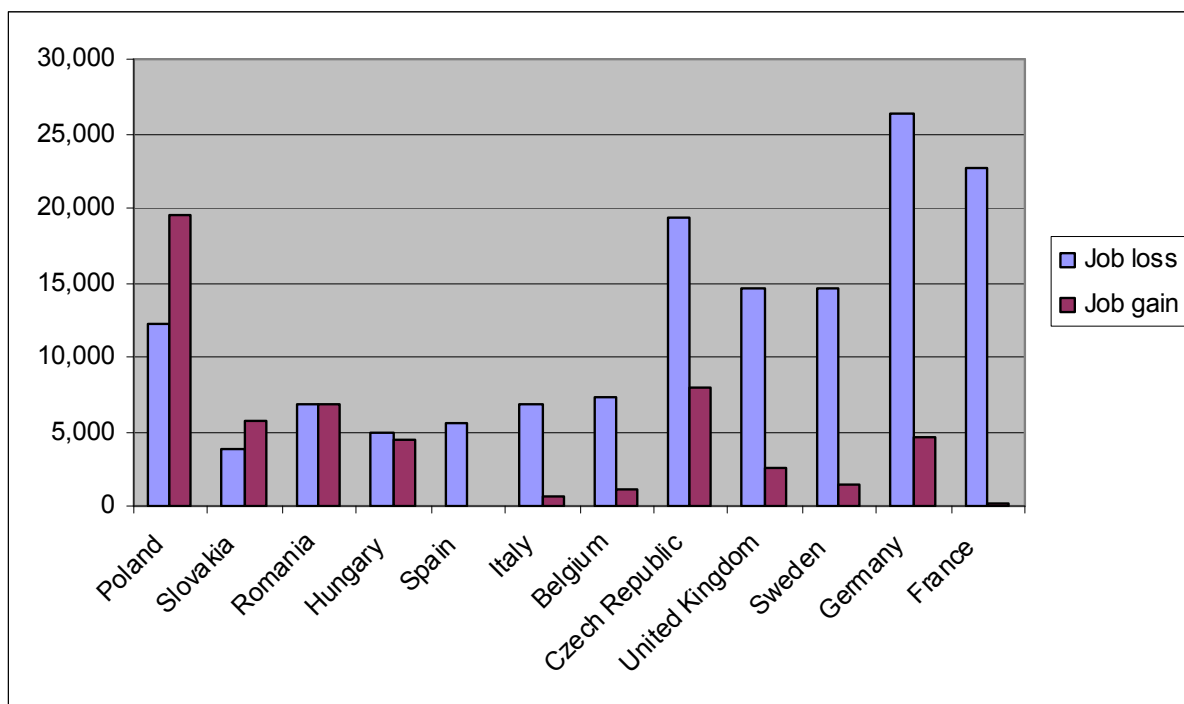
The sector's problems were thrown into stark perspective by the plight of two of the big three US car manufacturing groups. The US administration guided Chrysler and General Motors through fast-track bankruptcies in the second quarter of 2009 and financed their restructuring with over \$60 billion in public funding. General Motors announced the cut of 8 369 out of 48 000 jobs at its European Opel plants in February 2010. An additional 850 partial retirement jobs are due to be cut when current workers retire. The plan included the closure of the Belgian plant in Antwerp, where 2 606 people are employed, 3 900 job cuts in Germany and 900 jobs in Spain. PSA Peugeot Citroen announced in late 2009 the loss of 6 000 jobs in its factories in France between January 2010 and December 2013 in a performance plan aimed at restoring the profitability of the group.

In the early part of the crisis, car sector restructurings revealed in particular the vulnerability of temporary and fixed-term workers, who constituted a front-line buffer of numerical flexibility for manufacturers. BMW announced in February 2008 that it would cut a total of 8 100 jobs, mainly in its German operations. Temporary agency workers accounted for 5 000 of these jobs. The decision of the company to let go at short notice of 850 of its temporary agency staff at its Cowley (UK) plant, which produces the new Mini, caused an outcry in the UK. Union leaders accused the company of taking advantage of the basic level of protections afforded agency workers in the UK. In the case of Skoda Auto's announcement of 4 000 job losses in December 2008 in its Czech operations, all were temporary agency worker positions. Similarly, Volkswagen in March 2009 announced that it would be cutting all 16 500 temporary jobs in its worldwide operations.

When consumer demand returned in 2009 as a result of scrappage incentives, much of the slack was taken up by hiring/firing temporary workers. The ERM records one case of 1 000 jobs created at Skoda Auto, Mladi Boleslav (Czech Republic) in March 2009, attributed to increased demand arising from scrappage schemes in neighbouring Member States, notably Germany. Less than a year later, VW Skoda announced 2 440 job losses at its Czech units (including Mladi Boleslav), principally temporary workers taken on to deal with scrappage scheme demand.

As already noted, the automotive sector has seen announced job creation as well as (more significant) job loss during 2008 to 2010 and is the second sector, after retail, in terms of announced new jobs on ERM. As the geographical distribution of job gains/losses below shows, the major West European producing countries are in general those with the largest announced job losses. In France, Sweden, Germany and the UK, extensive job losses were reported with only nominal countervailing job gain. Germany had the highest level of announced job losses (over 26000) but this represents a much smaller percentage of overall sector employment in that Member State than in the case of Sweden for example. There was also some countervailing job gain as was also the case in the Czech Republic — the one exception to a qualified East-West dichotomy of job creation and loss.

**Figure 1.5: Automotive sector job losses/gains recorded on ERM 2008-2010q2 — countries most actively restructuring**



Source: ERM (\*2010, q1 and q2 only).

Since 2008, there have been 13 very large-scale cases of business expansion in auto manufacturing involving the announced creation of at least 1000 jobs. All but one were in the central and eastern European Member States (including four in the Czech Republic, three in Poland and two each in Romania and Hungary). This was a continuation of previous trends and shows clearly a shift — though not explicitly, or necessarily, an offshoring — of productive capacity in the sector from older to newer Member States.

At company level, the ERM picked up a number of concrete examples of the above shifts. Autoliv, manufacturer of safety equipment including seatbelts and airbags, announced a major worldwide restructuring involving 3000 announced job losses in July 2008.

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Subsequently, specific job loss announcements were made at facilities in Hasselholm, Sweden (August 2008) and Gournay-en-Bray, France (March 2009) while 800 new jobs were announced (also in March 2009) as the company expanded production at Jelcz-Laskowice in Poland. In 2008, auto components manufacturer, Faurecia, announced 1 250 job losses at its French units between 2009 and 2011, and 1 000 new jobs at its facilities in Pisek and Karvina in the Czech Republic. Similar patterns can be observed in cases involving a number of other automotive component manufacturing firms including Keiper, Johnson Control and Mahle.

While much attention has been paid to the successful employment-maintaining effects of short-time working schemes, especially in the car sector during the most acute phase of the crisis in late 2008 to early 2009, the scale of the demand slump for consumer and commercial vehicles was such that job losses were extensive in the sector. Short-time work and other forms of working time flexibility ensured that losses were not even greater, but the ERM is consistent with short-term business statistics data in finding that auto manufacture was nonetheless the sectoral division contributing most to aggregate manufacturing net employment decline.

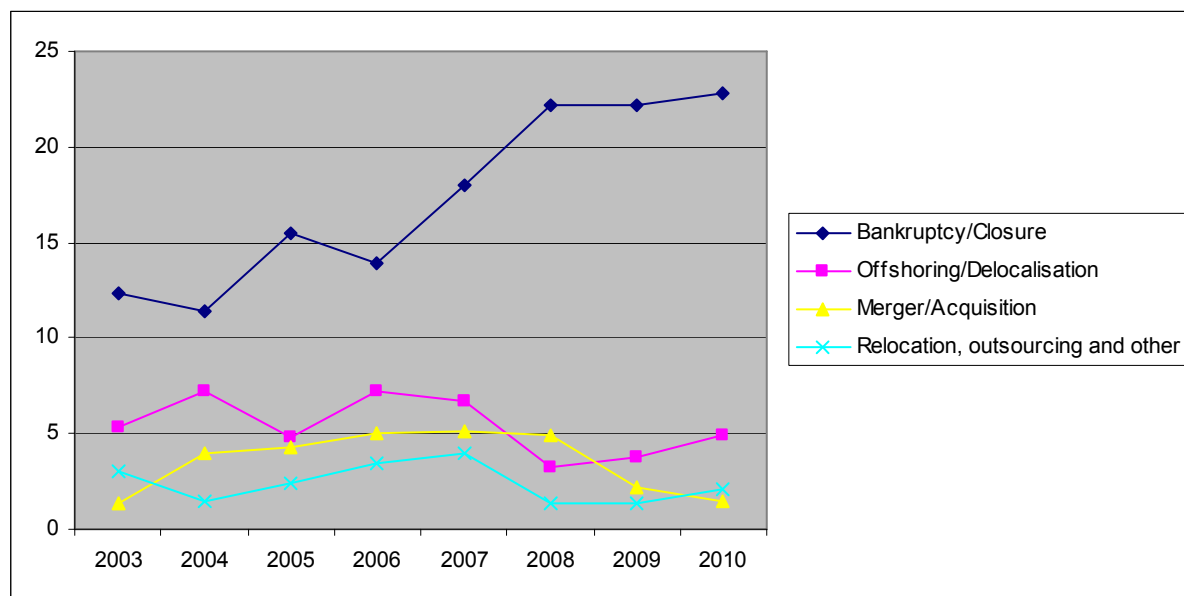
### **1.3.2: TYPE OF RESTRUCTURING: RISING CONTRIBUTION OF BANKRUPTCY/CLOSURE TO OVERALL JOB LOSS**

Internal restructuring represents a kind of catch-all or default category of restructuring and has tended to account for around 70% of announced job loss in ERM cases for any given period since 2002. Of the other categories of restructuring that the ERM captures, the most important is the combined bankruptcy/closure category, which accounted for a sharply increased proportion of announced job losses during the crisis period in 2008-2010 (up from 14% in 2002-2007 to 22% of total in 2008-2010).

The factors leading to this increased incidence of restructuring borne of business failure are not difficult to identify. Reduced demand, difficulties in accessing credit and receiving payment are all customary features of a recession that make trading difficult even for stronger companies. In the period immediately preceding the crisis, a combination of low interest rates, easy credit and excessive debt/leverage may also have weakened the financial foundations of many companies by encouraging them to over-extend. Firms that are already over-borrowed or structurally weak may not have the commercial resilience to withstand a more challenging commercial environment during a recession. The largest single bankruptcy in the period was that of UK high street retailers Woolworths in late 2008, where the closure of over 800 stores resulted in over 27 000 announced job losses; the firm's former German subsidiary, Woolworths Deutschland, also declared bankruptcy in May 2009 with the announced loss of over 5 000 jobs. Figure 1.6 below shows announced job losses by type of restructuring and year.



**Figure 1.6: Share (%) of ERM announced job losses by type of restructuring (except internal restructuring) and year**



Source: ERM (\*2010, q1 and q2 only).

At national level, the increased share of bankruptcy/closure-related job losses was notable in the UK, Slovenia, Portugal, Greece, Italy and Finland (more than 15 percentage points in each country). At aggregate EU level, the increase in the share of bankruptcy/closure-related announced job losses was matched by a decline in the share of offshoring/relocation/outsourcing announced job losses. This is consistent with expected patterns of business behaviour during an economic downturn — higher levels of business failure and retrenchment and less emphasis on expansion or diversification via offshoring and relocation. From this perspective, the most recent data showing an increase in the share of offshoring may be considered a hopeful signal of recovery.

### 1.3.3: EARLY RETIREMENT AS A MEANS OF DEALING WITH JOB LOSS

There are many ways in which the effects of restructuring involving job loss can be mitigated. Traditionally, and particularly when a larger part of the workforce was engaged in more traditional heavy industry sectors, early retirement was a favoured means of allowing older workers to leave the workforce in a relatively non-traumatic way.

However, the past 10 years have seen a withdrawal or reduction of incentives to early retirement — in both the public and private sectors — in line with a policy consensus<sup>9</sup> that emphasises the importance of broadening labour market participation and of increasing the

<sup>9</sup> Council of the European Union, Joint Employment Report 2008/9 — ‘To sustain progress, it is essential to avoid using early retirement schemes to regulate supply as in past downturns’.

effective retirement age.<sup>10</sup> The move to reduce early retirement incentives has been made all the more pressing by empirical evidence that countries with generous and easy-to-access early retirement schemes have also been those which have suffered the sharpest declines in the employment levels of 55-64 year olds. Old age employment rates are particularly sensitive to retirement incentive structures, which vary considerably from country to country. Research also largely confirms that early retirement has not been successful at aggregate level in one of its ancillary objectives<sup>11</sup> — contributing to increased youth employment by ‘freeing up’ jobs for younger workers.

However, there are strong interests in maintaining early retirement arrangements, which can be attractive for different reasons for a variety of stakeholders, including unions, employees and employers. While some governments have recently attached more stringent limitations to access to early retirement benefits (for example Poland, Sweden and France<sup>12</sup>), others have rediscovered the short-term attractions of early retirement as a cost-saving measure and/or as a politically acceptable means of gaining numerical flexibility in the public service. An illustrative example is the early retirement scheme for civil servants introduced by the Irish government in April 2009. The scheme was included in an emergency budget as one of a number of measures explicitly targeting public sector cost savings.<sup>13</sup> ERM national correspondents also report increased recourse to early retirement in Romania, Latvia, Luxembourg and Hungary.<sup>14</sup>

The ERM shows some evidence of the persistence of early retirement as one form of labour-shedding during restructuring, especially amongst large companies. In the ERM in 2008-2010, 80 cases make explicit mention of early retirement. Early retirement features in particular in cases from the following countries — Belgium, France and Spain (10 cases), UK (7), Italy and Norway (6). As a rule, early retirement tends to be one of a range of measures deployed when restructuring as by definition it relates only to that part of a company’s workforce between 50 and 60<sup>15</sup> years of age and the statutory retirement age (generally 65). Other measures may include partial retirement, part-time working, relocation,

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<sup>10</sup> See for example the Polish government’s recent proposed reform of early retirement provisions for certain strenuous occupations, <http://www.eurofound.europa.eu/eiro/2008/11/articles/pl0811019i.htm>.

<sup>11</sup> Though there may be counter examples at firm level; Group Michelin in June 2009 announced the offer of early retirement benefits aimed primarily at those within five years of retirement with the aim of creating vacant positions to be filled by the 500 new hires Michelin expects to make annually.

<sup>12</sup> Carley, M., *Industrial relations developments in Europe, 2008*, available online at <http://www.eurofound.europa.eu/eiro/studies/tn0903029s/tn0903029s.htm>.

<sup>13</sup> Dobbins, T., *Emergency budget includes public service pay review and early retirement*, available online at <http://www.eurofound.europa.eu/eiro/2009/04/articles/ie0904019i.htm>.

<sup>14</sup> Mandl, I./Salvatore, L., *Tackling the recession: Employment-related public initiatives in the EU Member States and Norway*, Comparative study of the European Foundation for the Improvement of Living and Working Conditions, 2009, available online at <http://www.eurofound.europa.eu/emcc/erm/studies/tn0907020s/tn0907020s.htm>.

<sup>15</sup> Though in the case of Hellenic Petroleum (EL) early retirement was offered to workers as young as 47-48.

retraining and voluntary redundancies, and the mix of measures in specific restructurings is generally agreed on the basis of social partner negotiations.

Early retirement has in the past been associated with restructuring arising from privatisation where states have bought industrial peace by offering generous early retirement packages to workforces affected by post privatisation restructuring job loss. Three examples of company restructuring involving the use of early retirement are set out below, focusing on the Italian airline Alitalia, the Italian telecommunications group Telecom Italia, and the Austrian retail bank BAWAG.

Alitalia's new phase as a private company began in January 2009 after Italian investor group Compagnia Aerea Italiana (CAI), acquired the 'new' Alitalia, leaving the Italian government with the old company's debts and its least profitable units. Employment in the privatised Alitalia totalled 12 600 compared with 21 500 in the combined 'old' Alitalia and Air One, the smaller Italian airline, with which it merged. Prior to the acquisition and in a context of sustained industrial action, the Italian government and main trade unions reached a deal which made use of the full range of Italian social shock absorbers (*ammortizzatori sociali*) to cushion the effects of redundancies for over 3 000 of the Alitalia employees. The agreement included recourse to the 'extraordinary' Wages Guarantee Fund (Cassa Integrazione Guadagni Straordinaria, CIGS) for four years. After this period, redundant workers benefit for three years from the 'mobility' programme, which supports their incomes until they reach retirement age (or find a new job). The Italian state — through the National Social Security Institute (Istituto Nazionale Previdenza Sociale, Inps) — pays an allowance equal to 80% of the average wage lost by the workers.

At Telecom Italia, the announcement of 5 000 job losses in June 2008 led to strike action which was resolved when the restructuring plan was largely deferred to 2009-2010. The job cuts were planned to be effected with recourse to a mobility procedure (*procedura di mobilità*), which is an administrative prelude to dismissal, with a view to early retirement, which would guarantee up to 90% of salary for the redundant workers.

BAWAG, the Austrian retail bank, formerly owned by the Austrian Federation of Trade Unions (ÖGB), announced its intention to reduce its workforce by 400 during 2008 without recourse to compulsory redundancies. The bank was taken over in 2007 by a consortium led by the US private equity firm Cerberus Capital Management following losses incurred on currency derivative investments. The takeover was facilitated by a large injection of public funds by the Austrian state. Employees within seven years of the official retirement age were allowed to opt for early retirement, in which case they continued to receive at least 60% of their last take-home pay until reaching the legal retirement age — 60 for women and 65 for men.

Other large-scale restructurings with a significant element of early retirement include those at:

- Eon-Energy, in August 2008

- Air France-KLM, in May 2009
- Michelin, in June 2009
- Volvo Europa, in October 2008
- Malta Shipyards, in June 2008
- Birmingham City Council, in February 2010, and
- Vattenfall Europe, in March 2010.

The above examples show how early retirement is still being used by organisations throughout the EU, albeit in a more limited way than in previous decades. Early retirement is clearly still an option for organisations that are faced with the need to make large-scale redundancies, although this does have implications for the balance of age and experience in an organisation's workforce, and for the wider workforce as a whole, within the context of EU policy targets concerning the level of employment for older workers.

#### **1.4: RESTRUCTURING INVOLVING JOB CREATION**

Although cases of announced job loss have generally outweighed those announcing job creation during restructuring events, there was a marked shift to job-creating as opposed to job-destroying cases of restructuring on ERM in the years up to 2008. This is reflected in the fact that while cases of business expansion only began to be included in the dataset late in 2003 — the original focus of ERM was on the negative employment consequences of industrial change — in 2007, they accounted for the majority of individual restructuring cases. 2007 was also the first year in which the aggregate positive employment impact of all cases exceeded the aggregate negative employment impact.

Since the second quarter of 2008, however, announced job losses have exceeded job gains in every quarter and in aggregate by a ratio of around 3:1. Nevertheless, there has also been a sharp decline in the level of reported job creation by quarter in the most recent period — with the somewhat surprising exception of the first quarter of 2009, near the height of the crisis, when low-price retailers (Asda, Tesco) and restaurant chains (KFC) in the UK announced major countrywide expansions.

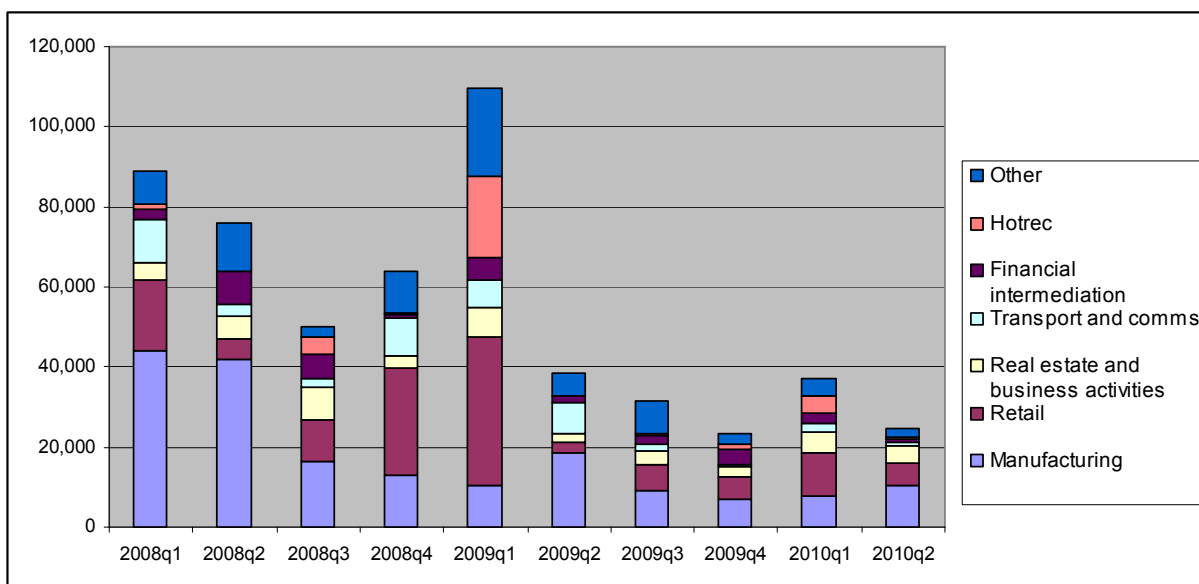
Data contained in the latest ERM Quarterly publication, which tracks developments in the third quarter of 2010, shows that some sectors are now beginning to recover and to create jobs. For example, it would seem that the automotive manufacturing sector is slowly recovering from the deep decline of 2008 and 2009. In the third quarter of 2010, several auto manufacturing companies that between September 2008 and the end of 2009 announced dismissals of large numbers of employees are now creating new jobs. In Sweden, the Volvo group has been responsible for three cases of job creation announcements. Volvo Trucks announced it will hire 200 employees at its plant in Tuve, Gothenburg. Volvo Powertrain announced it has permanently employed 150 people, who are part of 350 fixed-term recruitments the company made during last year. Further, Volvo

PV announced that 140 fixed-term employees will be permanently employed at the factory facility in Torslanda. Volkswagen Slovakia announced it is to create 1000 new jobs at its Bratislava plant by September, while PSA Peugeot Citroën announced the recruitment of 900 new employees to be employed in various plants across France before the end of 2010. The company also announced that it will reintroduce a third shift at its plant in Portugal, which was abolished in 2009. This decision will result in 300 new jobs; the third shift was planned to be operative in November 2010 and to last six months. Whether it continues thereafter will depend on market conditions.

In the computer and related activities sector, the largest case of job announcement refers to Hewlett Packard (HP), which announced it is to create 700 new jobs at its plant near Glasgow, as the company is setting up an IT service hub. In 2009, HP announced the loss of 700 manufacturing jobs at the same plant following the decision to transfer production to the Czech Republic. These jobs were expected to be gone by October 2010 but with the newly created jobs in IT services, the plant will go back to employing around 1300 people. In Ireland, internet company Google has announced the creation of 200 jobs for graduates with strong IT skills as a result of a new operations centre in Dublin. The new centre was expected to be operational by the end of 2010 and it will focus mainly on Google geographical products such as Google Maps and Google Local.

As can be seen from figure 1.7 below, which shows ERM data for aggregate announced job creations, manufacturing has been one of the more dynamic sectors in terms of announced job creations, although this relates largely to the first half of 2008, before the onset of the economic crisis. Thereafter, manufacturing accounts for a declining share of job gains and the principal source of announced job creation has been the retail sector. From the first quarter of 2008 to the second quarter of 2010, around 30% of announced job gains were in the retail sector and around 25% in manufacturing.

**Figure 1.7: Announced job gain in ERM restructuring cases by major sector, 2008-2010q2**



Source: ERM (\*2010, q1 and q2 only).

Box 1.4 below looks at the retail sector, which has been one of the sole motors of job creation in the EU over the past few months.

#### **Box 1.4: Examples of restructuring involving job creation: the retail sector**

The retail sector is of great importance to the EU economy, employing over 14% of the workforce. The European Commission characterises this sector as being one of the EU's main employers, and often the entry point into the labour market for many young, low-skilled or unskilled people. However, the Commission also notes that a number of issues have an impact on employment and competitiveness in the sector, such as: differences in labour law and collective agreements applicable to retail services; the negative impact of the informal economy on working conditions; and a mismatch between the skills needs of companies and those of staff in the retail sector.

The sector has experienced major job losses over the past two years, due to high levels of restructuring. However, over the past few months, this sector has also seen significant job creation, and it is indeed one of the few sectors currently recruiting workers. In the second quarter of 2010, around 30% of announced job gains in the ERM were in the retail sector. The retail sector is extremely competitive and in the current difficult economic climate, the lower-cost chains are doing well and embarking on business expansion, at the expense of other retail groups.

Recent job creation plans have been announced in a range of retail groups, often the result of multinationals investing in central and eastern European countries. For example, in mid-August, hypermarket chain Kaufland, part of the German group Lidl & Schwarz, announced the creation of 180 new jobs near Turda (Cluj, Romania) as result of an investment of €80 million in a new regional distribution centre. Kaufland operates 53 stores in Romania; the group intends to open five to six new units in the second half of 2010. Also in Romania, the Romanian DIY chain Dedeman announced in late September that it planned to open a new store at Cluj Napoca in February 2011, creating 230 jobs.

In the Czech Republic, towards the end of August, AAA Auto, one of the largest used car retailers in Europe, announced that it has created 200 jobs in the first six months of 2010. The company, operating in the Czech Republic and Slovakia, reported substantial profits despite a decline in sales. In Estonia, in mid-August, Maxima Eesti, a member of the international retail chain Maxima Grupe, announced the creation of 120 new jobs by the end of 2010 in three new stores. Maxima Grupe is based in the Lithuanian capital and is one of the largest employers in the Baltic States with approximately 25500 employees. Also in Estonia, in mid-August, the Estonian retail sale company OG Elektra announced that 200 new jobs will be created by the end of 2010 in six new stores. Between January and August 2010, the company created 130 new jobs by opening five new stores, mostly in the capital Tallinn.

The UK supermarket chain Tesco has been expanding into central and Eastern Europe. In Hungary, in mid-August, Tesco Hungary announced the opening of two new supermarkets, in Bicske and Tolna, creating 200 new jobs in total. Over the past 16 years, Tesco Hungary has opened 108 supermarkets and has around 22 000 employees in the country. Tesco is also expanding in Ireland: in mid-July, it announced an expansion that will result in seven new stores and the creation of approximately 750 jobs during the course of 2010, the majority of which will be outside Dublin.

Other job creation announcements in the older EU Member States include the announcement in mid-September by the furnishing retailer Ikea that it is to create 240 new jobs, with the opening of a new store in Catania (Sicily, Italy). The new store will be opened in March 2011. Ikea already has 18 stores and 6 300 employees in Italy. Also in mid-September, the French retail group Mestdagh announced its intention to hire between 250 and 300 workers before 1 October in Belgium, in order to run the 16 stores that the group bought from the French retailer Carrefour. In Ireland, the American fashion retailer, Forever 21, announced in early October that it is to open a new fashion outlet in Dublin in November 2010, which will create 250 new jobs. This chain has over 500 shops in 15 countries. Finally, in the UK, in early August, the US cash and carry company Costco announced the creation of 130 jobs in Coventry, with the opening of a new warehouse.

The future is likely to hold more restructuring activity in the retail sector, as private equity firms are reported to be engaged in renewed takeover activity in this sector. Although takeover activity has dropped sharply over the past year – there were only €8.7 billion worth of retail takeover deals in Europe last year, which is down from €15.2 billion in 2008 and €44.5 billion in 2007, according to data from Thomson Reuters – there are reports that many retail chains, including some well-known high street names, could become targets for takeovers in the months ahead.

*Source: ERM Quarterly 3, autumn 2010.*

### **1.5: EMPLOYMENT-MAINTAINING INITIATIVES DURING THE CRISIS**

In addition to the large-scale cases of restructuring involving job loss or creation, a key labour market development during the 2008-2009 economic crisis was the often innovative approaches to forestalling or avoiding job loss that may otherwise have occurred. In most cases, these involved combinations of company initiatives and social partner negotiation often within a framework of public policy initiatives – notably public short-time working schemes – that were rapidly adapted to the worsening economic situation.

In the face of unprecedented large output losses, especially in major goods-producing sectors, employment losses have been in many cases surprisingly modest. Even the significant decline in employment in automotive manufacturing noted above is in the context of declines in sales and production which were many factors greater than the associated job loss.

At company level, the main instruments, in addition to early retirement, used by companies to adapt cost structures to an abrupt decline in demand while avoiding permanent job loss included:

- pay freezes (in some cases, pay cuts) or deferred bonuses/wage claims; and
- various forms of working time flexibility, such as:
  - short-time working — with or without public incentives;
  - running down of working time account surpluses;
  - overtime reductions;
  - compulsory unpaid or partially paid leave;
  - temporary lay-offs;
  - temporary plant closures; and
  - career breaks.

Box 1.5 below serves as a brief illustration of some of the measures identified or implemented to share the pain of adjustment while retaining jobs. They involve a range of initiatives, many of which re-frame the conventional labour contract from working for free (albeit very temporarily) to being paid for not working (albeit at a marginal rate).

### **Box 1.5: Measures aimed at retaining jobs during restructuring**

#### **Career break/sabbatical**

At the beginning of May 2009, Spanish-headquartered BBVA bank introduced a set of cost-cutting measures which also aimed to help employees to reconcile family and working life and allow them more flexibility. The measures were offered to its 30 000 Spain-based employees on a voluntary basis and included:

- three to five years of leave to pursue personal or professional projects, with a guaranteed job at the end of the leave. During the leave, employees receive the equivalent of 30% of their annual pre-tax compensation, subject to an annual minimum of €12 000, plus €3 600 in healthcare coverage. To qualify for the scheme, the employee must have worked at BBVA for at least eight years (BBVA, 2009);
- up to two years of special leave to take care of children or relatives or to take up post-graduate studies. Employees on study leave are paid €6 000 a year. To be eligible, employees must have worked at the bank for at least three years. Family leave is unpaid and requires having worked at BBVA for at least one year; and



- shorter working days: a five-hour day, five days a week or a four-day working week. During the short-time working period, an employee's pay is reduced in proportion to the reduction in working hours.<sup>16</sup>

### **Pay freezes and pay cuts**

In December 2009, Independent News and Media (INM), which owns several newspapers in Ireland, announced pay cuts and freezes affecting employees working on its two main Irish newspaper titles – the *Irish Independent* and the *Sunday Independent*. All directors and top executives would have their pay cut by 10% and bonuses would not be paid for the 2008/2009 period. Employees at other levels were also affected by pay cuts in proportion to their salaries. The cuts varied from a pay freeze for those on €40 000 or less per annum and a reduction of 2.5% for those on between €40 000 and €50 000. Those earning between €50 000 and €100 000 took a 5% pay cut (The Irish Independent, 2008). At the same time, INM introduced a new share-buying scheme whereby employees were given the option to buy shares – at the share price on the day of introduction of the scheme – worth 2.5 times the pay cut.

### **Working for free**

In June 2009, British Airways chief executive Willie Walsh announced that he would work for free the following month, forgoing his monthly salary of £61 000. He was immediately followed by the airline's financial officer. All employees were given the option to volunteer (as the company was aware that not all staff members were in the financial position to participate) for between one and four weeks' unpaid leave or unpaid work, with the pay loss spread over three or six months. The measure was announced to the employees in the form of an email as well as by a letter of the chief executive published in the company internal magazine. Employees had one month to apply for their participation, and the measures were to be carried out by March 2010.

By June 2009, around 800 out of the 40 000 employees had volunteered to work for free (mostly for one week) and a further 7 000 had agreed to unpaid leave, which will save the company up to £10 million.<sup>17</sup> The participants came from all employee groups, with no group being particularly represented.

### **Financial employee participation**

Works councils at German car producers such as Opel, Volkswagen and Daimler have started a discussion about the role of financial participation in times of economic crisis.

<sup>16</sup> Financial Times, *BBVA offers staff five years' leave*, 3 June 2009, available online at <http://ftalphaville.ft.com/blog/2009/06/03/56539/bbva-offers-staff-five-years-leave/>.

<sup>17</sup> British Airways, *Thousands Of Staff Opt For Pay Cuts*, News Release 25 June 2009b, available online at [https://www.britishairways.com/travel/bapress/public/en\\_gb](https://www.britishairways.com/travel/bapress/public/en_gb).

In the past, employees of Opel have accepted wage cuts in exchange for investment commitments and employment guarantees. In the context of the crisis, the Opel employees were ready to waive wage claims worth about €1.2 billion. In return, they asked for 10% of future Opel shares. According to the works councils' proposal, the stock corporation would hold the employees' shares in trust, while the chairs of the works councils of Opel's German plants would serve as shareholders.<sup>18</sup>

At Daimler, the works council was also considering the conversion of employee bonus payments, worth a total of €280 million, into Daimler shares. Similarly, in the case of the combined Volkswagen-Porsche group, the unions' and the works councils' goal consists in enabling the more than 380 000-strong workforce to hold a significant share of the company. The works council's model of financial participation is based on the bundling of employee shares in a foundation, cooperative or registered association. According to this model, employees would receive dividends in the form of social projects. Also the voting stock should be exercised collectively in order to guarantee an effective influence on strategic decisions.

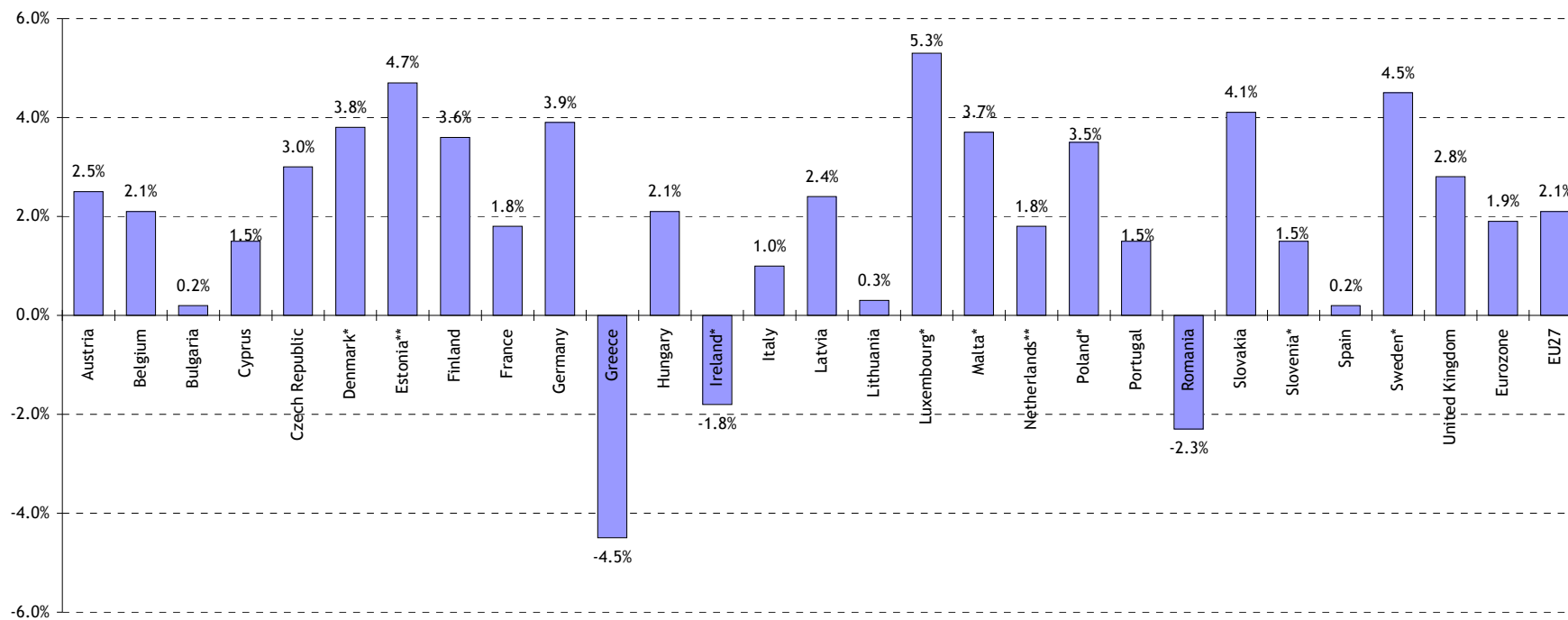
### 1.6: TENTATIVELY EMERGING FROM RECESSION?

At the time of writing, it would seem that Europe is beginning to emerge from recession, albeit tentatively. The latest available figures from Eurostat, which relate to the third quarter of 2010, show that GDP in the EU27 increased by 2.1% compared with figures for the third quarter of 2009. Compared with the previous quarter, EU27 GDP increased by 0.4%. However, GDP growth in many individual Member States is below the EU average, with some still experiencing negative growth in the third quarter of 2010, compared with the second quarter of the year. Further, there are disparities in growth rates in individual Member States, ranging from 5.3% in Luxembourg and 4.5% in Sweden on a year-on-year basis, to negative growth in some countries, such as -4.5% in Greece and -2.3% in Romania on a year-on-year basis. For details, see figures 1.8 and 1.9 below. Further, there remain concerns over the level of public debt in some countries and some concern over the stability of the euro.

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<sup>18</sup> Dettmer, M., *German employees exchange wage cuts for equity. A share of future profits*, spiegel online, 2009, available online at: <http://www.spiegel.de/international/business/0,1518,640304,00.html>.

Figure 1.8: GDP growth in EU Member States, third quarter 2010. % change compared with third quarter 2009

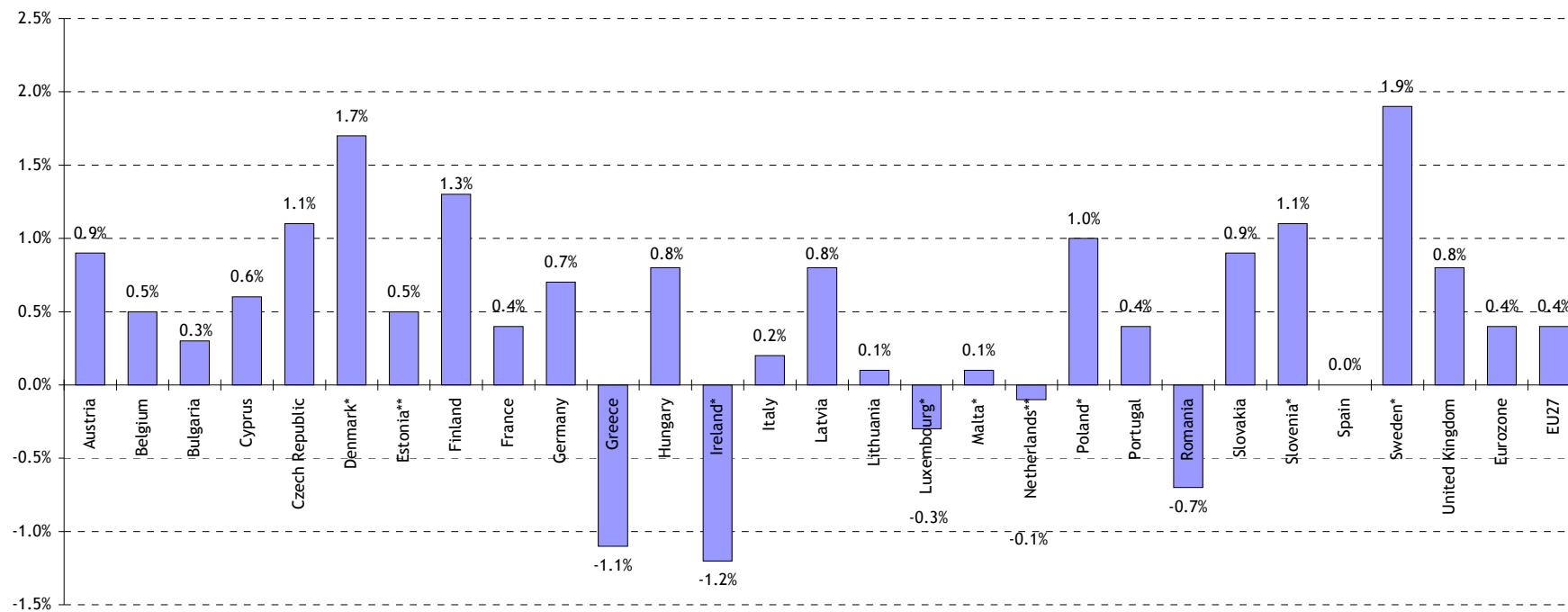


Source: Eurostat.

\* Second quarter figures

\*\*Percentage change calculated from non-seasonally adjusted data

Figure 1.9: GDP growth in EU Member States, third quarter 2010. % change compared with second quarter 2010



Source: Eurostat.

Unemployment levels in the EU27 countries have stabilised over 2010. Recent internal flexibility arrangements — short-term contracts, part-time work, temporary lay-offs and job share schemes — as well as improvements in the general macroeconomic climate have helped to stabilise labour markets, according to the ERM Quarterly for the third quarter of 2010.

According to the European Restructuring Monitor's most recent figures at the time of writing, which relate to the third quarter of 2010, the number of restructuring events recorded is falling steadily, indicating that the worst may be over, in terms of weathering the current crisis. The number of restructuring cases recorded in the second quarter of 2010 was 224, of which 120 were cases of restructuring involving the announcement of job loss. The total number of announced job losses was around 128 000. This compares with a high point recorded by the ERM in the first quarter of 2009, in which over 700 cases of restructuring concerning the announcement of job losses were recorded, involving around 280 000 announced job losses.

In terms of sectors, it would seem that the automotive manufacturing sector is beginning to recover, and job creation in the retail sector is outweighing job loss, due to the expansion plans of a number of retail chains. However, some sectors are still suffering from the downturn, notably the construction sector, which recorded a 1.7% seasonally adjusted drop in output in September 2010 in the EU27, compared with figures for August 2010, and a 3.6% drop compared with September 2010. Figures for the eurozone were even more pronounced, with a 2.1% fall compared with August 2010 and an 8.6% fall compared with September 2009.

In the medium-term, therefore, it would seem that the European economy is beginning to stabilise and that growth is reasserting itself, certainly in terms of export-led growth in countries such as Germany. The incidence of restructuring is therefore likely to fall further, although some countries, including Greece, Portugal, Italy and Spain, may continue to experience some turbulence due to high levels of public debt and unbalanced budgets. The ERM Quarterly for the third quarter of 2010 notes that opinions differ on the timing of the budget consolidation in EU Member States and withdrawal of fiscal stimulus at this stage of recovery while the EU economy is still fragile. Critics point out that fiscal consolidation with prolonged unemployment will weigh on nominal wages. In this context, private consumption may lose momentum with negative knock-on consequences for domestic demand. Further, softening global demand for the European goods in the second half of 2010 could pose a risk for EU exports.

Adopting a longer-term perspective and looking forward to the coming 10 years, the EU's 2020 Strategy sets out a framework for economic growth and job creation in the EU. Its specific targets are as follows:

- 75% of the population aged 20-64 should be employed, including through the greater involvement of women, older workers and the better integration of migrants in the work force;

- 3% of the EU's GDP should be invested in R&D;
- The '20/20/20' climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right);
- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree; and
- 20 million less people should be at risk of poverty.

The 2020 Strategy aims to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. Under its flagship initiative 'An agenda for new skills and jobs', the Commission intends to create conditions for modernising labour markets with a view to raising employment levels. It states that in order to achieve this, it will work:

- to define and implement the second phase of the flexicurity agenda, together with European social partners, to identify ways to better manage economic transitions and to fight unemployment and raise activity rates;
- to adapt the legislative framework, in line with 'smart' regulation principles, to evolving work patterns (eg working time, posting of workers) and new risks for health and safety at work;
- to facilitate and promote intra-EU labour mobility and better match labour supply with demand with appropriate financial support from the structural funds, notably the European Social Fund (ESF), and to promote a forward-looking and comprehensive labour migration policy which would respond in a flexible way to the priorities and needs of labour markets;
- to strengthen the capacity of social partners and make full use of the problem-solving potential of social dialogue at all levels (EU, national/regional, sectoral, company), and to promote strengthened cooperation between labour market institutions including the public employment services of the Member States;
- to give a strong impetus to the strategic framework for cooperation in education and training (ET 2020) involving all stakeholders. This should notably result in the completion of of lifelong learning strategies (in cooperation with Member States, social partners, experts) including through flexible learning pathways between different education and training sectors and levels and by reinforcing the attractiveness of vocational education and training. Social partners at European level should be consulted in view of developing an initiative of their own in this area; and
- to ensure that the competences required to engage in further learning and the labour market are acquired and recognised throughout general, vocational, higher and adult education, and to develop a common language and operational tool for education/training and work: a European Skills, Competences and Occupations framework (ESCO).

The next section of this chapter examines the reactions of the EU labour market to the crisis and the types of reforms that are being put into place to ensure that it emerges from the crisis in a way that ensures its future competitiveness in the global economy.

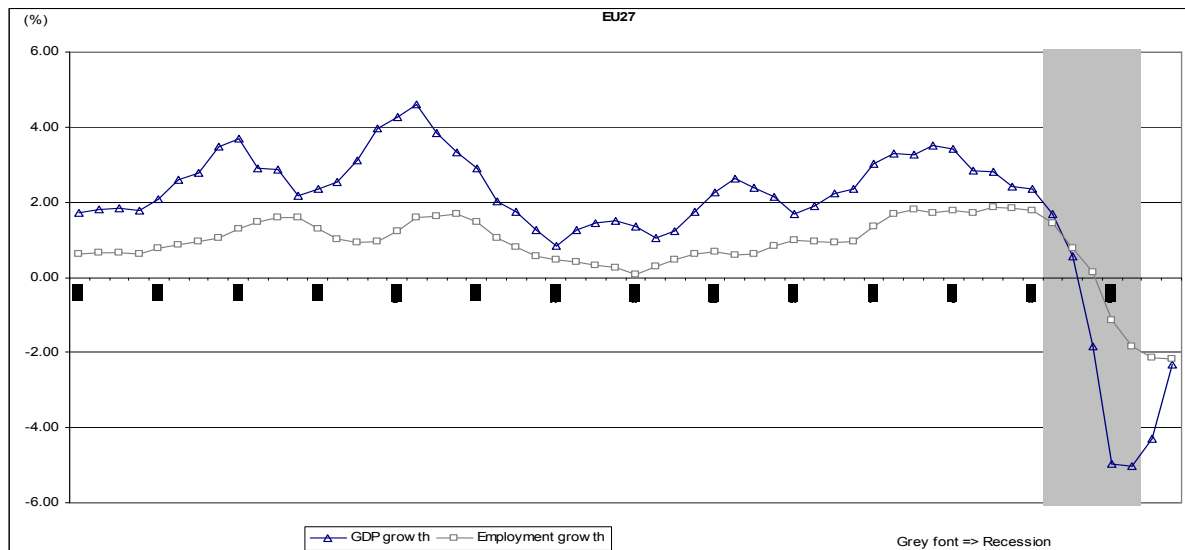
## 2: LABOUR MARKET REFORMS

As already set out in the previous section of this chapter, in the second half of 2008, the EU economy entered a recession that continued for most of 2009, although in 2010 there were renewed signs of growth. The impacts of this recession have taken a severe toll on the economic well-being of many European citizens over the past two years. In the euro area alone, GDP contracted by 4% in 2009, unemployment surged, and public debt rose to unprecedented levels. However, the latest figures, relating to the third quarter of 2010, show that GDP has begun to rise again, by 1.9% in the eurozone and by 2.2% in the EU27, compared with the third quarter of 2009.

European labour markets have reacted to the economic slowdown of 2008 and 2009 with a gradual but steady decline in employment that has yet to come to an end. Around 4 million jobs were lost in Europe in 2009 and the rate of unemployment reached 9.4% in the last quarter of the year, despite some moderate signals of economic recovery appearing in some countries. The latest figures, relating to November 2010, show that unemployment is still climbing, with a eurozone rate of 10.1%, compared with 9.9% in November 2009, and an EU27 rate of 9.6%, compared with 9.4% in November 2009.

Figure 1.10 below gives details of GDP and employment growth in the EU27 from 1996 to 2009.

**Figure 1.10: GDP and employment growth**



Source: Commission services. GDP growth is year-on-year growth.

During 2008 and 2009, the deterioration of the labour market in the US was accompanied by a drop in the participation rate (the fourth quarter of 2009 was some 2% lower than the level in the first quarter of 2008). Conversely, a moderate drop in employment was accompanied by an increase in participation in the EU and the euro area. This should be seen as a positive development for the prospects of the recovery, as a fall in participation



during the recession can also turn into a persistently low labour supply during the recovery. Unemployment at record high levels for a long period may in fact mean that those without jobs, especially those with a low attachment to the labour market, may give up searching because of their relatively low employment chances. Skills mismatch and unconditional welfare policies can further worsen this discouragement to participating in the labour market, while activation policies and support to workers affected by economic change can encourage people to remain in the labour market and facilitate their transition to new jobs.

The first signal of discouragement is a decrease in labour force participation, which usually means a falling unemployment rate in the short run. In the long run, a low participation rate hampers the functioning of the labour market, through shortages of labour supply and higher wage pressures, and can be a bottleneck for economic growth. Avoiding such effects in labour markets is of crucial importance in averting a lasting negative impact on potential output after a crisis. This is why the European Economic Recovery Plan<sup>19</sup> (EERP) placed considerable importance on measures to prevent unnecessary labour shedding which would have entailed great losses in human capital and had a lasting negative impact on potential output.

The EERP also called for priority to be given to those reforms which can support aggregate demand, employment and/or household income during the crisis, while at the same time improving adjustment capacity to enable a faster recovery when conditions improve. In line with this, in spring 2009 the European Commission issued a number of guiding principles for labour market and social policy action contingent to the crisis,<sup>20</sup> including:

- keeping people in viable employment, while supporting employability and easing transitions to new jobs;
- providing adequate income support and reinforcing activation;
- considering measures to boost both labour demand and labour supply; and
- investing in training and skills upgrading, and enhancing the employment services to cope with increasing unemployment.

By contrast, it stated that measures such as indiscriminate tax-funded support for jobs in declining sectors or regions, which could delay necessary restructuring, large direct job-creation schemes in the public sector not sufficiently targeted at specific vulnerable groups and early retirement or other policies that push workers out of the labour market needed to be avoided.

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<sup>19</sup> See the Commission Communications: 'From Financial crisis to recovery: A European framework for action', COM(2008) 706, and 'A European Economic Recovery Plan', COM(2008) 800.

<sup>20</sup> See: March 2009 Commission Communication for the Spring European Council 'Driving European recovery', COM(2009) 114.

European labour markets have reacted very differently to the crisis in terms of labour turnover. Many countries have recorded on average a low labour turnover. However, while in the Nordic countries, high turnover is associated with efficient labour market activation policies and low hiring and firing restrictions, in France and Spain this appears to be a consequence of a segmented labour market. As a result, one can draw the conclusion that there is a faster labour market response to the first signs of recovery in those countries with more flexible labour market institutions, as they enable better transitions in the labour market.<sup>21</sup>

Together with changes in the number of jobs, firms have also used changes in working hours as a tool to adjust labour input during the crisis. Labour hoarding is the normal response of firms that prefer to keep their experienced workers during the early stages of a recession, especially if high-skilled workers are difficult to find when the recovery takes hold. By cutting hours, firms can keep their wage costs down and save jobs during difficult periods. In addition, government-sponsored short-time schemes have also been widely used in many EU Member States. These schemes have been reinforced in some countries and introduced for the first time in others (see also section 3 of this chapter, which focuses on short-time working).<sup>22</sup>

Many countries responded to the impact of the severe economic crisis that hit the EU economy by extending the coverage or generosity of unemployment benefits, by reinforcing other social benefits, and/or by introducing generous short-time work schemes. Measures have also been reinforced to support activation and facilitate transitions to new jobs. Temporary labour market and income support measures amount to 0.4% and 0.2% of GDP in 2009 and 2010 respectively — and represent a large share of all temporary measures in 2009 and 2010 respectively. Three main types of measures can be identified:

- measures addressing labour demand, consisting of public subsidies for temporary working time reductions, wage subsidies and changes in labour taxation;
- measures dealing with activation, comprising a range of active labour market policies; and

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<sup>21</sup> For an extensive analysis on labour market transitions during the crisis, see: Arpaia, A. and N. Curci, 'EU labour market behaviour during the Great Recession', European Commission (DG ECFIN), European Economy, Economic Paper No 405, June 2010.

<sup>22</sup> Detailed analysis on STW schemes during the crisis can be found in Arpaia, A., N. Curci, E. Meyermans, J. Peschner and F. Pierini, 'Short-time working arrangements as response to cyclical fluctuations', European Commission (DG ECFIN), European Economy, Occasional Paper No 64, June 2010. A joint paper, prepared in collaboration by Directorate-General for Economic and Financial Affairs and Directorate-General for Employment, Social Affairs and Inclusion. [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2010/pdf/ocp64\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp64_en.pdf).

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- measures supporting incomes and thereby aggregate demand, such as changes in the generosity of unemployment benefits and social measures to support households' purchasing power.

These measures have played a role in shaping the impact of the crisis on labour market developments in the EU, where, compared to the US, participation rates have in general held up well and unemployment increases have been more muted than could have been expected. Even so, the crisis has clearly shown the underlying structural weaknesses of the European labour markets, which ultimately need to be tackled, irrespective of the prevailing cyclical conditions. Pre-existing long-term challenges (such as ageing, globalisation and technological change) have also remained unchanged, if not intensified by the crisis. Further, the crisis has added two new dimensions to existing challenges. First, with the unemployment rate increasing almost everywhere, the burden of adjustment has been unequally spread across various socio-economic groups. Second, public finances will be extremely constrained in the coming years. Within this new environment, the focus has to be first and foremost on well-targeted policies (for example to activate those with low levels of skills or who are unemployed on a long-term basis) with low or no direct budgetary impact and designed in such a way as to avoid deadweight losses. At the same time, measures that have adverse effects on inter-sectoral mobility, such as short-time working schemes, should be discontinued as the recovery gains strength and replaced by policies that promote job reallocation, thus helping to smooth the impact of restructuring on workers. As the deterioration in economic growth bottoms out and fiscal space diminishes, the emphasis needs to switch from measures aimed at containing labour shedding to measures aimed at returning to a sustained growth path. Careful design and sequencing of exit strategies are also important in order to avoid the risk of policy mistakes that could induce another recession and to ensure that the withdrawal of short-term support is performed efficiently.

The ECOFIN Council of 16 March 2010 identified a number of principles to underpin the coordinated withdrawal of short-term measures in labour and product markets,<sup>23</sup> which complement existing principles on fiscal exit strategies. As far as the labour market is concerned:

- short-term measures need to be gradually withdrawn when the recovery is secured, by 2011 at the latest, while a number of countries need to consolidate before then. If left in place too long, these measures could hinder the adjustment process within and across sectors by distorting price and cost signals and by introducing wrong incentives;
- a slight differentiation could be made between different labour market measures. There is a case for concentrating first on short-term schemes to reduce working time. Keeping the *ad hoc* subsidising of working time reductions in place for a long period after a

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<sup>23</sup> ECOFIN Council Conclusions on exit strategies for crisis-related measures in the labour and product markets, of 16 March 2010.

recovery in economic activity takes hold could lead to a ‘freezing’ of job patterns at a time when reallocation is needed. On the other hand, short-term unemployment support could be maintained until a sustainable recovery is secured, but once this is attained they should be gradually removed as they could carry a significant economic cost in the medium term, still bearing in mind that in some countries the need for budgetary consolidation may lead to other conclusions, depending on the fiscal space available; and

- the withdrawal of short-term measures needs to be complemented with a credible long-term structural reform agenda which bolsters potential growth and employment, improves competitiveness and supports fiscal consolidation efforts. To minimise the risk of skills deterioration and the length of resulting unemployment spells, the gradual phasing-out of temporary labour market support measures should be accompanied, where necessary, by a strengthening of activation, training and other flexicurity policies to facilitate job reallocation and workers’ re-skilling. Increasing the flexibility of the labour market and its transitional security is of relevance in the face of the challenges of tackling unemployment created by the recession, especially of young people, in the context of segmented labour markets, and to ease the necessary sectoral reallocation and smooth its impact on the workers concerned.

Although effective, the measures enacted in response to the crisis have been in many cases *ad hoc*. As such, they are more mistake-prone than policies adopted during relatively normal, ie non-crisis, times. Nevertheless, some crisis-related measures that have desirable characteristics could become part of a consistent labour market policy framework to deal with future aggregate demand shocks. For example, a number of Member States (such as Finland, France, Latvia, Italy, Portugal, and Slovenia) have taken steps to improve the coverage of unemployment benefits, some have increased the activation of displaced workers (such as the Czech Republic, Denmark, and the UK) and some have enhanced the effectiveness of public employment services in order to cope with the increased numbers of unemployed people (Germany, Belgium, Finland, Hungary, and the UK). Countries such as the Netherlands, Hungary and Slovenia have introduced short-time working schemes imposing strict conditionality on firms to deal with risks of deadweight losses or to avoid prolonging the moment of inevitable closure of a company. While expenditure on these measures should be reversed as the recovery gains momentum, the institutional infrastructure set up for their implementation should remain, to cope with future cyclical fluctuations.

Over a longer time horizon, the flexicurity agenda is an appropriate framework to highlight the importance of labour market reforms in moving towards a better adjustment to shocks. Reforms enhancing the flexibility and security of the labour market and the response of wages to local labour market conditions and productivity developments will increase the resilience of the EU economy to these shocks. Reforms that shift the focus from protection on the job to insurance in the market should reconcile workers’ demands for protection from unemployment and income risks with the need of firms to respond quickly to swings in consumer preferences and to the challenges and instability created by technological progress and globalisation. An integrated strategy based on interventions in employment

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protection, lifelong learning and activation policies may contribute to improving the adjustment capacity of labour markets and smoothing the employment and social impact of restructuring. Increasing participation, improving labour market matching and enhancing workers' employability through better skills are needed to minimise the social consequences of the crisis, to preserve European human capital and labour productivity in the long run, and, ultimately, to return to strong growth.

As mentioned above, the Europe 2020 strategy<sup>24</sup> has identified three broad priorities in this context: smart growth; sustainable growth; and inclusive growth, with two initiatives being particularly relevant for the labour market: an agenda for new skills and new jobs; and 'Youth on the Move'.

The different policies needed to achieve these priorities will need to be sequenced intelligently to ensure the effectiveness and time-consistency of the European reform agenda. As stated by the European Council of 16-17 June 2010, the Europe 2020 strategy responds to:

*'the challenge of reorienting policies away from crisis management towards the introduction of medium-to longer-term reforms that promote growth and employment and ensure the sustainability of public finances. It constitutes a coherent framework for the Union to mobilise all of its resources and policies and for the Member States to take coordinated action.'*

With the Europe 2020 strategy, the EU is indeed acting to strengthen its instruments to deliver a successful structural reform agenda in the coming years. The strategy will involve a stronger policy framework at EU level, organised around two strands, addressing on the one side key macro-structural challenges at country level, including macroeconomic and fiscal stability issues, and on the other side a number of thematic policy areas, including labour market policies. The first strand will be implemented in the framework of a reinforced Stability and Growth Pact and through the Broad Economic Policy Guidelines. The second will allow a much more in-depth horizontal assessment of key structural reforms through the National Reform Programmes and Integrated Guidelines.

More specifically, macro-structural country surveillance will have a wide scope and be carried out through the use of existing Treaty-based coordination instruments — the Integrated Employment and Broad Economic Policy Guidelines, set up in the framework of the Lisbon Strategy (and through its successor strategy, Europe 2020), and the fiscal surveillance in the framework of the Economic and Monetary Union — that will be aligned in time but kept distinct. Policy coordination on fiscal policy would be conducted through the Stability and Growth Pact, whereas coordination on all other (non-fiscal) macro-structural policies would be carried out in accordance with the Integrated Guidelines and

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<sup>24</sup> Commission Communication 'Europe 2020 — A strategy for smart, sustainable and inclusive growth', COM(2010) 2020.

thus cover internal/external imbalances, macro-financial stability, competitiveness, employment and growth weaknesses. The thematic surveillance would focus on structural reforms of a microeconomic nature needed to achieve the goals of the Europe 2020 strategy. The policies pursued under thematic surveillance in the context of the seven flagship initiatives and three EU-level instruments outlined in the Commission's 3 March 2010 Communication on its Europe 2020 strategy (see above) aim to galvanise actions at national and EU level to achieve measurable progress towards the five headline targets (on employment, research and development and innovation, energy and climate change, education, and social inclusion), which are a representation of the main dimensions and objectives of the strategy.

For an overview of the Europe 2020 strategy, see table 1.2 below.

**Table 1.2: Europe 2020 architecture**

Overall institutional structure	Integrated Guidelines establishing scope and policy priorities, including headline targets for the EU27 to reach by 2020 and to be translated into national targets	
Delivery	<b>Country reporting (<i>Treaty-based surveillance</i>)</b>	<b>Thematic approach (<i>flagship initiatives</i>)</b>
	<p><b>Aim:</b> help Member States define and implement exit strategies to restore macroeconomic stability, identify national bottlenecks and return their economies to sustainable growth and public finances.</p> <p><b>Approach:</b> enhanced assessment by the ECOFIN of main macroeconomic challenges facing Member States taking account of spillovers across Member States and policy areas.</p> <p><b>Instruments:</b> reporting by the Member States through their stability and convergence programmes, followed by separate but synchronised recommendations on fiscal policy in SCP Opinions and on macro imbalances and growth bottlenecks in the BEPGs (art. 121.2)</p>	<p><b>Aim:</b> deliver headline targets agreed at EU level combining concrete actions at EU and national levels.</p> <p><b>Approach:</b> strategic role of the sectoral Council formations for implementing flagship initiatives and monitoring and reviewing progress towards the agreed targets.</p> <p><b>Instruments:</b> reporting by the Member States through streamlined national reform programmes including information on growth bottlenecks and progress towards the targets, followed by policy advice at EU level based on transparent evaluation frameworks issued in the form of recommendations under BEPGs (art. 121.2) and the Employment Guidelines (art. 148).</p>

*Source: Commission Communication Europe 2020 — A strategy for smart, sustainable and inclusive growth, 3 March 2010.*

The next section of this chapter looks in more detail at a key labour market response to the recent crisis: short-time working.

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### 3: SUPPORTING LABOUR MARKETS DURING THE CRISIS: SHORT-TIME WORKING

Since the onset of the global downturn, policy makers across the EU have been concerned to mitigate its adverse effects on the labour markets. This is because previous crises have shown that sharp output declines usually take two to three quarters to be transmitted into noticeable rises in unemployment, reductions in demand for new workers, and overall contractions in employment.

However, Member States face significantly different situations and constraints. Some, including Ireland, Spain, Latvia and Lithuania, have been particularly hard hit by the crisis and have experienced substantial reductions in employment and increases in unemployment, while in others, including Belgium and Germany, the loss of jobs has been relatively limited. Nevertheless, an assessment of the crisis-related labour market policies of all Member States is of common interest, given their commitment to the common EU goal of creating more and better jobs for all.

This section focuses on short-time working, which has been a tool used by many Member States as a means of maintaining employment during the downturn caused by the crisis, based on a recent joint paper published by the Directorate-General for Economic and Financial Affairs and the Directorate-General for Employment, Social Affairs and Inclusion.<sup>25</sup>

#### 3.1: SHORT-TIME WORKING ARRANGEMENTS

There has been a significant increase in the use of short-time working around Europe. Most strikingly, the number of recipients in Germany increased from 39 000 in May 2008 to more than 1 500 000 in May 2009, while in Belgium the number of recipients increased from around 87 000 in July 2008 to a peak of 313 000 in March 2009, after which it started to decline gradually. In Austria, the total number of recipients rose from zero in August 2008 to more than 36 000 in June 2009, falling thereafter. A more modest increase can be observed in the other Member States.

##### Scope and limitations of short-time working

A short-time work arrangement (STWA) can be seen as a temporary reduction in working time intended to maintain an existing employer/employee relationship. It can involve either a partial reduction in the normal working week for a limited period of time (a partial suspension of the employment contract) or a temporary lay-off (zero hours a week), in other words, a full suspension of the employment contract. In both cases, however, the employment contract remains in force, and is not broken. See box 1.6 for a summary of the main institutional characteristics of STWAs.

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<sup>25</sup> Short-time working arrangements as a response to cyclical fluctuations. Occasional paper 64, June 2010. [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2010/pdf/ocp64\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp64_en.pdf).



The objective of STWAs in times of economic crisis is twofold. First, it enables companies to reduce labour costs in the short term and to quickly adjust labour inputs to cyclical fluctuations in labour demand by reducing working time for the existing workforce, rather than resorting to lay-offs and related costly and lengthy dismissal procedures, especially in highly regulated labour markets. Moreover, it enables companies to retain skilled workers, thus avoiding the costs of recruiting and training new workers when demand recovers, and enhances employee morale.

Second, to the extent that they prevent lay-offs, such measures spread the adjustment burden over all of the workers rather than concentrating the impact on a few, possibly more vulnerable workers, who might otherwise risk becoming inactive in the long term.

However, two main kinds of risks are associated with STWA schemes. First, they could lead to deadweight costs as they may encourage employers to enrol in such schemes, even if no lay-offs are planned. This may lead to excessive take-up and become an undue financial burden on national unemployment insurance schemes, which are the usual financing instrument in the EU. In the long run, taxes or contribution rates would have to be increased — inducing higher wage costs and loss of competitiveness. This is in contrast to the USA, where the financing of STWAs is generally privately arranged and insurance-based.

Second, STWAs could prove ineffective in saving jobs permanently. The jobs kept alive for some time could eventually prove to be unviable and ultimately end in lay-offs. In the meantime, more viable jobs held by non-beneficiaries of such schemes — who would typically be new entrants to the labour market or SMEs — might be exposed to effective ‘displacement’.

#### **Box 1.6: Institutional characteristics of short-time working**

There is considerable variety in the institutional arrangements concerning short-time working programmes across Europe.

In France, Belgium and Luxembourg, public short-time working and temporary lay-off schemes are usually known as ‘partial’ or ‘temporary unemployment’, sometimes with reference to the specific application or circumstances (eg economic, seasonal, and technical). These schemes should be distinguished from voluntary working time reduction on an individual or collective basis (through time accounts, time credit, sabbatical leave, etc.<sup>26</sup>) or from ‘part-time unemployment’, which indicates a situation where (partially) unemployed jobseekers would prefer to work longer hours or full

<sup>26</sup> In Germany, short-time working accounted for only 25% of the total reduction in average hours from 2008 to 2009, while reductions in the volume of paid over-time work and debiting working-time accounts were both responsible for a 20% reduction in hours (other leave covered by sick leave etc.): Bach, H.-U. and Spitznagel, E., 2009, ‘Kurzarbeit: Betriebe zahlen mit — und haben was davon’, Institut für Arbeitsmarkt- und Berufsforschung, IAB Kurzbericht 17/2009: <http://doku.iab.de/kurzber/2009/kb1709.pdf>.

time, but can only find part-time work and receive various forms of direct financial support for the incurred loss of earnings.

In Denmark, short-time working is designated as ‘work sharing’. This indicates a reduction in working time intended to spread a reduced volume of work over the same number of workers to avoid lay-offs. As such, it is to be distinguished from ‘job sharing’, which refers to a voluntary arrangement whereby two persons take joint responsibility for one full-time job.

In the Netherlands, short-time working support was temporarily offered up until the end of March 2009 in order to respond to the economic crisis. Since then, companies experiencing temporary financial difficulties may apply for partial unemployment for their workforce.

Austria and Germany simply refer to such schemes as ‘short-time working’, while Italy stresses the aspect of income support in its short-time working scheme, which is called the Wage Supplementation Fund (CIG<sup>27</sup>). The Italian scheme is among the larger examples of STWAs in the EU and was created with the specific purpose of absorbing sectoral crisis and favouring technological/commercial restructuring.

In countries such as Estonia, companies and employees may agree on STWA, however, without public financial support.

In most of the other Member States (Estonia, Greece, Cyprus, Malta and Sweden) which do not have government-subsidised STWAs to respond to drops in labour demand caused by an economic downturn, insured workers can get support through the regular unemployment scheme, or receive training grants for people working reduced hours.

### **Main changes in response to the crisis**

Table 1.3 summarises the main changes in the STWAs across the Member States since the onset of the economic crisis.

In the Member States where STWAs already existed before the crisis, the practical arrangements concerning these schemes were temporarily modified with the onset of the crisis (ie in Belgium, Denmark, Germany, Ireland, Spain, France, Italy, Luxembourg, Austria, Portugal and Finland). These modifications are primarily aimed at lowering the participation costs for employers and/or increasing the level of financial support by: extending the eligibility duration; opening the arrangement to more participants; and simplifying the enrolment procedure.

In nine Member States (Bulgaria, Czech Republic, Latvia, Lithuania, Hungary, Netherlands, Poland, Slovenia and Slovakia) new public support schemes for STWAs have been

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<sup>27</sup> Cassa integrazione guadagni.

temporarily introduced since the onset of the downturn. A feature of most of these arrangements is that public support for short-time working is combined with training. It remains optional in a majority of Member States but in the Czech Republic, Hungary, Netherlands, Portugal and Slovenia, people in short-time working are required to undertake training. In Belgium, Germany, Lithuania, Hungary, Malta, Austria, Poland, Portugal, Slovenia and Finland, training for those in short-time work is government-subsidised.

**Table 1.3: Recent changes and new STWAs in the EU Member States**

Country	Already existing scheme		New STC scheme	(Changes) Eligibility/Coverage	(Changes) Duration	(Changes) Benefits to Employees	(New) Link to Training	Cuts in employer's SSC	More flexible procedures/WTO	Temporariness of Changes
	Wage supplement through employer	Support by UI plus activation								
Austria	X			X	X		incentives	X		End 2010
Belgium	X			X	X	X	incentives	X		End 2010
Bulgaria			X			X				End 2009
Czech Republic			X			X	compulsory			2010
Denmark		X							X	30/04/2011
Germany	X			X	X		incentives	X	X	End 2010
Spain		X						X	X	End 2009
Finland		X			X	X				2011
France	X			X	X	X		X		Permanent/
Hungary			X			X	incentives/compulsory	X		Mid 2010
Ireland		X					incentives			2010
Italy	X			X			incentives			End 2010
Lithuania			X			X	incentives	X		No end date
Latvia			X				incentives			End 2010 (to be confirmed)
Luxembourg	X			X	X		incentives	X	X	End 2010
Malta			X				incentives			
Netherlands			X			X	compulsory			01/04/2010
Poland			X			X	incentives			End 2011
Portugal	X						incentives			End 2010
Romania	X							X		End 2010
Slovenia			X			X	compulsory	X		31/03/2010
Slovakia			X					X		End 2010
United Kingdom		X					No changes			

Note: STC: short-time compensation. For new STW schemes we look at: introduction of benefits for employees, training incentives and other extra incentives for employers. SSC: social security contribution. UI: unemployment insurance. WTO: working time organisation

### 3.2: PHASING OUT CRISIS-RELATED LABOUR MARKET MEASURES

Although the Member States differ in terms of the constraints and initial conditions they face, and although labour market policies are only part of a more comprehensive policy package that bolsters potential growth and employment, improves competitiveness and supports fiscal consolidation, some general principles can be formulated regarding the phasing out of crisis-related labour market measures and the phasing in of structural labour market measures.

First, a distinction can be made between labour market measures that have to be phased out gradually once the recovery is secured, such as STWAs, and measures that, due to their positive impact on the structural working of the labour market, should be maintained and reinforced. This latter category includes cuts in social security contributions, increases in training, activation and other flexicurity policies that facilitate job reallocation and workers' re-skilling. There are also measures such as the Italian CIGS scheme, which is a permanent measure based on insurance contributions and which, prior to the crisis, had a credit balance, which is now about to be exhausted, if not already in the negative. The entitlements of this kind of scheme, as it is insurance-based, have a legal force and therefore a phasing out of the scheme would be problematic. On the other hand, when (if) growth returns, the CIGS will return to credit and therefore to abolish it would not make sense. The same is true for other insurance-based schemes in the EU.

Second, the risks associated with the timing of the phasing out of the labour market measures should not be under-estimated. Too early a withdrawal may undermine confidence and thus depress aggregate demand, with consequent knock-on effects on companies in terms of orders or demands for services. Too late a withdrawal on the other hand may delay the necessary structural adjustments, lead to entrenched high levels of unemployment (labour market hysteresis), and contribute a significant additional burden to the public finances.

Third, the phasing out of measures should reflect the situation and constraints of the Member States, with those that have advanced furthest in their recovery able to move faster than those where the recovery is still to come and where unemployment is expected to continue to increase — provided, of course, the fiscal position allows it.

Fourth, as the fiscal constraints intensified during the course of the crisis, it became ever more important to improve the cost-effectiveness of labour market measures by strengthening their targeting and timing.

Fifth, due consideration also needs to be given to the social dimension of the exit strategy, including the central issue of gender equality as part of the foundation to strengthen growth, employment and social cohesion in the long term. In any case, particular attention needs to be paid to differences in employment patterns between women and men: sector and occupational segregation, the greater presence of women in part-time jobs and in the public sector, and the lower numbers of women in self-employment. In this respect, it

should be noted that, due to their high concentration in the public sector, women could be disproportionately affected by job losses when budgetary spending is cut as part of fiscal consolidation.

For further consideration of this topic, see Chapter 2 of the European Commission's Employment in Europe 2010 Report.<sup>28</sup>

### **3.3: THE WAY FORWARD**

Following the onset of the downturn, policy makers in the Member States of the European Union took a variety of decisions to introduce new labour market policies, or to modify or strengthen existing ones in order to maintain employment, create jobs, upgrade skills, increase access to employment, and support households.

A major concern of the EU and its Member States has been to develop policy responses in ways that do not compromise long-term employment and growth potential. As such, labour market policies have been designed to be implemented in a temporary, timely, targeted, fair and coordinated way, and in line with flexicurity principles as well as with the country-specific recommendations for growth and jobs identified under the Lisbon Strategy.

Most measures are expected to expire by the end of 2010 or later if the recovery is slower than projected by labour market experts. However, some measures, such as hiring subsidies, job-search assistance and training, are expected to continue during the early phase of the recovery, which may well carry on until the end of 2011, as their effectiveness reaches its full potential in this phase. Nevertheless, it should also be noted that maintaining the arrangements for too long poses the risk that necessary restructuring is delayed, enterprises become overstaffed, workers lose the incentive to upgrade their skills, deadweight losses accumulate, and funds are diverted from other useful purposes such as training.

When assessing the timeliness of the crisis-related measures, a distinction should be made between, on the one hand, measures that are more effective at the beginning of the crisis than at the end-phase, such as STWAs, and, on the other hand, measures that have greatest impact if they are implemented when the economy starts to recover, such as wage subsidies. Nevertheless, some measures maintain their effectiveness irrespective of the stage of the recovery, such as job-search assistance and training.

By targeting people at the margins of the labour market, the effectiveness and fairness of the crisis-related labour market measures are often strengthened. For instance, in order to minimise the fiscal cost and maximise their fairness, hiring subsidies have been targeted at specific groups at the margin of the labour market.

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<sup>28</sup> Employment in Europe 2010: <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=593>.

Nevertheless, although there are strong indications that all these crisis-related labour market measures had a positive impact on the variability of employment during the economic crisis, it is too early to determine whether employment saved by these measures will endure once the crisis recedes.

Given the socio-economic complexity of the issue, it should be clear that EU-wide mutual learning, the exchange of good practice and a constructive dialogue with social partners should form the main driving forces for strengthening the effectiveness and equitability of the recovery measures.

Finally, the phasing out of crisis-related measures should take into consideration the concrete situation and constraints of the Member States and be complemented by the phasing in of structural measures that are aimed at reducing structural unemployment, increasing labour market participation, developing a skilled workforce, promoting social inclusion and combating poverty.

The main EU influence on the labour market is employment policy. However, there are links to many other strands of EU policy, not least industrial policy, which influence the actions of companies and the framework within which they operate. The next section of this chapter therefore examines the role of industrial policy in restructuring, with a particular emphasis on the crisis.

#### 4: THE ROLE OF INDUSTRIAL POLICY IN RESTRUCTURING DURING A PERIOD OF CRISIS

Restructuring tends to be usually associated with job shedding and is consequently more at the centre of employment, rather than industrial, policy. From an industrial policy perspective, restructuring is largely perceived as a structural adjustment to change and a transformation of industries in response to adjustment pressures, which in turn are linked to efforts to keep pace with a global, dynamic economy. Consequently, restructuring is seen as an inevitable process in a constantly changing world. The role for industrial policy in this regard centres on increasing the capacity of enterprises and industry to adapt to structural changes, rather than attempting to mitigate the negative effects of restructuring on employment.

However, the recent economic crisis has, at least temporarily, changed the outlook for many industrial sectors. As a consequence, in the current macroeconomic context, the restructuring of companies in reaction to the crisis could also, to some extent, be addressed by industrial policy actions. Of particular importance is the need to ensure that short-term adjustment will lead to long-term improvements in competitiveness and that the European-wide nature of recession is properly assessed in order to implement action relating to this and future downturns. That is why the European Commission's Directorate for Enterprise and Industry (DG ENTR) has tried to identify the links existing between the present economic crisis and the need for longer-term adjustment. For information concerning the most recent development in this area, in the form of the October 2010 Communication from the Commission on industrial and employment policy, see chapter 6.

Having assessed restructuring needs, industrial policy actions should then go beyond stimulus plans and focus on a forward-looking targeted policy framework. Although forecasting is not the role of policy makers, there is a real need to understand underlying trends if policy makers are to aid the recovery process. On balance, the emphasis should be on facilitating and encouraging recovery rather than driving industrial competitiveness in key areas or sectors.

As well as having contributed to the creation of the European Economic Recovery Plan (EERP), DG ENTR undertakes various actions in the framework of industrial policy to better manage restructuring. It attempts to closely follow developments in sectors in order to be in a position to propose a strategy that goes beyond temporary measures. A monthly analysis of changes in output, new orders, trade flows, employment and confidence levels in manufacturing sectors provides a good basis for formulation of specific actions.<sup>29</sup> In addition, more thorough analysis has been carried out in the form of a stocktaking exercise that investigated the strengths and weaknesses of different individual sectors. This analysis

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<sup>29</sup> This is published by unit ENTR/B2 — Industrial competitiveness policy: [http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/index\\_en.htm#monthly\\_notes](http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/index_en.htm#monthly_notes).



has served the Commission as a reference for its new strategy on industrial policy that intends to focus on facilitation of industrial change as one of its main objectives.

#### **4.1: CHALLENGES AND OPPORTUNITIES DRIVING FUTURE RESTRUCTURING**

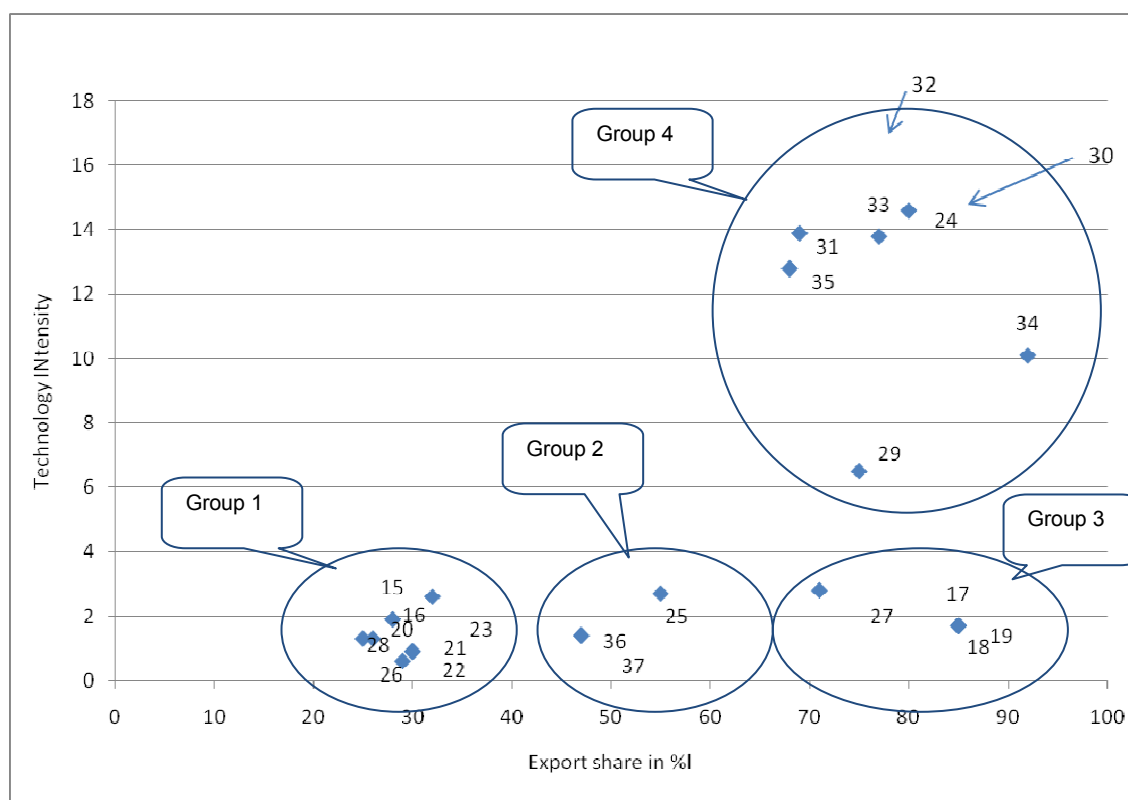
Over the past 10-15 years, European industry has changed radically, both in the new Member States and the EU15 Member States. European industry has seen high productivity and strong innovation, a considerable re-orientation of its workforce and capital investment, the development of new products for new and emerging markets, and a major improvement in its environmental performance. The process of globalisation has increasingly resulted in tightly interlinked international value chains. As a result of the massive fall in costs for transport (eg the use of containers) and communication (ICT) and of transaction costs and risks traditionally associated with doing business across borders, previously integrated industrial operations have been split into highly complex smaller manufacturing and service packages and have to some extent been geographically redistributed across continents.

This trend towards a more intensive intra-sectoral (as opposed to an inter-sectoral) division of labour, both at the national and at the international level, has led to a reorganisation and fragmentation of product and services value chains. The role of the final producer has been shifted, and their performance increasingly depends on the performance of upstream businesses, including those located outside the EU. This applies not only to manufacturing and assembly operations, but also to service functions that were previously carried out in-house. The traditional view that treats industrial sectors as homogeneous, independent and national thus no longer seems to be an adequate basis for policy development. Excellence at all levels has become much more important and increasingly suppliers and innovation partners from different sectors and regions and those with complementary competences are needed. Clusters of mutually reinforcing industries and international cooperation have thus been increasingly attracting the attention of policy makers. Moreover, the process of globalisation has increased the exposure of numerous subsectors to exchange-rate volatility, especially in those industries that mainly compete on costs as opposed to quality or service.

This process is also reflected in foreign direct investment and the high level of merger and acquisition activities, transforming the scope and geographical distribution of many of the major industries, such as chemicals, pharmaceuticals, and steel. These restructuring efforts have triggered economies of scale and the exit of smaller players, while at the same time global markets have become wider and more competitive. For an overview of sectors in terms of exposure to adjustment pressure, globalisation and technology intensity, see figure 1.11.

**Figure 1.11: Typology of sectors (Nace 2 classification) in terms of exposure to adjustment pressure, globalisation (export share of production) and technology intensity**

<b>Nace codes — Sectors</b>	
<b>Group 1 (Globalisation: low — Technology intensity: low)</b>	
15	Food products and beverages
16	Tobacco products
20	Wood and products of wood
21	Pulp, paper and paper products
22	Publishing, printing and reproduction of recorded media
23	Coke, refined petroleum products and nuclear fuel
26	Other non-metallic mineral products
28	Metal products, except machinery and equipment
<b>Group 2 (Globalisation: medium — Technology intensity: low)</b>	
25	Rubber and plastic products
36	Furniture; manufacturing n.e.c.
37	Recycling
<b>Group 3 (Globalisation: high — Technology intensity: low)</b>	
17	Textiles
18	Wearing apparel; dressing and dyeing of fur
19	Tanning and dressing of leather
27	Basic metals
<b>Group 4 (Globalisation: high — Technology intensity: high)</b>	
24	Chemicals and chemical products
29	Machinery and equipment n.e.c.
30	Office machinery and computers
31	Electrical machinery and apparatus n.e.c.
32	Radio, television and communication equipment and apparatus
33	Medical, precision and optical instruments, watches and clocks
34	Motor vehicles, trailers and semi-trailers
35	Other transport equipment



Source: ECORYS, *Measuring and Benchmarking Structural Adjustment Performance of EU Industry*, May 2009.

The transformation of companies has proceeded at a differential pace in different sectors, and it is true to say that not all sectors operate in conditions that oblige them to embark on substantial restructuring. A study ordered by DG ENTR<sup>30</sup> grouped sectors according to their exposure to key adjustment pressures such as technology intensity and globalisation. According to this study, companies in sectors mostly exposed to these adjustment pressures are most likely to experience restructuring, and were also among those most negatively affected by the crisis. However, many companies in these sectors have already adjusted their business models to their changing business environment and are therefore more capable of adapting to their environment.

Nonetheless, the adjustment pressures faced by European industry in recent years have been strengthened significantly by the recent financial and economic crisis. The impact of the crisis on industry has been severe, with manufacturing output falling by around 20% and recovering as yet only slowly, by about 9% in July 2010 since the trough in April 2009. Further, employment in manufacturing has fallen sharply, by some 12% since the onset of the crisis. However, in some industries, labour market adjustment has worked somewhat

<sup>30</sup> ECORYS, *Measuring and Benchmarking the Structural Adjustment Performance of EU industry*, May 2009 [http://ec.europa.eu/enterprise/newsroom/cf/\\_getdocument.cfm?doc\\_id=5328](http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=5328).

differently compared with earlier recessions, namely through increased use of short-term working and labour hoarding. This emphasises the increased importance of a highly skilled labour force to production and the conviction that the severity of the recession might be relatively short-lived.

Successfully overcoming the economic crisis will require substantial adjustments in a number of sectors. First, if the recovery is slow to materialise, the implications of short-term working and labour hoarding in industry will have to be dealt with. In particular, actions will be needed to facilitate re-skilling and re-employment.

Second, sectors that were already undertaking restructuring or had been in decline for some time have been faced with an acceleration of the negative changes and stronger adjustment pressures as a result of the crisis. Further restructuring of these sectors will be necessary to re-establish competitiveness and profitability and re-orientate them towards new and growing market opportunities.

Third, the recession exposed a serious overcapacity problem and a mismatch of product mix — particularly in the automobile industry — that will have to be dealt with in the near future. Other investment and consumer durable goods sectors have also been badly affected by the recession, although the degree of over-capacity in these industries appears to be less severe.

More widely, there are some overarching challenges that most of the EU's manufacturing sectors will have to face in the near future. These include:

- exiting the crisis/tackling access to finance;
- facing globalisation: increasing competition from Brazil, Russia, India and China (commonly known as the BRICs), market access for trade and investment outside of the EU, access to raw materials;
- basing growth on research and innovation, which includes in particular deployment of key enabling technologies and acquiring a workforce with relevant skills;
- increasing energy and resource efficiency and transition to low-carbon economy; and
- responding to emerging societal challenges, such as demographic change, security and health.

The impact of these challenges on companies will depend on the sector and even more on the situation of individual companies and their business environment. What is important, however, is that all the actions taken by companies to restructure will place them in a better position to face those challenges.

This is also an area where industrial policy can play a crucial role. Although it is clear that it cannot and should not focus on individual companies, it still can enhance and alleviate

restructuring costs by providing the right framework and support mechanisms for companies and sectors.

The European Economic and Social Committee's Consultative Commission on Industrial Change (CCMI) has carried out a significant amount of work in analysing industrial change. Box 1.7 below contains two CCMI opinions, on civil aviation and shipbuilding.

### **Box 1.7: CCMI opinions on civil aviation and shipbuilding**

#### **Opinion on the European aviation relief programme<sup>31</sup>**

This CCMI opinion was adopted on 17 December 2009 and outlines the position of the European aviation industry in the context of the economic crisis.

It states that the crisis has had a severe impact on the European aviation industry, resulting in a significant fall in operating results of the network carriers, despite cuts on the supply side. Aviation companies have been trying to react by means such as relocation of operations outside Europe, although it notes that this may have long-term negative consequences for high-qualified jobs in the EU, which in turn may 'seriously worsen' the competitiveness of the industry in the EU.

In terms of the structure of the sector, it notes that the fleets in service still have a relatively high average age, which has an impact on airlines' results, and therefore a structured dismantling sector therefore needs to be set up, which should be a genuine European sector, established under the auspices of public authorities.

The opinion also states that the European Investment Bank should revert to its pre-2007 policy, under which European carriers were able to benefit from credits; it believes that this should be rapid and specifically targeted at the financing of new aircraft, rather than financing a fleet expansion.

The opinion states that it would also be appropriate to provide for mechanisms to cover financial risks, such as those arising from fluctuating exchange rates. This could also take the form of loan guarantees based on refundable advances or European Investment Bank (EIB) loans.

Given the innovative and strategic importance of the aeronautics industry for Europe's industrial and technological base, strong support for research and development (which has been jeopardised by the crisis) could be obtained through sustained efforts by the EU, from the implementation phase of the Commission's 7th Framework Programme for Research and Development and throughout the [new framework programme for Research and Innovation. the Horizon 2020.](#)

<sup>31</sup> CCMI Opinion on the European aviation relief programme: [http://eescopinions.eesc.europa.eu/EESCopinionDocument.aspx?identifi er=ces\ccmi\ccmi071\ces1944-2009\\_ac.doc&language=EN](http://eescopinions.eesc.europa.eu/EESCopinionDocument.aspx?identifi er=ces\ccmi\ccmi071\ces1944-2009_ac.doc&language=EN).

**The European shipbuilding industry: dealing with the current crisis<sup>32</sup>**

This opinion was adopted on 29 April 2010 and focuses on the situation of the European shipbuilding industry in the context of the current economic crisis.

It states that the EU shipbuilding industry is in severe crisis, resulting from a lack of new orders, significant financing problems, overcapacity and irreversible job losses. It is therefore necessary to develop a common European strategy and to coordinate any initiatives taken by EU Member States. The main points of focus are as follows:

- stimulating demand;
- financing (including a prolongation beyond 2011 of measures under the Framework on State Aid to Shipbuilding);
- ensuring employment measures (including support at the time of shipyard closures); and
- countering the absence of a level playing field.

In the absence of an international agreement at the OECD, however, the EU must take direct and decisive action to protect the European shipbuilding sector from unfair competition.

Member States and the EU must address the problem of the long-term financing of the shipbuilding sector. A European financing instrument for shipbuilding should therefore be set up with the EIB.

The Committee recommends that during the crisis the social partners make special use of the opportunities for social dialogue with a view to drawing up joint strategies for the future. Social dialogue is a platform for joint ideas and solutions to tackle current and future challenges for the shipbuilding sector.

**4.2: IMPLICATIONS FOR INDUSTRIAL POLICY MEASURES**

European industrial policy does not favour sectoral interventions that may directly influence the restructuring actions of companies. Rather, it tries to set the appropriate framework and incentives for companies to manage the transition on their own.

Furthermore, the crisis has highlighted an additional aspect of the restructuring process that will require more attention on the part of the Commission and coordination with the Member States. Usually, discussions on restructuring and support for companies from the

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<sup>32</sup> CCMI opinion on the European shipbuilding industry: dealing with the current crisis: [http://eescopinions.eesc.europa.eu/EESCopinionDocument.aspx?identifier=ces\ccmi\ccmi069\ces644-2010\\_ac.doc&language=EN](http://eescopinions.eesc.europa.eu/EESCopinionDocument.aspx?identifier=ces\ccmi\ccmi069\ces644-2010_ac.doc&language=EN).

public sector are set in the regional or sectoral contexts where the company in question operates. Notwithstanding the relevance of this, it seems that an additional angle of analysis is necessary. With growing cross-border interdependencies and increasing complexity of value chains, restructuring of companies might have serious repercussions on suppliers or clients in various parts of Europe. This calls for a more transnational perspective, looking at various actors in the value chain, both in terms of national recovery plans and specific restructuring plans for companies. The case of the motor manufacturer Opel, for example, where various countries were bargaining over which production facilities should be closed, shows clearly that restructuring plans of multinational companies need to be analysed in an international context.<sup>33</sup>

### **4.3: SECTOR-SPECIFIC INDUSTRIAL POLICIES FOR RESTRUCTURING**

In addition to integrated horizontal policy, DG ENTR is also active at sectoral level. Various sectoral initiatives have been launched as a response to adjustment pressures, again more in order to foster future growth rather than to deal with short-term restructuring. The section below highlights two examples of policy responses to adjustment pressures. Both sectors concerned have been amongst those most negatively affected by the crisis.

#### **4.3.1: STEEL INDUSTRY**

During the 1980s and early 1990s, the steel sector in the EU underwent a period of extensive restructuring which was characterised by a reduction of capacity, accompanied by the elimination of state aid, and followed by privatisation and consolidation. Due to these restructuring efforts, the EU steel sector is today seen as a dynamic, innovative and customer-oriented industry.

Continuous research and development, coupled with capacity to innovate, are crucial to maintaining competitiveness in relation to companies from non-EU countries. EU companies in the steel sector exploit the technological advantage at the top of the product line, such as, for example, special steel for the automotive industry, and have established a strong relationship with clients, including in the area of product development.

However, demand for steel depends on the development of demand for durable goods and construction and the sector is therefore very vulnerable to economic downturns. The EU steel sector is also open to international competition and strongly affected by the cyclical development of global demand for steel. The sector is dependent on imported raw materials and exposed to high volatility of raw material prices.

The ability of steel producers to sustain periods of low demand and prices is limited. The cost structure of the steel sector is characterised by high fixed and capital costs and

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<sup>33</sup> 'General Motors announces Europe-wide restructuring plans', May 2010 <http://www.eurofound.europa.eu/eiro/2010/02/articles/eu1002029i.htm>.

covering these costs requires high capacity utilisation. Reducing output is a short-term option only, therefore, and requires availability of capital reserves. In a global perspective, world steel overcapacity poses a permanent risk of disruptions on the market and depressed prices in periods of declining demand.

### **Impacts of the crisis and current situation**

In 2009, the steel sector was hit by the crisis in industries that use steel, and in particular by the strong decline in demand from the construction and automotive sectors. The production of crude steel in the EU27 fell by 29.9% in 2009 compared with 2008 figures. The crisis therefore affected all the largest steel-producing countries in the EU. Many European companies reduced the number of days of production, or mothballed capacity, in particular during the first half of 2009.

The steel producers dealt with the crisis by cutting production on a massive scale and making temporary lay-offs. This meant that they avoided significant permanent job losses, as had been the case during past downturns. The European federation of iron and steel industries, EUROFER, estimates that the *ad hoc* temporary crisis measures (such as temporary lay-offs and short-time working) and redundancies affected approximately 40% of the total steel workforce, as at the end of June 2009. However, by December 2009, EUROFER estimated that the percentage affected had dropped to 17% of the total steel workforce.

The sector started to recover in mid-2009 as the overall economic conditions improved. The recovery in steel production continued during the first half of 2010 — key drivers have been the recovery in international trade and the rebuilding of inventories that were depleted during 2009. Most producers have now restarted mothballed capacities, and in Europe capacity utilisation of blast furnaces has risen from 60% (at the end of 2009) to 80%. However, while EU production has been improving, mainly through restocking and increasing exports, there is no evidence of improvement in terms of real demand.

### **Effects of measures implemented in response to the crisis**

Over the past two years, the demand for metal products has been influenced by temporary measures adopted by Member States, such as the introduction of car scrappage schemes or measures facilitating access to credit that were adopted under the temporary framework for state aid, issued by the European Commission in January 2009.<sup>34</sup> In one case only, the Commission authorised a state aid measure under the temporary framework: this was for a Latvian steel manufacturer, JSC Liepājas Metalurģis, in order to finance modernisation.

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<sup>34</sup> Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis (2009/C16/01):

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:016:0001:0009:EN:PDF>.



The steel industry has welcomed the new public-private partnerships for research which have been launched in the framework of the European Economic Recovery Plan in the manufacturing, construction and automotive sectors. Through the development of new materials, steel plays an important role in reducing the carbon footprint of buildings and cars over their life cycle. The steel industry aspires to participate in projects funded by this scheme and to this end, the European steel technology platform (ESTEP) has established links with other technology platforms in sectors such as construction and the automotive industry. The PPP *Factories of the future*<sup>35</sup> is also seen by the steel industry as an expedient instrument to incentivise process innovations.

As for the immediate future and amid current fears that existing surplus supply will reduce prices, another period of idling blast furnaces in order to reduce capacity may occur in the short term. From a longer perspective, adaptation in the EU steel sector will be a continuous process in order to face tough competition from non-EU countries, volatility in energy and raw material prices and increasing environmental requirements set by EU regulations. Opportunities can be seen in terms of the development of products for growing markets, such as the renewable energy sector, and meeting the increasing demand for special (high strength) steel, particularly in the automotive sector.

#### 4.3.2: AUTOMOTIVE SECTOR

The European automotive industry has visible and persistent structural difficulties, further aggravated by the economic downturn and current slow recovery. In recent years, the industry has shown all the characteristics of very intense competition with tight profit margins, shortening product cycles, an increasing need for innovation and for aggressive sales strategies in a constant battle for market share. Competition has further intensified because of industry globalisation and new entrants to European automotive markets. On the other hand, new global markets have opened and with them new business opportunities.

The industry's reaction to increased competition and new market opportunities has been, among others, to add significant new production capacity — particularly by expansion into the new EU Member States (as well as investments around the EU's periphery). However, the building of new capacity has often delayed structural change and left the automotive industry with a serious overcapacity problem. It is estimated that average capacity utilisation in Europe before the crisis was 80-85% and this has now dropped even further due to the economic crisis.

On a more positive note, the automotive industry in the EU has also sought to boost its competitiveness by fine-tuning its production to changing consumer preferences and societal needs. In respect of the latter, the EU has proved a powerful driver of anticipation

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<sup>35</sup> Factories of the future public/private partnership initiative: [http://ec.europa.eu/research/industrial\\_technologies/factories-of-the-future\\_en.html](http://ec.europa.eu/research/industrial_technologies/factories-of-the-future_en.html).

and change by establishing ambitious emission and safety standards. Despite very tight reserves, the high cost of innovation and against the backdrop of intense competition, the industry has proved a responsible partner in answering the societal needs for less emission and more safety. At the same time, it has established its role as a global leader in environmental and safety technology. The illustration of this trend is that in 2009, the demand for passenger cars emitting less than 120g of CO<sub>2</sub> is up by almost 60% compared with 2008, and sales of those vehicles account for 25% of the market. It can be expected that this trend will orientate the industry in the future.

### **Impact of the crisis and current situation**

The economic and financial crisis affected the automotive industry severely — its effects began to be felt from August 2008 in the form of plummeting sales and interruptions in production. Falling demand and production levels have led to reduced employment across the automotive value chain as companies seek to cut costs. Hundreds of thousands of employees have been affected, and in particular workers on temporary contracts (see the section above on the automotive industry). The crisis has also highlighted the economic importance of the sector, on which 12 million people depend for their employment and many regions for their economic well-being. The Commission was prompt in reacting to the crisis by putting into place a package of measures grouped under the so-called Green Cars Initiative.<sup>36</sup>

In 2010, the situation of the automotive industry has improved in terms of sales and production. There is, however, still the case for very cautious optimism in terms of forecasts for the next years. While the industry appears to have weathered the worst of the crisis, it has not yet completely dealt with overcapacity and structural change.

### **Effects of the measures implemented in response to the crisis**

Changes in the automotive sector will need to be partly driven by public policy and this is why the European Commission has devised a new, comprehensive strategy<sup>37</sup> supporting the development and market uptake of clean and energy-efficient vehicles. This strategy, by providing a favourable legislative framework, stimulating research, market uptake and infrastructure development, aims to further boost the competitiveness of the European automotive industry in green technologies and thus stimulate creation of new jobs, including in associated industries and the supply chain. Importantly, this new strategy will support restructuring by providing clear strategic vision that will be supported by the European policies.

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<sup>36</sup> Green Cars Initiative: [http://ec.europa.eu/research/transport/info/green\\_cars\\_initiative\\_en.html](http://ec.europa.eu/research/transport/info/green_cars_initiative_en.html).

<sup>37</sup> *A European strategy on clean and energy efficient vehicles*, COM(2010) 0186: [http://www.ipex.eu/ipex/cms/home/Documents/doc\\_COM20100186FIN](http://www.ipex.eu/ipex/cms/home/Documents/doc_COM20100186FIN).

The strategy comprises over 40 concrete actions and among them an important place is taken by anticipation and management of restructuring as well as anticipation of the skills and qualifications needed to design and produce innovative vehicles. This objective translates into two concrete actions:

- establishment of a European Sectoral Skills Council, aiming at creating a network of Member States' national observatories; and
- targeting the use of the European Social Fund, starting in 2011, to encourage retraining and upskilling of automotive workers.

In October 2010, the CARS 21 (Competitive Automotive Regulatory System for the 21st century) High Level Group was relaunched by the Commission. One of its tasks is to 'contribute to ensuring a smooth and balanced economic and social transition, through a pro-active anticipation and management of restructuring processes, skills needs and the related qualification needs'. In its interim report, the HLG identifies some policy highlights on workers' employability in times of restructuring (see box).

- **Reinforcing the competitiveness of the European industry constitutes the only way to preserve and develop employment in the EU in the long term.** The joint efforts to be deployed should always aim at preserving future competitiveness rather than trying to defend existing jobs.
- **Anticipation of change and restructuring** is vital, it should be holistic and respect all factors influencing competitiveness and long-term perspective of companies. It should be integrated effectively in **companies' long-term strategies**, with due attention paid to **human resources' skills and availability**.
- **Increased skills and competence levels** contribute to the creation of an adaptable and mobile workforce, enhancing the employability of workers in the sector and facilitating employment transitions. Members States, regions, companies and employees share the competence and responsibility for increasing skills and competence levels.
- Some companies, when appropriate in cooperation with relevant stakeholders, develop **mechanisms for forward planning of employment and skill needs**. That requires a **proper identification of skills needs** and effective cooperation between the public sector, industry and educational establishments in ensuring that the training being offered is in line with the needs of companies and the innovation process.
- As during the crisis, **social dialogue should continue to constitute a crucial tool** for dealing with employment, skills and, in general, adaptation issues. Social dialogue demonstrated, throughout the crisis, that it encouraged the adaptation of companies to difficult situations. These included development of innovative instruments (such as short-time work, and variation of employment conditions in accordance with production needs and market demand, etc.), as well as by more fundamental restructuring.
- At company level, this means that necessary restructuring cannot be resisted but in order to minimise its social impact, good practices in this field should be disseminated and promoted

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while paying attention to the specifics of individual national industrial relations system and of economic and social contexts.

#### **4.4: THE WAY FORWARD**

The current crisis has not changed the approach of industrial policy to restructuring. This policy does not aim to intervene in specific restructuring cases, but rather reshape the framework conditions in order to allow companies to regain their competitiveness after necessary structural adjustments. Nonetheless, industrial policy has also begun to be more active in supporting the transition of industries by setting up public-private partnerships, fostering innovation and coordinating Member States' policies. In addition, in its strategies on restructuring, industrial policy is also trying to better incorporate initiatives from other policies, as it is clear that only a holistic approach will lead to sustainable growth in the future. The latest Communication from the Commission on industrial and employment policy is set out in chapter 6.

## 5: ACCESS TO FINANCE IN THE CRISIS

Cohesion policy<sup>38</sup> and the EU rural development policy recognise the difficulties of SMEs in gaining access to finance, especially in the case of innovative companies in the early stages of growth or expansion. In the 2007-2013 programming period, under the Cohesion policy, at least €27 billion is targeted directly at SMEs and an additional amount of around €28 billion is planned for support to productive investment not related to business size, of which a large proportion should also benefit micro, small and medium-sized enterprises. The Rural development policy further invests more than €9 billion in rural non-agricultural SMEs (including via the Leader approach), and more than €20 billion are targeted as productive support towards agricultural, forestry and agri-food enterprises, which are predominantly family-based, micro- or small businesses. In addition to the traditional support through grants, Structural Funds and the Rural Development Fund can also provide other forms of financing to SMEs, such as equity investments, loans, guarantees or a combination of these.

Financial engineering instruments have acquired a new emphasis in the current programming period, namely through specific provisions made in the regulations to promote the use of these instruments and a stronger association of the international financial institutions (IFIs), in particular the European Investment Bank (EIB) and the European Investment Fund (EIF), in the development and implementation of some products (for example, the Joint European Resources for Micro to Medium Enterprises fund (JEREMIE), which is a joint initiative developed by the Commission together with the EIF/EIB for the 2007-2013 Structural Funds programming period, with the objective of improving access to finance for SMEs and new business creation through financial engineering instruments).

The JEREMIE initiative has been showing good progress and has currently been developed in 15 Member States either at national or regional level, or both. Total funds legally committed under 29 JEREMIE holding fund agreements exceed €3.1 billion. The EIF directly manages 11 mandates for some €1.1 billion and many Member States and regions are implementing JEREMIE with other financial institutions, national or regional, acting as holding funds (two-thirds of legally committed funds). There are also financial engineering instruments for SMEs implemented without holding funds in other regions.

Additional financial engineering support to businesses in rural areas as well as to agricultural and agri-food enterprises are given under the European Agricultural Fund for Rural Development (EAFRD). In total 23 rural development programmes by 8 Member States have foreseen such possibilities (Latvia, Lithuania, Italy, Romania, Germany, Belgium, Corse (France), Greece). The EAFRD funding for financial engineering actions has seen a steady

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<sup>38</sup> The Cohesion Policy is one of the main instruments supporting investments in growth and jobs. "The Cohesion Policy: Responding to the economic crisis", is a review of the implementation of cohesion policy measures adopted in support of the European Economic Recovery Plan SEC(2010) 1291 final.

growth in the last two years with total EAFRD funds committed for the period 2007-2013 reaching already €573 million. Additional public co-funding will bring the overall expenditure for financial engineering under rural development to more than €650 million. There are also several regional financial engineering initiatives (mostly in Italy) without EAFRD support to have been provided.

Microfinance is an important means of stimulating self-employment and the creation of micro enterprises and is increasingly an option for the unemployed to earn a living. In the current context of reduced credit supply, the new European Progress Microfinance Facility, established by the European Commission, aims to ease access to finance for people who want to start up or further develop their own business but have difficulties in accessing banking loans.

An initial budget of €100 million is expected to leverage to a total amount of €500 million in micro-credit. This will be realised in cooperation with the European Investment Bank (EIB) Group and is expected to result in around 45000 loans over a period of up to eight years.

Financial engineering instruments are used primarily to deliver non-grant financial support for SMEs. There are sectors where investments can be expected to yield a revenue stream and are therefore amenable to repayable support; involvement of financial sector also brings additional co-financing to the system.

Typical areas of support include:

- creation of new businesses or strengthening of existing businesses;
- access to investment and working capital by enterprises, (particularly SMEs) to modernise and diversify their activities, develop new products, and secure and expand market access;
- business-oriented research and development, technology transfer, innovation and entrepreneurship;
- technological modernisation of productive structures; and
- productive investments which create and safeguard sustainable jobs.

Discussions with Member States and other stakeholders show that there is widespread support for the continuation and possible expansion of the use of financial engineering instruments in current and future programming periods. Future discussion will address the possibilities of redirecting a decisive amount of support to the private sector, and particularly towards SME development, and to non-grant forms of assistance.

### **Increasing advances to ERDF ESF and EAFRD programmes**

Additional advance payments provided an immediate cash injection of €6.25 billion in 2009, with a view to increasing pre-financing and accelerating investments for the benefit of final beneficiaries, all carried out within the financial envelope agreed for each Member State for the 2007-2013 period. This amendment to Regulation (EC) No 1083/2006 had brought the total of advance payments to €11.25 billion in 2009. All advance payments were paid to the Member States by June 2009.

Similar increase of advance payments has been carried out by the EAFRD, where advance rate payments for investments have been raised from the initial 20% to 50% following an amendment to Regulation (EC) No 1698/2005. Additional higher EAFRD co-financing rates for the period of the economic crisis have further eased the burden on national and regional budgets.

By doing this, the EU has allowed more money to be spent rapidly on priority projects and Member States have acknowledged the facilitating role of additional advances in the context of their liquidity difficulties.

Almost all Member States, with the exception of Austria, Denmark and Sweden, indicate how the advances were applied, often involving changes in national policy and procedures. However, the use of advances varied between countries. Accelerated spending through the EU budget provided support to Member States and regions that were feeling the strain of severely constrained public finances (in Latvia, for example) and enabled more rapid implementation of structural funds programmes.

Most countries used these additional resources for projects to support the public sector (ie local authorities) and non-governmental organisations (NGOs). Advances were also used to support SMEs, both through guarantees and under state aid schemes. Further, some Member States (such as Poland and Estonia) adapted their schemes to increase the pace and volume of advances to both public and private beneficiaries or to reach out to specific groups at risk. In other cases, advances were used to address specific objectives such as promoting competitive funding schemes for urban regeneration projects in qualifying towns (eg Gateways and Hubs in the UK).

It is clear that this measure has been received favourably by Member States, particularly in terms of its contribution towards the achievement of financial targets for 2009. Some Member States have emphasised the positive impacts associated with the easing of liquidity and supporting investment.

### **Simplifying the system for advances**

In order to support enterprises, and particularly SMEs, the conditions governing the payment of advances within the framework of EU state aid rules were made more flexible by allowing state aid advances to reach 100% of total aid (until the end of 2010), instead of 35%, provided the other conditions laid down in Article 78(2) of the General Regulation are met.

A total of 10 Member States (Cyprus, Germany, Estonia, Greece, Italy, Latvia, Poland, Portugal, Romania and Slovenia) indicated that they had used this simplification. Some Member States (eg Greece) had decided to increase the threshold from the 35% to 50%, rather than the full 100%.

In addition, the Commission put into place a temporary framework under the state aid rules for Member States to tackle the effects of the credit squeeze on the real economy until 2010 (see below).

### **Temporary framework for state aid rules**

In addition to the above-mentioned legislative changes, on 17 December 2008 under EC Treaty State aid rules, the Commission adopted a temporary framework providing Member States with additional means to tackle the effects of the credit crunch on the real economy. The detailed provisions of the temporary framework are discussed in more detail in Chapter 3, section 1.1.2.



## CHAPTER 2: DEVELOPING COMPETENCES

Skills and competence development is central to the successful anticipation and management of restructuring and to the future development of the EU's economy and its workforce. If the EU is to remain competitive on the world stage, it is vital that the workforce keeps pace with the skills and competences that will be needed in a globalised and changing world.

During the economic downturn, promoting mobility within the EU single market can contribute to tackling mismatches between skills and labour market needs. Each Member State is free to make access to a particular profession legally conditional upon the possession of a specific professional qualification. Across the 27 Member States, the Professional Qualifications Directive applies to about 800 categories of regulated professions. The regulation of access to a profession can be a major obstacle for the free movement of workers. The active working population in many Member States is shrinking, but the demand for a highly qualified labour force remains a key source of future growth. From a market standpoint it is essential that qualifications of mobile EU professionals are recognised in a fast, simple and reliable way if we are to meet this surge in demand. Dealing with labour supply shortages will require a well-functioning system for recognising professional qualifications. On 19 December 2011 the European Commission adopted a proposal to modernise the Professional Qualifications Directive in order to adapt it to an evolving labour market. For example, the legislative proposal introduces an obligation for Member States to list and describe the professions they regulate and explain why the regulation is necessary. In addition, the Commission will launch a mutual evaluation of the national legislations regulating the professions.

Central to competence development is the concept of lifelong learning, which focuses on encouraging workers to develop their skills and competences throughout their working life. This will also ensure that they retain high levels of employability, making them more resilient to future waves of restructuring, both within their specific sector and more broadly across the whole economy and maybe even across national borders. Employees therefore need to possess a set of skills that are easily transferable, which will equip companies with a more flexible, adaptable and mobile workforce, while at the same time facilitating worker mobility occupationally and geographically. The EU's Lifelong Learning Programme supports

these goals by funding innovative cooperation between education and training institutions to support the learning mobility of both students and staff. The Commission's proposal for the future "Erasmus For All" Programme builds on this experience, helping education and training systems to work together across borders to deliver the knowledge and skills needed in an increasingly globalised labour market.

In a quickly changing environment, people need not only basic skills such as literacy and numeracy, but also competences in learning to learn, in analyzing complex information in the media (digital and media literacy), in being able to adapt and to seize new opportunities in a global world (entrepreneurship, foreign language).

Job and sector-specific skills are equally important for employability. Skills connected with new technology and green technology, and a range of management competences and innovative skills will also be crucial. There is a need for a range of actors to cooperate in helping workers to gain the skills they need in the future. These actors include the workers themselves, their employers, public placement bodies, regional and local bodies, and the education sector. It is important that all actors also work closely with local industry to make sure that skills provision is adapted to ever-evolving business needs.

The validation of non formal and informal learning is also a crucial piece of the jigsaw, as is ensuring that skills are transferable, as this will aid movement between companies and between sectors if necessary. Initiatives such as the EU's Europass system and a Recommendation on the validation of informal and non formal learning can help in this respect.

The EU naturally has an important role to play in providing a framework within which skills and competence development at national level can take place. In 2009, the Council set up a Strategic Framework for European Cooperation in education and training ("ET 2020") that will support such development. EU institutions have been active in initiating a range of activities and programmes designed to enhance skills development, including targeting policy at young people and focusing on specific sectors. Central to policy in this area is the creation of European sector councils on jobs and skills, briefed to gain insight into likely developments in employment and skills needs, with the aim of assisting policy making in a specific sector. They are also intended to function as a platform in which at least two types of stakeholder are involved. A number of pilot councils have so far been initiated in sectors such as automotive and textiles.

The automotive sector in particular needs to ensure that the skills of its workers are updated, in order to keep pace with the particular demands placed on this sector, as a key driver of innovation. A European sector council on jobs and skills in this sector would, it is hoped, help existing national observatories on skills and qualifications in the sector, facilitate the exchange of information between them, and allow its dissemination to a wider audience.

SMEs face particular challenges when trying to ensure that the skills of their workforce are up to date, and the Commission is developing a policy aimed at encouraging skills development in SMEs. Overall, a lack of financial means and organisational reasons are the first obstacles to training faced by many SMEs, and the EU is working to disseminate good practice examples of how these obstacles can be overcome.

## **1: THE IMPORTANCE OF LIFELONG LEARNING**

Some recent initiatives in the lifelong learning policy area are likely to have a strong, albeit indirect, impact on the consequences of restructuring, as they support people and organisations in managing transitions. These initiatives all share a feature that is proving to be a significant factor of innovation, actually triggering wide-ranging developments at national level: a strong focus on competences.

While developing, assessing and certifying competences has always been considered part of education and training, the systematic organisation of the provision, assessment and accreditation of learning around learners' outcomes in a lifelong learning perspective is a relatively innovative approach.

The action that brings forward this approach in the most high-profile and comprehensive way is the European Qualifications Framework for lifelong learning (EQF), established through a Recommendation of the European Parliament and the Council in April 2008.<sup>39</sup> The EQF is a reference framework in which eight qualification levels are defined in terms of learning outcomes: ie what a learner knows, understands and is able to do after a learning experience, as opposed to learning inputs such as the length of a learning experience or the type of institution. This enables the EQF to connect to different national systems and to cut across sub-systems such as higher education and vocational training.

EU Member States are in the process of referencing their qualification levels to the eight EQF levels. The EQF will then act as a translation device to make qualifications more readable and understandable to employers, individuals and institutions, so that workers and learners can better use their qualifications across countries, systems and sectors.

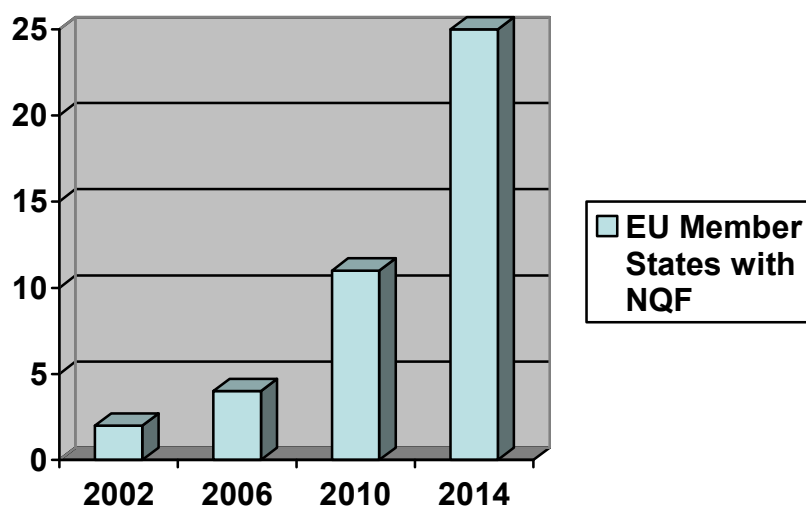
Implementing the EQF means that national qualification levels should also be defined in terms of learning outcomes, which in some Member States and systems amounts to a radical change of approach. However, all Member States have started developing a national qualifications framework (NQF) based on learning outcomes and covering the whole span of qualifications. It can be considered that Ireland, France, Malta and the UK have implemented frameworks, and 10 more countries are now entering an early implementation stage. This clearly indicates the widespread consensus on the need to

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<sup>39</sup> Recommendation on the establishment of the European Qualifications Framework for lifelong learning (2008/C 111/01): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:111:0001:0007:EN:PDF>.

define qualifications — and consequently the provision and the assessment of learning — through what people can do at the end of their learning process. For an overview of the implementation of a NQF, see figure 2.1 below.

**Figure 2.1: Number of EU Member States with a national qualifications framework, 2002-2014**



*Source: European Commission.*

The consistent application of this approach should prove specifically helpful in situations of crisis, when companies may need to undergo radical reorganisation and many workers change tasks, jobs, companies and trade and often need specific further training. This approach helps companies, institutions and individual workers to gain a clearer and more comprehensive overview of the skills and competences available to them, so that they can make better informed choices when confronted with the need to reorganise. The focus on competences makes it easier to match tasks and workers, to train workers and to take into account both the skills developed through formal learning and those developed through work experience.

The development of qualification frameworks based on learning outcomes is expected to promote schemes for the validation of non-formal and informal learning outcomes, including the accreditation of prior experience: countries that already have established national frameworks based on learning outcomes also feature effective validation arrangements. For instance, all qualifications included in the French national register can also be obtained through the validation pathway.

Consistent with the EQF approach, the European credit system for vocational education and training (ECVET), adopted in 2009, organises the transfer of credits from one qualification system to another (or from one learning 'pathway' to another) around the assessment and validation of the learning outcomes of individuals. This allows learners to accumulate the required learning outcomes for a given qualification over time, in a variety of situations and

in more than one country. This offers a valuable opportunity in a society characterised by flexible occupational and learning pathways — an element that may grow dramatically in times of economic crisis.

### **1.1: PLANNED NEW PROPOSAL ON THE VALIDATION OF INFORMAL LEARNING**

The regular inventory of national experiences of validation of non-formal and informal learning prepared by the European Commission and the European Centre for the Development of Vocational Training, Cedefop, shows that such experiences and their impact are growing. However, the fact that all European countries are now engaged in establishing national qualification frameworks creates the conditions for a more systematic and comprehensive approach to validation. Measures aimed at developing this will be included in a proposal for a Council Recommendation on the promotion and recognition of the validation of non-formal and informal learning, planned for adoption in 2012. As a practical tool to support authorities in setting up and managing validation arrangements, a set of European guidelines was recently published and will regularly be updated.<sup>40</sup>

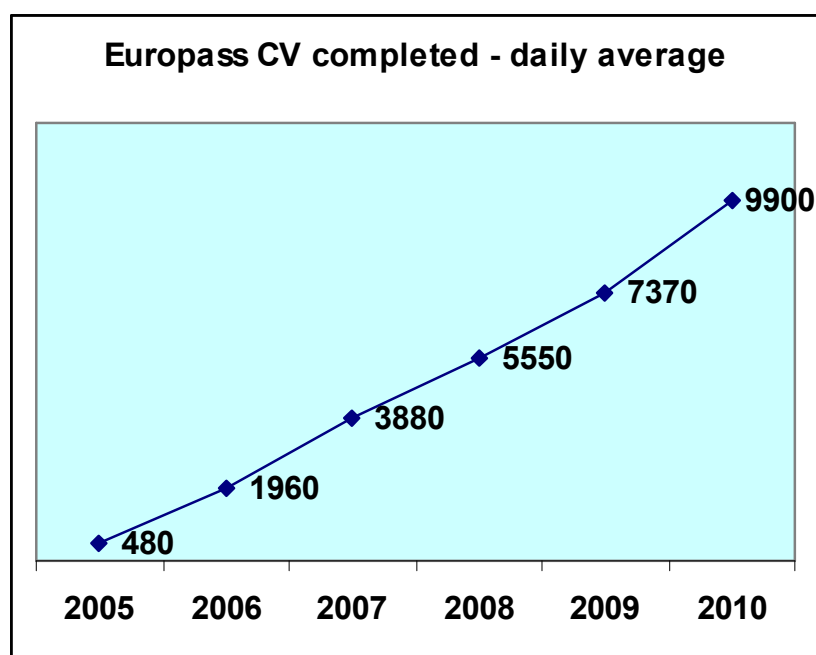
### **1.2: THE EUROPASS FRAMEWORK**

The competence approach applied at system level by qualification frameworks and credit transfer systems has an indirect but significant impact on individual workers and learners. A more direct service — also organised around the concept of competence — is provided by instruments that specifically target citizens as users, such as the documents made available within the Europass framework. Europass allows EU citizens to present their qualifications and skills in a way that employers can understand and appreciate. Further, the Europass Certificate Supplement describes certificates in terms of learning outcomes and in some Member States is part and parcel of the national qualification framework.

The Europass CV is a tool that is increasingly used by EU citizens — about 10 000 each day — and aims to help people to highlight their skills and competences by providing both information on formal education and, when available, work experience. Figure 2.2 below charts the growth in the number of completed Europass CVs from 2005 to 2010.

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<sup>40</sup> European guidelines for validating non-formal and informal learning. Cedefop, 2009: [http://www.cedefop.europa.eu/EN/Files/4054\\_en.pdf](http://www.cedefop.europa.eu/EN/Files/4054_en.pdf).

**Figure 2.2: Europass CV completed (daily average)**

Source: European Commission.

Through the language of competences, the Europass CV helps communication between jobseekers and employers, and as such can be a valuable tool in the context of restructuring, although it rests on self-declaration on the part of the applicant. Information on skills developed during specific experiences, such as traineeships or periods of work, can however be given by the company or other organisation that has hosted the experience.

The Europass Mobility is a specific Europass document, which currently enables citizens to document experiences involving transnational mobility, such as traineeships in a company abroad. Its use is currently also being tested for home country experiences, with a view to laying the ground for the development of a more general Europass Skills Passport, which would record the skills and competences acquired by citizens in any setting, including in particular work experience and volunteering.

In addition to these tools, the Europass Skills Passport, in combination with the Europass CV and with formal qualification supplements, describing learning outcomes as promoted by the EQF and applied within national qualification frameworks, will provide a comprehensive portrait of its holders in terms of competences, supporting companies and individuals in their choices in the labour market.

### **1.3: EU POLICY ON LIFELONG LEARNING AND SKILLS DEVELOPMENT**

Information, advice and guidance are crucial factors in enabling citizens to manage transitions, helping them to identify the strengths and weaknesses in their competence profile, make better informed decisions about further learning and employment

opportunities and make effective use of validation schemes. Two EU Resolutions of the Education Council adopted in 2004<sup>41</sup> and 2008<sup>42</sup> have highlighted the need for strong guidance services throughout a worker's life to equip them with the skills to manage their learning and careers and the transitions between and within education/training and work. Member States were invited by those Resolutions to take action to modernise and strengthen their guidance systems, paying particular attention to the development of career management skills; accessibility of services; quality assurance and coordination of services.

The Commission supports policy and practice in this area in a number of ways. Firstly, EU resources from the Lifelong Learning Programme are used to fund two European networks:

- Euroguidance provides guidance to practitioners in the form of information, documentation and training; and
- the European Lifelong Guidance Policy Network — set up by the Member States at the end of 2007 — aims to raise the awareness of policy makers in education and employment sectors of the importance of lifelong guidance and support Member States in modernising their systems. Among other activities, the network will work towards a new version of the appreciated handbook, developed jointly with the OECD in 2005, for policy makers in career guidance.<sup>43</sup>

The increased frequency of transitions that citizens face over the course of their working life, coupled with greater diversity and mobility in education/training and the labour market, make effective lifelong guidance systems more important than ever. The successor to the Lisbon strategy — Europe 2020<sup>44</sup> — highlights in particular the need for guidance to improve young people's entry into the labour market. Measures to strengthen guidance will form part of new initiatives being put forward in 2010 concerning the mobility of young people, combating early school leaving and new skills for jobs.

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<sup>41</sup> Resolution of the Council and of the representatives of the Member States meeting within the Council of 28 May 2004 on Strengthening Policies, Systems and Practices in the field of Guidance throughout life in Europe.

<sup>42</sup> Resolution of the Council and of the Representatives of the Governments of the Member States, meeting within the Council of 21 November 2008 on better integrating lifelong guidance into lifelong learning strategies.

<sup>43</sup> Career Guidance. A Handbook for Policy Makers. The European Commission. OECD. OECD Publishing, December 2004. ISBN: 9789264015210.

<sup>44</sup> Commission Communication 'Europe 2020 — A strategy for smart, sustainable and inclusive growth', COM(2010) 2020.

## 2: THE ROLE OF SKILLS IN IMPROVING LABOUR MARKET MOBILITY

All economic sectors are currently in the throes of a phase of restructuring, which itself needs to be seen against a background of efforts to improve the EU's competitiveness and re-direct the European economy towards fresh activities with a higher added value that are capable of generating new and better jobs. The success of these endeavours hinges on a more strategic management of human resources, with more dynamic and forward-looking interaction between labour supply and demand. This is essential to a cohesive society, to competitiveness, as well as to the capacity for innovation in the business sector and the economy as a whole.

The level of skills achieved can be a key factor in determining how successful workers will be on the labour market. Knowledge, know-how and skills are decisive and condition everyone's chances of a successful professional career and playing an active role in society. Keeping skills levels up to date is a key factor in ensuring the continuing employability of workers, particularly in times of restructuring, when workers may need to move companies or even sectors in the search for alternative employment. Employees therefore need to possess a set of skills that are easily transferable, which will equip companies with a more flexible, adaptable and mobile workforce, while at the same time facilitating worker mobility occupationally and geographically, making it easier for them to develop their occupational pathways.

For workers, skills mean employability and occupational mobility. They are the best insurance against unemployment and are an important factor in facilitating personal development and active citizenship. However, labour markets — and the skills people need — are evolving ever faster and future jobs are likely to require higher levels and a different mix of skills, knowledge and qualifications. It will therefore be increasingly necessary for workers to participate in lifelong learning and to develop new skills in order to be able to adapt to a variety of tasks over their working lives.

### 2.1: GENERAL VS SPECIFIC COMPETENCES

Results from a European Commission study on transferable skills<sup>45</sup> show that general human capital/competences are those that increase the value of a person across the whole of the labour market, ie in companies, sectors and occupations. On the other hand, specific human capital/competences increase the value of a person only within the company in which they

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<sup>45</sup> The European Commission, DG Employment, Social Affairs and Inclusion financed a study on 'Transferable skills across economic sectors — Role and importance for employment at European level' in order to identify which skills are transferable across sectors, groups of sectors and occupations, currently and during the 10 next years, which are the instruments and methods to be used for a better mobility of the workers through the development of transferable competences and which is the role of the main actors in this field. This article is based on the results of this study. <http://ec.europa.eu/social/main.jsp?catId=101&langId=en&furtherPubs=yes>



have acquired them; leaving the company therefore leads to devaluation of some specific human capital/competences since they do not apply in other companies, sectors and occupations. It should be noted, however, that the existence of purely general or purely specific forms of human capital/competences is very rare. It is usually possible to characterise human capital/competences as rather general or rather specific, which indicates some extent that there is a mixture of these two kinds of human capital/competences in the real-life economy.

The characterisation of human capital/competences as general and specific, based on their application in the labour market, affects the willingness of various economic subjects, be they individuals or companies, to invest in their acquisition. The more general human capital/competences are, the more likely employees are to invest in acquiring them in order to increase their employability in other companies, occupations and sectors. Conversely, the more specific human capital/competences are, the less likely employees are to invest in acquiring them due to their narrow application; should workers leave a specific employer, these skills become less useful. For employers, the opposite applies: general human capital/competences increase the risk of losing the employee, while investing in the acquisition of specific human capital/competences ties the employee ever more closely to the company.

At present, in addition to the interest shown in specific skills, attention is also focused on general skills — and mainly soft skills — due to their usability and transferability across occupations, sectors, and in some cases even across the whole economy. General skills that are applicable in most companies, occupations and sectors can be effectively applied in almost all jobs and in an employee's personal life; thus they are perceived as highly transferable. Soft skills — job non-specific skills that are related to individual ability to operate effectively in the workplace — are usually described as extremely transferable. Specific skills — technical and job-specific abilities that are applicable in very small number of companies, occupations and sectors — can be specified negatively as skills not belonging among generic skills. They describe special attributes for performing an occupation in practice and are constituted as a mix of knowledge and abilities used during the practical process. Box 2.1 below sets out the main soft and general skills.

<b>Box 2.1: General and soft skills</b>		
<b>General skills</b>	<b>Soft skills</b>	
Legislative/regulatory awareness	Self-control and stress resistance	Achievement orientation
Economic awareness	Self-confidence	Concern for order, quality and accuracy
Basic competencies in science and technology	Flexibility	Initiative-Active approach
Environmental awareness	Creativity	Problem solving
ICT skills	Lifelong learning	Planning and organising
Knowledge of foreign languages	Interpersonal understanding	Information exploring
Knowledge of foreign languages	Customer orientation	Autonomy
Entrepreneurial competences	Cooperation with others	Analytical thinking
	Communication	Conceptual thinking
	Impact/Influence	
	Organisation awareness	
	Leadership	
	Developing others	

## 2.2: TRANSFERABLE SKILL SETS

Knowledge of a set of skills that can be used between sectors or groups of sectors enables effective job change during an individual's working life. Finding the most suitable occupation, where the worker can make the most of their present skills, not only minimises any loss of qualifications due to a change in job, but also reduces the costs for training of new employees and the time necessary for handling tasks connected with the new occupation. This also offers the best alternative opportunities for the worker. The more skills are identified for each pair of occupations as common, the higher the transferability, and vice versa. This knowledge is very useful for the facilitation of occupational mobility in general and in particular during restructuring processes, which has a substantial impact on both the speed of restructuring processes and level of unemployment.

The comparison of key occupations in terms of their skills transferability allows possible shifts in sectoral employment to be highlighted. Combining information on transferable skills with the skills profile of the new occupation helps identify what kind of re-skilling or upskilling is necessary to achieve a smooth transition for those made redundant. Box 2.2 below examines skills that can be transferred between different groups of sectors.

### Box 2.2: Skills that can be transferred between different groups of sectors

Workers who have been made redundant in a sector usually look for alternative work in the same sector only, because they cannot imagine that they might use their skills in other sectors. However, it is obvious that their skills can be used in different sectors, but it is also obvious that there are sectors, or groups of sectors, where they can use more of these skills, and sectors, or groups of sectors, where they can use only few of them. For example, a redundant worker from the manufacture of textiles and leather (NACE 13, 14, 15) can be fairly easily employed in the manufacture of wood and furniture sector (NACE 16, 31), but not so easily in the agriculture, forestry and fishing sector (NACE 1, 2, 3) or the ICT sector (NACE 62). This is due to the range of applicable skills already at their disposal.

The worker can use the same number of *general skills* from the textiles and leather sector (NACE 13, 14, 15) in the wood and furniture, agriculture, forestry and fishing and ICT sectors, as set out below.

Agriculture, forestry and fishing (NACE 1, 2, 3): Legislative/regulatory awareness; economic awareness; basic competences in science and technology; environmental awareness; knowledge of foreign languages.

Manufacture of wood and furniture (NACE 16, 31): Legislative/regulatory awareness; economic awareness; basic competences in science and technology; environmental awareness; knowledge of foreign languages.

ICT (NACE 62): Legislative/regulatory awareness; economic awareness; basic competences in science and technology; environmental awareness; knowledge of foreign languages.

Workers can also use approximately the same number of *soft skills*, as set out below.

Agriculture, forestry and fishing (NACE 1, 2, 3): Flexibility; cooperation with others; communication; achievement orientation, efficiency; planning and organisation; autonomy.

Manufacture of wood and furniture (NACE 16, 31): Creativity; customer orientation; cooperation with others; communication; achievement orientation, efficiency; concern for order, quality, accuracy; planning and organisation; autonomy.

ICT (NACE 62): Flexibility; creativity; customer orientation; cooperation with others; communication; achievement orientation, efficiency; autonomy.

Regarding *specific skills*, the worker can use 17 such skills from the textile and leather sector in the wood and furniture sector, but only three in agriculture, forestry and

fishing and none in ICT, as set out below.

Agriculture, forestry and fishing (NACE 1, 2, 3): Handling of production lines and machineries; technical drawing; maintenance and adjusting of machines and appliances.

Manufacture of wood and furniture (NACE 16, 31): Orientation in technical documentation; appraisal and control of quality of raw materials, semiproducts and products; handling of production lines and machineries; technical drawing; waste disposal; machine and industrial sewing; hand sewing and needlework; handling of programmable and semiautomatic machines; upholstery; restoring and conservation of artefacts; preparation of materials and raw materials; maintenance and adjusting of machines and appliances; mounting, compounding and completion of products; calculations of material consumption; design; leading of staff collectives or teams; applying knowledge of history of art.

ICT (NACE 62): None

### 2.3: FUTURE SKILLS NEEDS

Future skills that are adapted to the evolution of the labour market needs also play an important role in the employability of workers. ICT skills rank in first place because technological development will allow workers to use them efficiently in a growing number of occupations, tasks and areas. Further, the number of occupations that will require advanced ICT user knowledge is set to grow. Skills linked to specific technology (such as specialised skills in chemistry, biology, electronics, or skills in the field of nanotechnology) will be increasingly important, but for a relatively smaller group of expert occupations.

Environmental technologies will trigger growth in demand for skills in that area. Other identified future trends include business and management skills, including in middle- and low-level occupations. This will be linked to a growing need for inter-sectoral knowledge. For example, to know how the product the worker develops or produces will be used by the user helps them to identify possible innovations. This is also the case concerning knowledge of the previous and succeeding parts of the production/development process, which will boost efficiency and innovation potential. Language and cross-cultural requirements, process management, skills related to the trend of teleworking (autonomy, ability to work and solve problems independently), and moral values such as ethics and loyalty will increase in importance.

### 2.4: THE ROLE OF DIFFERENT ACTORS IN SKILLS DEVELOPMENT

The importance of workers' general, specific and soft skills among different occupations, groups of sectors and their contribution both to the quality of work at microeconomic level and the effective functioning of the labour market at microeconomic level have been

stressed often and in different contexts by the business sector, employers' and workers' representatives, academic institutions, policy makers and other key players on several occasions.

### **Skills development at enterprise level**

Companies differ in the complexity of their approach to the acquisition, development and assessment of specific skills. In general, it is possible to identify two types of enterprises: those that have sophisticated and well-designed models (this is developed in a systematic manner, especially in large and medium-sized companies with human resources departments or at least a human resources specialist); and those that carry out these activities intuitively on the basis of *ad hoc* solutions or through experience on the job (especially in small companies). The most frequently used tools for recognition and assessment of skills are periodical employee appraisal, feedback and 360-degree assessment, balanced scorecard, competency-based performance review or behavioural event interview and quality control circles. Specific skills are often developed by learning-by-doing, which is usually supported by other tools, such as review, coaching, and simulations of job tasks. Mentoring is very common in this process. This elementary form of skills development is often accompanied by targeted education/training, which can be internal (in the enterprise) or external (undertaken by an external body) and take different forms, for example education, training, workshops, seminars, conferences, meetings and solving concrete tasks by brainstorming or case studies.

Enterprise initiatives for the recognition, development and assessment of general and soft skills are mostly rare, even though they can play a role in the employee selection process. The cost of this investment can be carried by large and medium-sized companies, whose strategy also relies on lucrative internal labour markets. Even in this case, large companies are often ambivalent towards a systematic acquisition of general and soft skills. On the one hand, they understand that these skills can improve work efficiency, which benefits the company as a whole. On the other hand, such systematic training promotes willingness to leave on the part of the employee, which the company does not want. Against this background, acquisition of these skills is often performed in a muted way, with targeted employees but not throughout the whole organisation.

Regarding employability, it is important to mention that employers' requirements grow over time. Today, an applicant for a job must be much better prepared and comply with the job description more fully than a few years ago; many employers are less willing to invest in up-skilling new staff. Therefore, individuals as well as the education and public sector must pay more attention to the skills they have, and train or support as necessary.

### **Public labour administration and placement offices**

Public labour administrations and placement offices possess tools to assess and conduct targeted training, which also aim to meet the needs of companies. Many labour administrations develop profile documents with their clients in order to represent their skills profile. This is sensible and necessary as this clientele is a target group with little or no

formal qualifications that they can present to a prospective employer. Particular groups that are in focus for the development of general and soft skills are young people, older unemployed people and migrants, which are three groups with specific problems in entering the labour market. Acquiring skills sets increases and updates their employability.

The task of the public sector is to increase or at least maintain employment, which can be guaranteed by the development of skills. Many public sector representatives are aware that the importance of employers in the further training of the labour force is essential as well as the fact that they have to motivate employers (for example financially) to provide training in areas that can help people to increase their long-term employability.

### **Regional and local bodies**

It is the responsibility of regional administrative bodies to raise awareness of the need to acquire, develop and certify transferable skills. They approach firms, trade unions, labour administration bodies, placement offices and professional associations in order to raise general awareness. Their activities can also include labour market monitoring activities, which in the best cases give a detailed picture of regionally available human resources and also of the associated strengths and shortages concerning skills. However, very often their strategies lack a systematic approach and are in some cases limited to model projects.

Besides enterprises, regional and local players are probably the second most important actors when it comes to labour market initiatives relevant to the transferability of skills. The main reason for this is the prevailing regional and local mobility of the workforce in EU Member States and, next to this, regional and local competence to develop partnerships of key players to deal with complex labour market issues. Regional and local partnerships for the labour market are therefore very useful strategic tools for efficient interventions on the labour market.

### **The education sector**

Education sector representatives acknowledge that they also carry significant responsibility in this field, whether at the initial education stage or through further continuous education and training. Universities and education providers should be aware of developments in the labour market and periodically evaluate their training provision so that they can better accommodate the evolving needs of specific occupations. Workers are liable to change their field of work ever more often, and restructuring processes are underway within companies as well as whole economies. Upskilling and re-skilling is in ever-greater demand, and the importance of specific but also general and soft skills is gaining an ever-higher profile.

In this context, the role of the education and training system is seen as pivotal. It gives a wide range of people a good chance to acquire all kinds of necessary skills or adapt previously acquired skills to a changing situation. Many models are used to support occupational mobility through skills development, such as the identification of skills gaps for new jobs, career counselling, the development of skills through training for workers who have been made redundant, many of them based on local skills needs. Education and

training providers see learning-by-doing as a crucial method of skills development, which can be supported by other relevant tools, such as workshops, seminars, conferences, coaching, distance learning, blended learning, e-learning, consulting, observation and review of work by expert or peer, sharing of experiences, skills and knowledge, training courses with certificate, team discussions etc. Further, the representatives of educational institutions believe in particular that the adaptation of educational activities to the needs of students and labour market demands is very important in terms of developing skills in relation to occupational mobility. Besides practical skills, particular skills and knowledge with a wider application in more jobs and skills need to be simultaneously developed. Developing abilities and competences should be a lifelong process for which people are sufficiently motivated and the results are officially recognised.

At national level, there is a division of competences between public institutions responsible for education and for employability. Sometimes this can result in competing/counteracting systems and methods for identifying, assessing and recognising non-formal learning. Their goal is mostly the same: rendering the system of vocational education and training more flexible and inclusive by recognising alternative paths of knowledge and skill acquisition and relating them to the needs of the labour markets and employers. These latter needs are met through the profiling tool which most labour placement offices use in order to determine the existing skills of a person and the possible career paths. Based on that, they offer advice to individuals as to the best ways of reaching an employment in an area where their strengths lie.

### **Joined-up and coordinated approach required**

Global economic competitiveness depends on high levels of knowledge and skills which in turn lead to quality jobs and decent wages. This is why governments strive to attract talent and provide skills upgrading opportunities for people on all levels. However, this important task cannot be achieved by one single actor. Working on skills development requires a joined-up approach between education, training, employment and economic development policies. It also means working closely with local industry to make sure that skills provision is adapted to ever-evolving business needs. And it needs to involve community and civil society organisations to ensure that all can participate in enhanced prosperity.

The EU institutions can also play an important role in skills development and therefore in the next section of this chapter, a range of EU initiatives in the area of skills and competence development are explored.

### 3: SECTOR STUDIES AND THE NEW SKILLS FOR NEW JOBS INITIATIVE

This section explores a range of EU initiatives designed to help boost skills and competence development, and to try to prepare the EU for the likely kinds of skills that will be needed in the future.

#### 3.1: NEW SKILLS FOR NEW JOBS INITIATIVES

Companies in Europe are faced with a continually changing environment. Challenges such as the ageing of the population, the rapid evolution of ICT, increasing globalisation and the greening of the economy have concrete implications for companies in their day-to-day business. Factors such as a changing regulatory framework, evolving consumer preferences, new and more efficient technologies and increased competition from abroad, affect companies and their business, with implications for their competitiveness.

To stay competitive, companies have to invest permanently in human capital to acquire, or equip the workforce with, the skills mix that they need today and tomorrow. The issues of identifying future skills needs, upgrading skills and matching them with labour market demands have gained increased attention in recent years throughout the Union. In December 2008, the Commission published a Communication entitled *New Skills for New Jobs: anticipating and matching labour market and skills needs*.<sup>46</sup>

In February 2010, the expert group on new skills for new jobs issued a report<sup>47</sup> to the European Commission, in which it detailed recommendations for future action. The report called for action in four main areas:

- provide better incentives for employers and individuals to upskill, and investment in skills must be significant, smart and not just financial;
- open up the worlds of education and training by making education and training institutions more innovative and responsive to both learners' and employers' needs, and by developing relevant qualifications that focus on concrete learning outcomes;
- offer a better mix of skills that is more suited to labour market needs; and
- better anticipation of future skill needs.

In March 2010, the Commission presented its strategy for the next 10 years, *Europe 2020 — A European strategy for smart, sustainable and inclusive growth*,<sup>48</sup> in which, under the

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<sup>46</sup> New Skills for New Jobs: anticipating and matching labour market and skills needs. COM(2008) 868 final: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0868:FIN:EN:PDF>.

<sup>47</sup> New Skills for New Jobs: Action Now. A report by the Expert Group on New Skills for New Jobs prepared for the European Commission. February 2010. <http://ec.europa.eu/social/BlobServlet?docId=4508&langId=en>.

<sup>48</sup> Europe 2020 — A European strategy for smart, sustainable and inclusive growth. COM(2010) 2020.



theme of inclusive growth, a flagship initiative entitled *An agenda for new skills and jobs* was announced. This initiative highlights, among other issues, the role and importance of skills in enabling workers to adapt to changing conditions and stay productive, and also in reducing unemployment.

On 15 September 2010, the Commission set out its agenda of actions targeted at young people in the Communication *Youth on the Move*.<sup>49</sup> In particular, actions are targeted at supporting lifelong learning strategies, the reform of higher education, the reinforcement of learning mobility programmes and actions to improve the employment situation of young people.

### 3.2: SECTORAL STUDIES OF INNOVATION, SKILLS AND JOBS

In 2008 and 2009, the Commission conducted a series of 19 sectoral studies<sup>50</sup> (see table 2.1) to map and analyse the evolution of innovation, skills and jobs within each of the selected sectors, taking into account each sector's global, national and regional contexts, in order to anticipate possible changes in jobs and skills needs up to 2020. These studies also served the purpose of bringing attention to ways and methods of achieving forward-looking and strategic human resource management and thereby improving European competitiveness in the global economy. A common 'foresight' methodology (see box 2.3 below) was applied to 18 of the 19 studies (the study on the construction sector followed a similar but different methodology), allowing for comparisons between sectors.

#### Box 2.3: Methodology

The sector studies followed a European Foresight Methodology (EFM) developed by Professor Maria João Rodrigues with support from the European Commission. The methodology has been developed in order to perform comprehensive sectoral analyses and foresights on emerging skills and competences in the EU. It involves the following steps:

- presentation and analysis of the sector's main economic and employment trends and structures: this includes detailed sectoral data analysis on employment, added value, education and occupations, along with a SWOT (strengths, weaknesses, opportunities and threats) analysis of the sector;
- identification of the sector's main drivers of change;
- identification of emerging or changing sector job profiles, skills, and competences;
- construction of possible sector scenarios and their implications for employment trends;

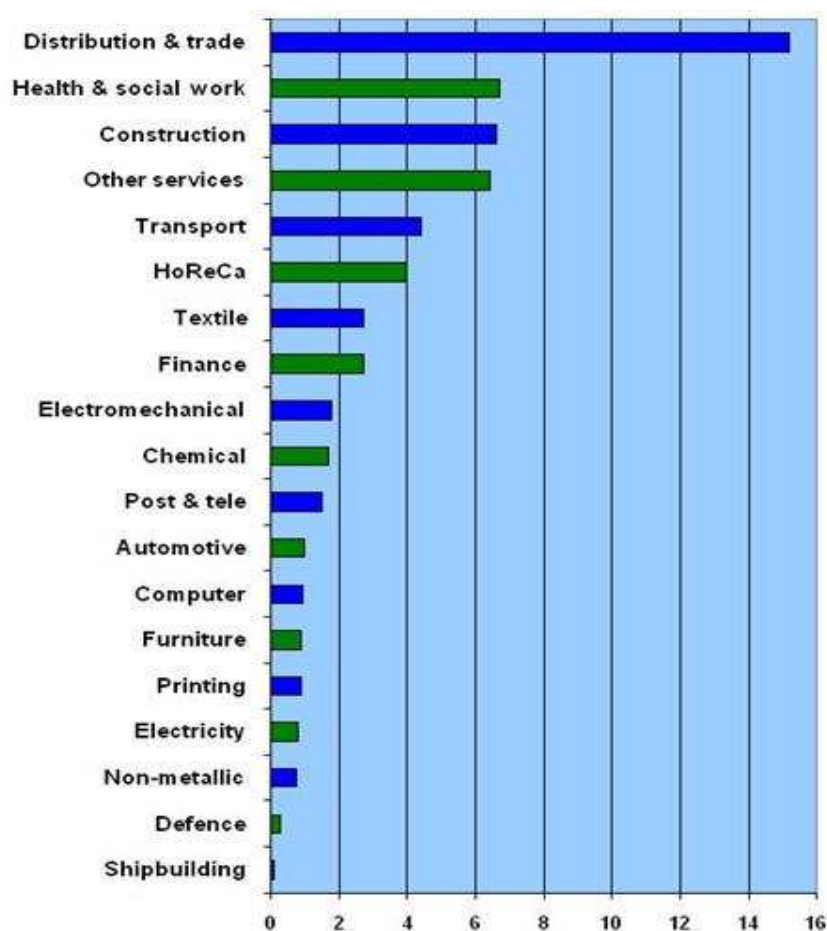
<sup>49</sup> Youth on the Move. COM(2010) 477 final: [http://ec.europa.eu/education/yom/com\\_en.pdf](http://ec.europa.eu/education/yom/com_en.pdf).

<sup>50</sup> For further details, see <http://ec.europa.eu/social/main.jsp?catId=784&langId=en>.

- analysis of the scenarios' implications for competences and occupational profiles;
- identification of strategic choices to be taken by companies in order to meet skills needs;
- identification of implications for education and training; and
- presentation of main recommendations.

The 19 sectors covered represent together over 60% of total private employment in the EU — see figure 2.3. Both traditional manufacturing sectors and services sectors were analysed. The largest sector by far, in terms of both added value and share of EU employment, is distribution and trade, followed by health and social work. Some sectors, such as hotels, restaurants and catering (Horeca), construction, and textiles, apparel and leather products, are far more important in terms of employment than added value, indicating their labour-intensive nature. Other, typically more knowledge-intensive sectors, such as financial services and chemicals, pharmaceuticals, rubber and plastics, are much more important in terms of added value than employment.

**Figure 2.3: Share of total EU employment by sector (%), 2006**



Source: Sector studies and Eurostat 2009.

A transversal analysis of these sector studies was then carried out. While the sectoral studies focused on sector-specific developments and characteristics, this analysis aimed to identify common patterns of change across the different sectors and to group the sectors according to common historical and anticipated developments in jobs and skills. A brief extract of the transversal analysis is presented below. The full report is available for download on the Anticipedia website.<sup>51</sup>

**Table 2.1: The 19 sectors analysed in the sectoral skills studies**

Automotive	Furniture
Building of ships and boats	Health and social work
Chemicals, pharmaceuticals, rubber and plastics	Hotels, restaurants and catering (Horeca)
Computer, electronic and optical devices	Non-metallic materials
Construction	Other services, maintenance and cleaning
Defence industry	Post and telecommunications
Distribution and trade	Printing and publishing
Electricity, gas, water and waste	Textiles, apparel and leather products
Electromechanical engineering	Transport and logistics
Financial services	

### 3.3: EVOLUTION OF OCCUPATIONS IN THE EU

Looking at the general development in occupations within the European labour force from 2002 to 2008, there has been a clear tendency towards polarisation. The number of high-skilled jobs is clearly on the increase while the number of skilled manual jobs has fallen — see figure 2.4. The number of very low-skilled jobs (known as elementary occupations) has remained more or less the same, increasing just slightly.

The decrease in the number of skilled manual jobs seems to be closely connected to developments within Europe's traditional production sectors, which have normally relied on craft workers and other skilled workers. Many of these sectors are under heavy pressure due to fierce international competition and many production activities have been outsourced and offshored during the past 10-15 years.

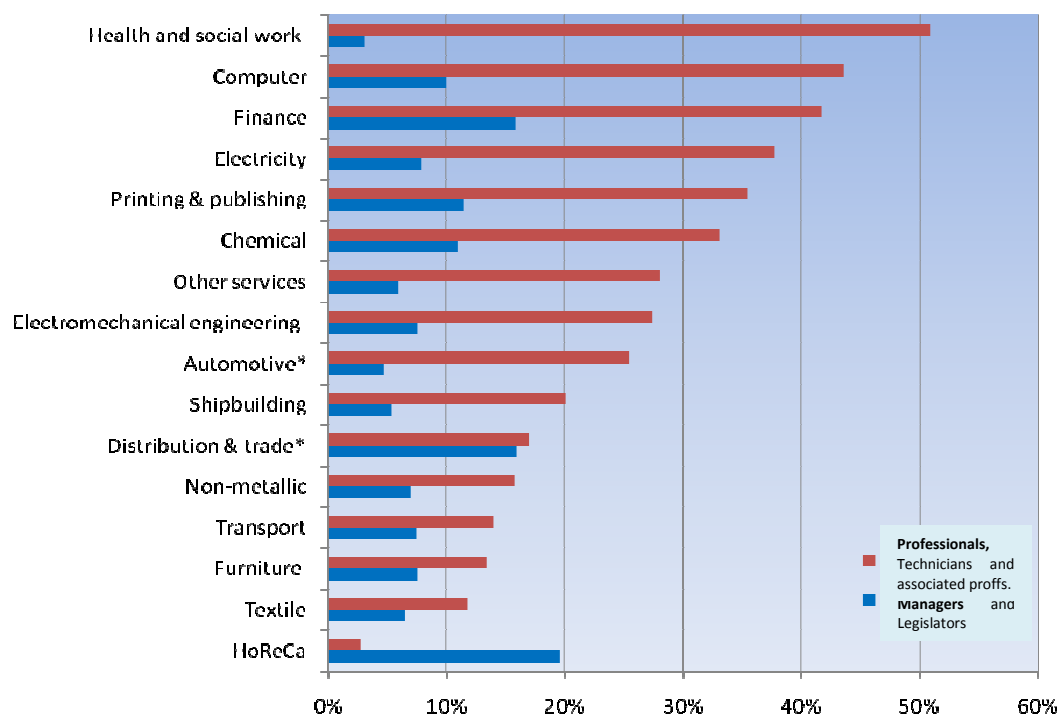
Overall, the higher the skills level of the employee, the greater the advantage for both the employee and the employer. Employees with high and transferable skills levels have a higher degree of employability and will find it easier to move between employers, and maybe even sectors, should that be required. For the employer, employees with higher skills levels will increase productivity and the quality of the goods and services offered.

<sup>51</sup> [https://ec.europa.eu/employment\\_social/anticipedia/document/show.do?id=2945](https://ec.europa.eu/employment_social/anticipedia/document/show.do?id=2945).

The studies grouped occupations into three categories according to the level of skills required to perform the job. High-skilled workers include, among others, managers and professionals, who are typically workers with relatively lengthy educational backgrounds and/or specialist knowledge within a certain field. A high share of high-skilled workers within a sector indicates a relatively high knowledge intensity. As shown by figure 2.4, the sectors with the highest share of high-skilled workers are: health and social work; computer, electronic and optical devices; financial services; printing and publishing; electricity, gas, water and waste; and chemicals, pharmaceuticals, rubber and plastics.

The sectors with the lowest share of high-skilled workers are, not surprisingly, the labour-intensive but relatively low knowledge-intensive sectors such as: furniture; textiles, apparel and leather products; transport and logistics; and Horeca.

Figure 2.4: Share of high-skilled workers<sup>1</sup> in sectors, 2007

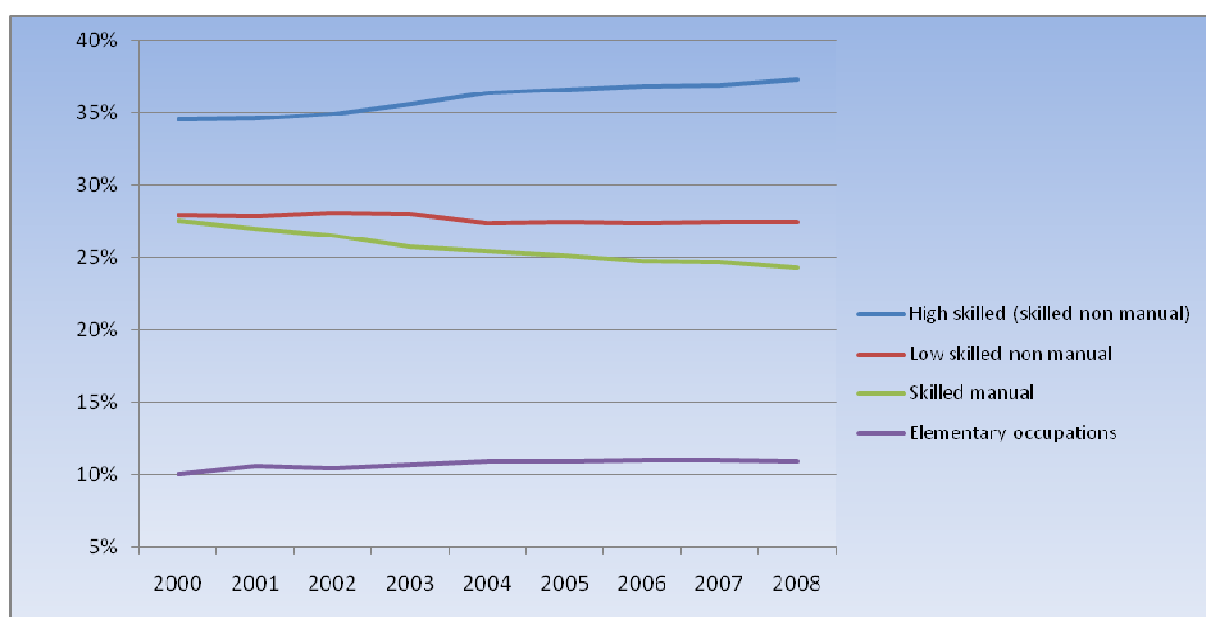


\* 2006 data.

<sup>1</sup>High skilled = 1. legislators & managers, 2. professionals and 3. technicians & associate professionals. For detailed description of the ISCO classifications see:

<http://www.ilo.org/public/english/bureau/stat/isco/isco88/major.htm>

Source: Eurostat LFS 2008 and sector studies. Comparable data not available for construction and defence.

**Figure 2.5: Changes in the share of occupations in the EU labour force, 2000-2008**

Source: Eurostat 2009.

It should be noted when viewing the above figure that the breakdown of employed persons by occupation is based on the classification ISCO 88-COM. High skilled = 1, legislators & managers = 2, professionals, technicians & associate professionals = 3, low skilled non manual = 4, clerks and service, shop & market sales workers = 5, skilled manual = 6, craft & related trade workers = 7, skilled agricultural, forestry and fishery workers and plant & machine operators = 8, and elementary occupations = 9.<sup>52</sup>

### Scenarios of evolution

Three or four 'scenarios of evolution' were constructed for each sector. They take into account the main drivers of change affecting each sector and their likely development. These drivers include both:

- macroeconomic trends affecting the whole economy such as the ageing of the workforce, the globalisation of the economy and the increased use of ICT, which can be characterised as 'exogenous' drivers; and
- more sector-specific 'endogenous' drivers such as the regulatory environment influencing the activities of the sectors.

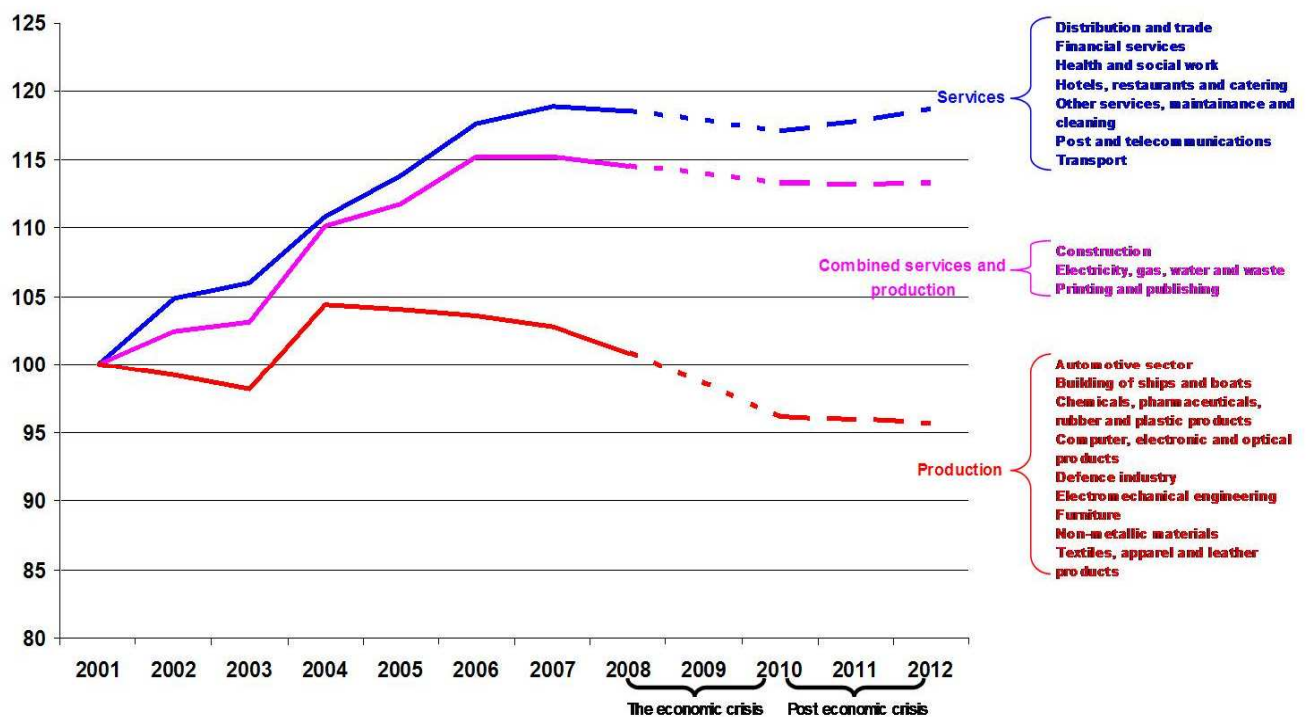
These scenarios are not forecasts of the future but are based on foresight analyses, which are experts' opinions on possible futures for the sector. In the transversal analysis, these

<sup>52</sup> For a detailed description of the ISCO classifications see: <http://www.ilo.org/public/english/bureau/stat/isco/isco88/major.htm>.

scenarios have been regrouped and summed up in a single graph, also taking into account the impact of the recent financial crisis. Sectors have been grouped into service, production and combined production/service sectors.

As can be seen from the figure 2.6 below, it emerges from the analysis that employment within production in the EU will, in general, continue to decline while employment within services will, in general, continue to increase. Furthermore, the financial crisis seems to have speeded up ongoing developments, with continued job losses in the traditional production sectors. However, many of the production sector studies contain quite positive scenarios, including consolidation and/or job growth. Thus, post-crisis, the forecasts predict a consolidation within production employment in total and renewed employment growth within services.

**Figure 2.6: Grouped employment index (2001=100) for services, production and combined production/services sectors, developments 2001-2008 and forecasts 2009-2012**



Source: Eurostat 2009 for historical data; analyses and scenarios for forecasts.

The graph above charts the actual development of employment from 2001 in services, production and combined production/services sectors. The years from 2008 to 2010 are characterised by the economic crisis, during which employment in production drops most sharply. In the post-economic crisis period, from 2010 to 2012, employment in production and combined production/services sectors is forecast to be relatively stable, whereas employment in services is predicted to increase.

### 3.4: EMERGING COMPETENCES

The sector studies identify emerging competences at sectoral as well as occupational level. The transversal analysis provides an overall summary of the most important skills which emerge across all sectors — see table 2.2.

**Table 2.2: Main emerging competences across sectors**

Social/cultural	Technical	Managerial
Intercultural skills	ICT and E-skills (both at user and expert level)	Intercultural management
Team work	Skills/knowledge related to new materials and new processes	International value chain management
Self management	Health and green skills (related to health and climate and environmental solutions)	International financial management
Entrepreneurship and innovativeness		Green management (implementing and managing climate and environmentally friendly policies and solutions)

+ Multiskilling and new combinations for skills and competences (eg combining two sets of skills normally belonging to two different occupations in the same organisation)

#### Main findings

The analysis reveals the increasing polarisation of the labour market and skills needs. Skilled jobs (such as craft workers) are declining and high-skilled jobs (such as professionals and managers) are increasing rapidly, while the demand for very low-skilled elementary jobs continues to rise at a moderate pace. There is also a divide between services and production sectors. Whereas significant job growth has mainly occurred in services sectors and will continue to do so during the next 10-15 years, there have been quite significant job losses in production sectors during the past decade, especially within skilled jobs. However, in production, there seems to be a development towards 'European excellence', characterised by products with a higher added value, requiring more high-skilled jobs but also less medium-skilled jobs.

Modern economies are experiencing a dissolution of traditional sector divisions, most often owing to new technologies, new customer demands and enlarged supply and value chains. As a result, new job profiles are appearing, which demand new combinations of skills and competences, and companies are increasingly demanding new types and mixes of employees and educational backgrounds in most sectors.



Regardless of job losses and other structural developments, there is a clear tendency towards upskilling for all occupations, which goes in parallel with an increase in the educational attainment levels of workers in all sectors.

Looking at emerging skills and competences, many sectors are experiencing new skills needs within areas that are closely connected to major world policy and economic trends, such as sustainability (environment, climate, health, etc.), ICT and the continued internationalisation of markets and supply chains.

At the same time, many sectors will face serious recruitment and skills problems in the coming years if no actions are taken. The ageing workforce, poor working conditions and/or a negative sector image will for many sectors result in problems in finding sufficient labour and the right skills. This is particularly true for production sectors which are penalised by their 'heavy industry' image (such as shipbuilding or electromechanical engineering) but also for some service sectors, the records of which, in terms of working conditions and career opportunities, are perceived as low (such as Horeca). Many sectors will therefore need to improve their image and working conditions if young graduates, women and groups such as migrant workers are to be attracted to fill vacant positions.

The next section of this chapter examines how the EU can help develop skills levels in individual sectors by setting up European sector councils on jobs and skills.

### 3.5. WORK AND LIFE QUALITY IN NEW AND GROWING JOBS

An ongoing FP7 research project on **Work and Life Quality in New and Growing Jobs (WALQING<sup>53</sup>)** explores the linkages between '*new jobs*', their conditions of work and employment, and outcomes for employees' *quality of work and life*.

In a first instance, **employment growth** in various countries (EU Labour Force Surveys 2000 and 2007) was analysed on the basis of an original new methodology developed to construct a balanced list of growing sectors in the EU.<sup>54</sup> While conventional concepts of employment growth choose between either a relative trend index (e.g. expressed in percentages) or an absolute trend index (expressed in numbers such as hours, workers or production output), the BART Index for structural growth (balanced **absolute and relative trend** index) integrates both into a single index, overcoming misinterpretations (over- or underestimating structural changes) and improving comparability across Europe. The BART

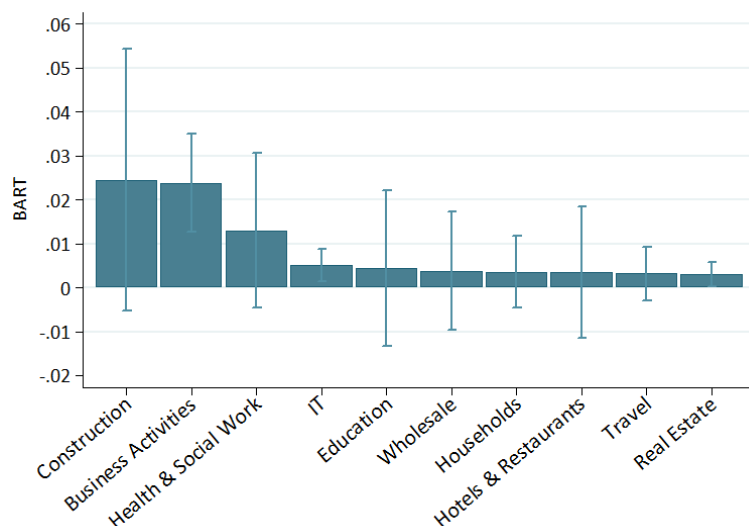
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<sup>53</sup> <http://www.walqing.eu> (FP7, 2010-2012) — Walqing focuses on work in growing jobs in Europe with problematic working conditions, precarious employment, and/or lack of social integration. It specifically addresses the representation of vulnerable groups in these jobs such as migrant and ethnic minority workers, some groups of women and younger and older workers.

<sup>54</sup> Walqing working paper 2010.1, *Structural growth of employment in Europe Balancing Absolute and Relative Trends*, by Sem Vandekerckhove, Bart Capéau and Monique Ramioul of HIVA-K.U.Leuven.

index enables to zoom in on national particularities in growing sectors without being obscured by trends in larger countries.

**Figure 2.7: BRAT Index**



The BART Index data presented above measure employment growth between the GDP-growth peaks of 2000 and 2007 based on the European Labour Force Survey. Although Construction (2.45%) takes the lead, the whiskers (indicating standard deviation) show that its average growth is dispersed over countries with a very high growth and countries where the sector might even be declining; this applies also (but to a lesser extent) to Health & Social Work. On the other hand, this is not the case for Business Activities (2.38%) and the IT sector, which are growing steadily in most or all countries.

The weighted Job Quality Index (using European Working Conditions 2005 Survey data) uses weights for 38 measures according to the unique percentage of variance that it explains in three aspects of employee well-being (physical well-being, psychological well-being, job satisfaction). The growing sectors (NACE Two-Digit) of the EU economy with higher than average levels of job quality are: Real Estate (Mean Job Quality = 60.2), Education and Health (M=60.4); Public Administration (M=62.3); and, Financial Intermediation (M=67.7). The results below show the top ten sub sectors with the highest growth and below average job quality. Two of the three most critical are quite 'feminised' sectors: 1) Retail (M=53.5); 2) Construction (M=52.1); 3) Hotels and Restaurants (M=48.8).

Figure 2.8: Job Quality Index

NACE No.	Sub Sectors	Growth by BART Index	Weighted Job Quality
<b>45</b>	<b>Construction</b>	<b>0.0246</b>	<b>52.1</b>
95	Activities of households as employers	0.0036	41.9
<b>55</b>	<b>Hotels and restaurants</b>	<b>0.0035</b>	<b>48.8</b>
63	Supporting and auxiliary transport activities	0.0032	53.2
28	Manufacture of fabricated metal products	0.0020	48.6
34	Manufacture of motor vehicles	0.0017	51.9
93	Other service activities	0.0013	53.3
33	Manufacture of medical, precision and optical instruments	0.0007	52.8
50	Sale, maintenance and repair of motor vehicles	0.0007	54.2
<b>90</b>	<b>Sewage and refuse disposal, sanitation</b>	<b>0.0007</b>	<b>49.3</b>

The WALQING researchers note that European employment growth has not exclusively been shaped by knowledge-intensity and skill-upgrading, and that employment growth does not automatically generate 'better jobs' with satisfactory wages, autonomy, learning opportunities, secure careers and participation in the workplace. A number of the growing sectors attend to fairly basic needs of consumers and companies (shelter, food, waste disposal, and care), all of high relevance for the quality of life, future productivity and sustainability of European societies. However, many segments of these important and expanding sectors are characterised by poor job quality. Low-skilled work, low wages, insecurity, health and safety risks, and little discretion and voice tend to accumulate and reinforce one another.

#### 4: EUROPEAN SECTOR COUNCILS ON JOBS AND SKILLS

The idea of creating EU-level sectoral councils on jobs and skills has received support from a range of studies and sources, since the European Commission announced in its December 2008 Communication on New Skills for New Jobs (NSNJ) its intention to discuss setting up these councils with the sectoral social partners,<sup>55</sup> an idea reiterated in a June 2009 Communication entitled *A Shared Commitment for Employment*.<sup>56</sup>

In February 2010, an expert group on NSNJ set up by the Commission presented its report,<sup>57</sup> which makes a series of concrete recommendations to decision-makers on how to solve Europe's skills deficiencies and mismatches with labour market needs. The recommendations include the following:

*Create EU sectoral councils, bringing together existing national networks at EU level for the analysis of the skills needs and the development of proposals for updated qualifications in each sector. Encourage the emergence of a new and specific body representing all key stakeholders of the learning sector at EU level.*

Most recently, in November 2010, the Commission issued a new Communication, entitled *An agenda for new skills and jobs: A European contribution towards full employment*,<sup>58</sup> in which it sets out its views on ways in which the EU's labour market targets for the coming years can be met, in the post-crisis context.

Conclusions and recommendations based on sectoral studies on future skills needs conducted by the Commission had revealed a need for stronger cooperation between stakeholders — that is, businesses and social partners, public authorities and representatives of education and training systems. The apparent absence of exchanges of information between existing national observatories on skills and jobs (or their equivalent), and the support of many sectoral social partners for this initiative, convinced the Commission to launch in 2009 a study to analyse the state of play with regard to national skills councils in the OECD countries, as well as to investigate the feasibility of setting up such bodies at a European level. The study was published in February 2010 and some of its findings are summarised in box 2.4.

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<sup>55</sup> New Skills for New Jobs COM(2008) 868 final: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0868:FIN:EN:PDF>.

<sup>56</sup> A Shared Commitment for Employment COM(2009) 257 final: <http://register.consilium.europa.eu/pdf/en/09/st10/st10628.en09.pdf>.

<sup>57</sup> Expert Group on New Skills for New Jobs (2010), *New Skills for New Jobs: Action Now*, European Commission, <http://ec.europa.eu/social/main.jsp?catId=568&langId=en>.

<sup>58</sup> An agenda for new skills and jobs: A European contribution towards full employment COM(2010) 682: [ec.europa.eu/social/BlobServlet?docId=6328&langId=en](http://ec.europa.eu/social/BlobServlet?docId=6328&langId=en).

### **Box 2.4: National sector councils on employment and skills**

The European Commission's feasibility study on EU-level sector councils on employment and skills, published in February 2010,<sup>59</sup> looked at national sector councils, defining them as bodies that:

- deal with one specific economic sector;
- seek to gain insight into likely developments in employment and skills needs, with the aim of assisting policy making within or for the sector concerned;
- do so by providing analysis of developments on the sectoral labour market;
- function as a platform in which at least two types of stakeholder are involved; and
- work in a structured and continuous way.

The study also looked at 'transversal councils', which are similar to sector councils, but cover trends and developments in two or more sectors of the labour market.

#### **Main features**

Sector councils and transversal councils for employment and skills are defined by three main features:

- they carry out or commission forecasting studies on jobs and/or skills in a sector;
- the outcomes of these studies are discussed in a sectoral dialogue in which at least two types of stakeholder are involved; and
- these discussions lead to proposals and/or actions to bridge quantitative and/or qualitative gaps.

The study found that 22 of the 27 EU Member States have at least one type of council, under various names and in various forms. The councils can deal with initial vocational education and training (IVET) and/or continuing vocational training (CVT), and they can operate at national and/or regional level.

#### **Objectives and activities**

All sector and transversal councils have a common objective: to improve the match on the labour market between demand and supply in quantitative (jobs) and/or qualitative (skills and competences) terms. To achieve this main objective, councils can implement a variety of activities, notably:

- analysing quantitative trends on the labour market;

<sup>59</sup> Sector Councils on Employment and Skills at EU level — A study into their feasibility and impact: [https://ec.europa.eu/employment\\_social/anticipedia/document/show.do?id=2947](https://ec.europa.eu/employment_social/anticipedia/document/show.do?id=2947).

- analysing qualitative trends in the labour market;
- developing policy proposals to bridge quantitative gaps between supply and demand;
- developing policy proposals to bridge qualitative gaps between supply and demand;
- fostering cooperation between firms and vocational education and training providers; and
- implementing programmes of actions to bridge gaps.

Most sector councils focus on qualitative skills gaps, analysing qualitative trends on the labour market and responding to skills/competency needs. Almost as frequently, they analyse quantitative trends on the labour market – that is the number of job opportunities that are available currently and, more importantly, in the future.

### **Representation**

If councils are linked to the IVET system, in most cases employers' organisations, trade unions, the ministry responsible for the sector and the IVET providing system are represented on their boards. CVT-oriented councils are typically financed and led by the social partners.

Efforts to make education and training more demand-oriented require a focus on companies and production technologies, and this is reflected in the objectives of national councils (and the desired composition of EU-level councils). Some stakeholders, and in particular trade unions, bring to the fore the implications for the quality of work. This is more easily done in CVT-oriented councils where social partners have the predominant role, and in countries where tripartite policy making and management are more common.

## **4.1: FEASIBILITY STUDY'S RECOMMENDATIONS AND POLICY OPTIONS**

Based on the analysis of national experiences, expert interviews and a survey amongst stakeholders in five sectors (textiles, wearing apparel and leather products, construction, distribution and trade, and health and social work), the feasibility study made seven general recommendations:

- proceed with promoting EU-level Sector Councils on Jobs and Skills;
- set realistic objectives and expectations;
- ensure commitment from stakeholders for any EU initiative to promote such councils by making participation voluntary, and making support temporary and dependent on achievements agreed upon in advance;

- make EU support dependent on a few stringent conditions and agreement on targets at the stage of applying to set up a council, and on participation in monitoring and evaluation measures;
- promote cooperation with existing EU initiatives, notably in the fields of labour market trends, and education and training;
- put the initial focus on information exchange and on the social partners, while considering a multi-stage involvement of the other relevant stakeholders; and
- establish a transversal council with a limited number of objectives.

The study provided three policy options for the future:

- *no policy*, with no action is pursued and the current situation prevailing in the future. Although not generating immediate negative effects, this option was considered a loss of opportunities to reinforce existing initiatives in Member States, extend good practices to other Member States and increase the available knowledge at EU level;
- *focus on information exchange*. This option would recommend that national sector councils exchange information on the identification and monitoring of future employment and skills needs in the sector concerned, in terms of both tools and outcomes; and
- *focus on policy initiatives*. This option would consider information exchange as a basis for the development of, or support for, concrete policy actions. The focus of this option would be on objectives related to furthering the responsiveness of the education sector, and the quantitative and qualitative alignment of future skills needs and the education sector.

The Consultative Commission on Industrial Change CCMI of the European Economic and Social Committee issued an opinion on sector councils on employment and skills, which supported the concept and recommended cooperation between sectoral councils. For more details, see box 2.5 below.

**Box 2.5: CCMI opinion on matching skills: sector councils on employment and skills**<sup>60</sup>

This opinion, which was adopted on 17 February 2010, states that European sectoral councils (ESCs) involving various stakeholders should provide crucial support in the process of anticipating and managing sectoral changes, in particular in terms of employment and skills needs, in order to adapt skills to supply and demand. The

<sup>60</sup> CCMI opinion on matching skills: sector councils on employment and skills: <http://www.eesc.europa.eu/?i=portal.en.ccmi-opinions.14368>.

Committee supports the concept of a sectoral council based on the model proposed in European social dialogue.

It states further that the activities of the European sectoral dialogue committees (ESDC) could serve as an operational model for the sectoral councils. However, ESCs can have a broader scope, in terms of the number of stakeholders they comprise, and a more independent role than ESDCs, focusing more on skills and the labour market than social dialogue. Those sectors without European Social Dialogue (ESD) structures should also have the opportunity to set up ESCs. A new ESC could then serve as a basis for the creation of a new ESDC.

With a view to strengthening the impact of ESCs on sectoral changes, they should give consideration to continuing education at all levels. Using the open method of coordination as a basis, it is important to move towards integration of policy on continuing training.

Professional associations and organisations providing vocational education and training should participate in ESCs. Furthermore, ESCs should cooperate with European universities and higher education establishments, which, in turn, should create a link between industry and academic research relating to training.

Structural and information-based support for the work of sectoral councils by the European Centre for the Development of Vocational Training (Cedefop) and the European Foundation for the Improvement of Living and Working Conditions (Eurofound) should be taken into account in the designation of the tasks of these institutions.

Sectoral councils, both at European and national level, should cooperate and even create links with employment and skills observatories and their national and European networks.

#### **4.2: MODEL CHOSEN BY THE COMMISSION**

Based on the conclusions of the above-mentioned feasibility study, the Commission has developed an initiative to set up European Sector Councils on Jobs and Skills, which are networks of existing national sector skills councils. The feasibility study showed that at present, national sectoral skills councils exist in many EU Member States; overall, taking into account the diversity of sectors and regions, there may be more than 2 500 of these bodies in place. The majority of these are facing the same types of challenges, but unfortunately there is little or no exchange of information and discussion between them.

The objective is to develop, at European level, platforms for national sector skills councils, social partners and education and training representatives to share information on: quantitative and qualitative trends relating to existing skills gaps and future skills needs; best practices; and tools, processes and strategies implemented nationally. This information should be monitored, discussed and disseminated to a wider audience, together with



recommendations for the attention of policy makers and other stakeholders. The objectives are to:

- create a community of practice between these actors in the field of skills anticipation and labour market needs, sharing information on both initial vocational education and training and continuing vocational training;
- facilitate the dissemination and use of European instruments in the field of employment and education and training — the European Credit System for Vocational Education and Training (ECVET), the European Quality Assurance Reference Framework for Vocational Education and Training (EQARF), the European Qualifications Framework (EQF) and the Europass European CV; and
- optionally and conditional upon the success of the first objective, have the councils develop joint policy initiatives for their sector, such as proposals for qualification and competence standards for the sector at European level.

#### **4.3: FIRST PILOT SECTOR COUNCILS ON JOBS AND SKILLS**

The Commission decided to launch the European Sector Councils on Jobs and Skills initiative in a limited number of pilot sectors. The model chosen for the creation of these European councils is to leave their governance to the sector's stakeholders, more particularly to the European-level social partners in those sectors for which a European social dialogue committee exists. In April 2010 the Commission invited the relevant sectoral social partners to take a voluntary initiative to create a European council in their sector and to submit a joint request to the European Commission for its establishment and financial support.

So far, the textile, clothing, footwear and leather sector is closest to launching the first EU sector council. The automotive commerce and steel sectors are also exploring the possibility of setting up EU councils for their sectors. There is a great interest from many sectors and stakeholders in this initiative, the issue of skills having gained huge attention in recent years, as a result of concerns regarding the competitiveness of European companies in need of a skilled workforce, and with the ageing of the population and the need to meet the demand for replacements. This is no surprise since the vast majority of economic sectors are affected by these phenomena and all are fighting to attract the best talent.

#### **Structure proposed**

European Sector Councils on Jobs and Skills will include a limited number of representatives of each national sector council, or equivalent, in Member States where such structures exist. The European-level sectoral social partners and other representatives of the sector, in particular in sectors where there is no European social dialogue, will be members of the councils' boards and responsible for their day-to-day management. European-level representatives of education and training systems will also be full members of the councils

It is envisaged that the sector councils will meet twice a year, with larger-scale conferences held to disseminate the information collected as well as to share recommendations made with a wider audience.

### **Timetable and Commission support**

The establishment of European Sector Councils on Jobs and Skills is being carried out in two phases. The first phase consists of the identification by the sectoral social partners of existing national observatories and councils on jobs and skills for the sector concerned. This first phase also serves to test the opportunity to launch a sector council at European level or not, by questioning the national councils on their interest in the initiative, their likely involvement, the type of information they would like to exchange and the type of actions they would want to see developed by the European network.

The second phase involves the creation of the sector council itself, bringing together these bodies in a network and starting the information collection and sharing process.

The Commission will financially support the sector councils and the social partners. However, this support will be conditional on an evaluation of the sector councils in terms of output, commitment, satisfaction and value added.

The next section of this chapter focuses on skills initiatives in the automotive sector, a sector that has already been identified in various parts of this report as being faced with significant change over the coming years.

## 5: SKILLS INITIATIVES IN THE AUTOMOTIVE SECTOR

The automotive industry is a key sector in the EU economy. Europe is the world's largest producer of motor vehicles, making almost a third of its passenger cars. According to the European Automobile Manufacturers Association (ACEA), within the EU there are around 240 vehicle production and assembly plants in 19 Member States, producing passenger cars, light commercial vehicles or vans, buses and coaches, medium-sized and heavy duty lorries and engines, plus over 8000 equipment manufacturers. The sector is Europe's largest private investor in research and development, investing nearly €20 billion in this area annually, and is a key driver of innovation.

The automotive sector is a major employer of skilled workers. In 2007, according to ACEA, it employed directly 2.2 million people in the EU (6.5% of total employment in EU manufacturing) in automotive manufacturing, equipment and accessories, plus bodywork, trailers and caravans. A further 9.8 million people were employed indirectly in related manufacturing activities (eg tyres, gears and electrical equipment), automobile use (eg sales, distribution, maintenance and repairs) and passenger and freight road transport. The EU Member States with the largest direct automotive workforces are Germany, France, the UK, Italy, Spain, Poland and the Czech Republic.

Over the past century, the automotive industry has been characterised by one constant factor: change. It was thus already undergoing a process of restructuring before the onset of the financial and economic crisis in 2008-2009. It was facing: overcapacity and declining car ownership through increased urbanisation and congestion; stagnation in western markets, though coupled with significant growth elsewhere; consolidation; and increasing fuel costs and environmental concerns. The crisis has only compounded the sector's inherent problems. For an overview of the drivers of change in the automotive industry, see box 2.6.

Against this background, the various actors in the automotive sector have increasingly become aware of the need to anticipate change, and to take a proactive approach rather than to react in a defensive and protectionist way. Areas where the automotive industry has been active in moving forwards and formulating new policy include using new technology, specifically green technology, in response to environmental concerns.

### **Box 2.6: Drivers of change in the automotive industry**

*Changes in society and evolution of demand.* The need for mobility remains high in mature economies and is increasing in emergent ones, but is accompanied by new pressures and aspirations, such as environmental concerns, urbanisation, demand for differentiation and increased energy prices. The car is becoming less a prized possession and more a means of transport (which increases competition with other modes of transport, especially in cities, and raises the importance of user costs).

*Emerging technology.* The car industry has always been one of the most innovating sectors and is likely to be even more so in the future. Three areas of technology are

particularly important: electronics and ICT; new composite materials; and new, non-fossil fuel forms of propulsion.

*Company strategies.* The European industry is composed of internationally recognised specialist manufacturers and large generalist ones less involved in exporting. The pace of internationalisation of the latter will be important in competition with low-cost producers outside Europe, as will be the range of models they can offer and the innovations incorporated in them.

*Policies of regulation.* Such policies include fiscal measures as well as the regulatory framework as such, and affect both: the supply side, by imposing, for example, limitations on CO<sub>2</sub> emissions; and the demand side, by raising prices, as well as stimulating new technologies.

### 5.1: EUROPEAN PARTNERSHIP FOR THE ANTICIPATION OF CHANGE IN THE AUTOMOTIVE INDUSTRY

A European partnership for the anticipation of change in the automotive industry was launched in October 2007 on the occasion of a Restructuring Forum on the sector organised by the European Commission. The partnership is based on a joint declaration<sup>61</sup> by ACEA, representing automotive manufacturers, the European Association of Automotive Suppliers (CLEPA) and the European Metalworkers' Federation (EMF), supported by the Commission. The partnership's aim is to better anticipate and manage changes in the European automotive sector, thus contributing to the industry's sustainability.

The partnership declaration presents a common diagnosis of the issues facing the sector. It outlines the role and responsibilities of each actor (the EU, governments, companies, trade unions and regions) in the common mission of: maintaining and strengthening the competitive position of EU automotive companies; creating high-quality jobs; and reinforcing the employability of the sector's workers, seen as a precondition for sustainable growth and social cohesion. The declaration sets out 'key factors of success to overcome the challenges' facing the industry, as follows:

- mutual trust and partnership are essential between all the actors;
- there must be better regulation and policy coordination, particularly relating to competitiveness, environment and employment;
- innovation is the key factor for competitiveness;
- investment in employees' skill enhancement is vital;

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<sup>61</sup> The challenges of the automotive industry — Towards a European partnership for the anticipation of change: [http://www.anticipationofchange.eu/fileadmin/anticipation/Logos/EU\\_partnership\\_en.pdf](http://www.anticipationofchange.eu/fileadmin/anticipation/Logos/EU_partnership_en.pdf).

- improvements in productivity must continue; and
- it is necessary to continue to facilitate anticipation, preparation and good management of change and restructuring.

The parties agreed to work together in order to support the creation of analysis and forecasting tools, cooperate in the dissemination and discussing of the findings, and ensure the provision of accurate anticipation and adaptation tools.

Two 12-month projects have been conducted by CLEPA and EMF — with ACEA and the Council of European Employers of the Metal, Engineering and Technology-Based Industries (CEEMET) acting as observers — with the aim of implementing the partnership's work plan.<sup>62</sup> The European Commission's Directorate-General for Employment, Social Affairs and Inclusion provided financial support. The first project focused on good practices in the anticipation of change and skills needs and the enhancement of employability, while the second tackled issues such as sustainable mobility, evolving societal demands, energy supply and efficiency, and electric cars. For more details, see box 2.7.

### **Box 2.7: European partnership for the anticipation of change in the automotive industry – main outcomes of projects, 2008-2011**

#### **First project, 2008-2009**

The project produced three studies, dealing with:

- good practices in anticipating and managing change within companies and regions;
- good practices in increasing skills levels and employability within companies, regions and sectors; and
- an analysis of automotive regions.

Two dissemination events were held to mobilise the actors around the main principles and objectives of the project:

- a forum on good practices in anticipating and managing change within companies and regions in the automotive industry, held on 15 June 2009 at the Committee of the Regions, Brussels; and
- a forum on anticipation of change in the automotive sector, held on 14 October 2009 at the European Parliament, Brussels.

On the occasion of the forum in October 2009, CLEPA and EMF presented a joint declaration<sup>63</sup> which addressed the key issues currently faced by the automotive

<sup>62</sup> For more details, see <http://www.anticipationofchange.eu/>.

<sup>63</sup> CLEPA and EMF joint declaration: <http://www.clepa.eu/index.php?id=388>.

industry and identified the main actions to be taken in order to tackle them. The joint declaration recommended action in the following areas:

- the creation of a Pan European Observatory that draws upon the best practices of government bodies, consultancy companies, and research institutes and acts to coordinate activity between the existing observatories; builds on a network of international agencies; conducts primary research, and makes policy options available to key stakeholders. The ‘European Observatory’ would in this way provide analysis of drivers of the long term eg consumer attitudes, changing life style, urbanisation, that can also be fed into the national observatories and so inform European, regional and company decision-making;
- the financing of primary research on the objectives and challenges (eg environment, pricing, urban adaptation, sustainable development, Corporate Social Responsibility, and the relationships between them) of the industry so firms can better align themselves strategically;
- the setting up of specific partnerships, with European Social Fund support, to minimise social impact ie specific action plans and burden sharing agreements with regional and local authorities; and
- the financing through the European Social Fund of business and education initiatives that focus on the tools and techniques of anticipation in the automotive industry.

### **Second project, 2010-2011**

The second project focuses on actions on three issues:

- mobility, quality of life and societal demands;
- the impact of regulatory changes; and
- integration of the supply chain.

### **Main events under the project include:**

- a conference entitled *What future for transport? Beyond challenges, towards a shared vision for mobility*, held on 27 April 2010 at the European Economic and Social Committee, Brussels. This conference debated the question of future mobility and its impact on the automotive sector with a view to deepening collaboration of the sector’s main actors and developing a joint policy approach to enhance the future competitiveness of this industry. The project participants believe that only by anticipating future changes in mobility and transportation needs, can the European Automotive Industry generate growth, efficiently reallocate labour to relevant activities and, at the same time, upgrade workers’ skills to contribute to their long-term employability;
- a forum on electro-mobility, held on 30 June 2010 at the European Economic and Social Committee, Brussels. This forum provided high-level discussions among all

relevant stakeholders with a view to fostering an ‘integrated approach’ that will enable electro-mobility to achieve the expected results in terms of competitiveness and employability of the workforce. In terms of future action, the following areas are a priority: ensuring that alternative propulsion vehicles are at least as safe as conventional ones; fostering education and training practices to ensure the transition of the workforce through new green jobs; promoting common standards that will allow all electric vehicles to be charged anywhere in the EU; encouraging installation of publicly accessible charging points; ensuring the development of smart electricity grids; and updating the rules and promoting research on recycling of batteries; and

- two more public events on the impact of the regulatory framework (27 October 2010) and integration of the supply chain (January 2011).

These two projects can be seen as an important contribution to the debate about the key issues facing the automotive industry in the future. They have brought together the main actors concerned with this sector and have brought relevant issues to prominence at EU level. The main stakeholders have formulated a plan of action that will now take these issues forward.

## 5.2: ANTICIPATION OF SKILLS NEEDS — TOWARDS A EUROPEAN SECTOR COUNCIL

As part of the European partnership for the anticipation of change in the automotive sector, the EMF and CLEPA called in October 2009 for the creation of a pan-European observatory on skills issues. In an April 2010 Communication entitled *European strategy on clean and energy-efficient vehicles*,<sup>64</sup> the European Commission stated that, based on this request, it would establish a European sectoral skills council for the automotive industry, involving a network of national observatories. The initiative forms part of the Commission’s current initiative to launch European Sector Councils on Jobs and Skills in a number of pilot sectors — see section 4.3 of this chapter for details.

The context for the automotive initiative is that the sector is increasingly being affected by technological changes, which are themselves closely linked to new societal demands. These technological changes imply renewed efforts in research and development and create high pressure in terms of new skills requirements and qualification needs. Adverse demographic trends also constitute a major challenge.

Automotive industry stakeholders therefore see it as very important to anticipate these changes and prepare companies and workers well in advance, in particular to ensure that the sector has a suitably skilled workforce throughout Europe. Any successful business innovation policy depends on accurate anticipation of the skills needs and on avoiding skills

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<sup>64</sup> European strategy on clean and energy-efficient vehicles COM(2010) 186 final: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0186:FIN:EN:PDF>.

shortages. New tasks, new skill profiles and new working arrangements will be needed in the automotive sector, and it is thus necessary to reflect on how to manage the transformation process. Anticipating needs and reinforcing investment in education and training are essential to give the European automotive industry a suitably skilled workforce, thus guaranteeing its future competitiveness.

The European-level automotive social partners and industry organisations are now working on concrete ways of establishing a European sectoral skills council, by mapping existing national and regional sector councils and labour market intelligence concerning the automobile industry throughout the European Union.

The role of this council would be to help existing national observatories on skills and qualifications in the automotive sector, facilitate the exchange of information between them, and allow its dissemination to a wider audience. The participants would be the European social partners and representatives from national sectoral observatories. The Commission would act as an observer and support the initiative financially.

A European sectoral skills council will not bring about ground-breaking technological innovations but it will provide the necessary information and exchanges of good practice. This will help to ensure that the European automotive industry's workforce can rapidly and effectively adapt to technological innovations and challenges.

Aside from sector-specific concerns, SMEs have particular needs and are in a different situation from larger companies when it comes to maintaining and improving the skills levels of their workforce. Therefore, in the final part of this chapter, we turn to the specific challenges faced by SMEs.



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## 6: TRAINING IN SMALL AND MEDIUM-SIZED ENTERPRISES

### 6.1: SMEs IN EUROPE

Small and medium-sized enterprises (SMEs) are the backbone of the EU economy. In 2008, according to Eurostat figures,<sup>65</sup> of nearly 20.8 million companies in the EU, 99.8% were SMEs, defined officially in employment terms as those with fewer than 250 employees — see table 2.3. SMEs are further divided by the EU into medium-sized enterprises, with 50-249 employees, small enterprises with 10-49 employees, and micro enterprises, with fewer than 10 employees. Micro enterprises made up 91.8% of EU companies in 2008.

In 2008, SMEs accounted for around two-thirds (67.4%) of all employment by enterprises, while micro enterprises employed around three out of 10 (29.7%) of the total.

The relative importance of SMEs — and of the various size categories of SME — varies considerably between countries and between economic sectors. Average firm size is smallest, in employment terms, in Greece and Malta, followed by the Czech Republic, Italy and Portugal. It is largest in Slovakia, followed by Germany, Ireland and the UK.

In sectoral terms, in 2008 SMEs accounted for 88% of all employment in construction, and 83% in hotels and restaurants. However, they employed only 22% of the workforce in electricity, gas and water supply, and 31% in mining and quarrying.

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<sup>65</sup> European Commission (2010), 'European SMEs under Pressure, Annual Report on Small and Medium-sized Enterprises 2009', Directorate-General for Enterprise and Industry: [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr\\_annual\\_report2010\\_100511.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr_annual_report2010_100511.pdf).

**Table 2.3: Enterprises and occupied persons, by size class, in the non-financial business economy, EU 27, 2008 estimates**

Size class	Enterprises		Employment		Average occupied persons per enterprise
	No.	%	No.	%	No.
Micro	19058000	91.8	39630000	29.7	2.1
Small	1424000	6.9	27652000	20.7	19.4
Medium	226000	1.1	22665000	17.0	100.3
SMEs	20709000	99.8	89947000	67.4	4.3
Large	43000	0.2	43414000	32.6	1006.1
Total	20752000	100.0	133362000	100.0	6.4

Source: Eurostat, as elaborated by EIM Business & Policy Research for European Commission (2010), 'European SMEs under Pressure, Annual Report on Small and Medium-sized Enterprises 2009', Directorate-General for Enterprise and Industry.

SMEs are a key driver of economic growth, innovation, employment and social integration, and the European Commission sees it as vital to mobilise and adapt to small business all existing policies and tools, at both European and national levels. The Commission has developed and implements a range of policy measures specifically meant to assist SMEs in Europe.<sup>66</sup> These policies aim to create conditions in which small firms can be created and thrive. If the EU is to achieve its goals of speeding up economic growth and creating more and better jobs, it will be SMEs which will play the most important role, in particular because these firms are the main source of new jobs in Europe. In order to better integrate the SME dimension into EU policies, a special SME envoy<sup>67</sup> was appointed within the Commission's Directorate-General for Enterprise and Industry. In addition, in June 2008, the Small Business Act for Europe was adopted as a comprehensive policy framework for the EU and its Member States.

### Box 2.8: EU measures to help SMEs

The European Commission has developed and implements a range of policy measures specifically meant to assist SMEs in Europe. These policies are aimed at creating conditions in which small firms can be created and can thrive. EU policy in relation to SMEs is concentrated in five key areas:

- promotion of entrepreneurship and skills;

<sup>66</sup> For further information, see [http://ec.europa.eu/enterprise/policies/sme/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/index_en.htm).

- improvement of SMEs' access to markets;
- cutting red tape;
- improving the growth potential of SMEs; and
- consultation with SME stakeholders.

The Small Business Act (SBA) for Europe, adopted in 2008, aims to put into place a comprehensive policy framework for the EU and its Member States. The SBA is an ambitious package of policies designed to put SMEs' interests at the centre of decision-making. At the height of the economic and financial crisis, SBA implementation in the first year focused delivery on the following priorities:

- reducing administrative burden for SMEs;
- access to finance;
- access to markets; and
- promoting entrepreneurship.

## 6.2: GUIDE FOR TRAINING IN SMEs

A recent specific initiative by the European Commission to assist small business is a *Guide for training in SMEs*, published in June 2009.<sup>67</sup> The guide illustrates how training and skills development can be successfully developed and implemented in SMEs despite the internal and external barriers that these firms face in this area. It is based on work carried out in the context of the Restructuring Forum on the adaptation of SMEs to change, held in November 2007, and was prepared by the Directorate-General for Employment, Social Affairs and Inclusion, in cooperation with other Commission Directorates-General, key institutions in European training policy and the European-level social partners.

Based on an evaluation of practical experience and innovative solutions to address major challenges and problems (with references to 50 cases of good practice), the guide for training in SMEs provides a comprehensive and systematic overview of concrete solutions and key elements in various areas where SMEs typically face problems and obstacles in preparing, implementing and managing training appropriately. It groups the various challenges and solutions around three basic aspects:

- addressing internal barriers and obstacles to training facing SMEs;
- finding suitable methods and techniques for training; and

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<sup>67</sup> For further information, see [http://ec.europa.eu/enterprise/entrepreneurship/sme\\_envoy.htm](http://ec.europa.eu/enterprise/entrepreneurship/sme_envoy.htm).

<sup>68</sup> European Commission (2009) Guide for training in SMEs, DG Employment, Social Affairs and Inclusion <http://ec.europa.eu/social/main.jsp?langId=en&catId=782&newsId=544&furtherNews=yes>.

- coping with current and structural challenges of competence development.

For each topic covered, the guide highlights major lessons to be learned, crucial factors of success and aspects of transferability. In the next sections, we summarise some of the main challenges and solutions identified by the guide.

### **Box 2.9: Other studies on the skills needs of SMEs**

#### **Report on the identification of future skills needs in micro and craft (-type) enterprises up to 2020**

The European Commission, Enterprise and Industry Directorate General has commissioned a major research study focusing on the identification and analysis of skills needs in micro and craft (-type) companies.<sup>69</sup> The research study aims to contribute to a better understanding of current and future skills needs of micro and craft enterprises in Europe and to mainstream better the needs of these enterprises in existing policy initiatives at EU level aiming at anticipating and matching labour market and skills needs, identification of skills needs and mismatches, and strengthening the links between vocational education and training (VET) and the labour market. This study is regarded as a part of the *New Skills for New Jobs* initiative and it should support the implementation of the Small Act for Europe.

This study identified future skills needs in micro and craft enterprises up to 2020 in three important economic sectors: construction, food and private personal/health services. Recommendations are summarised with a focus on three main areas of practice: future skills forecasting, communicating future skills needs and integrating future skills into training programmes.

#### **The qualifications-supporting company – How do small and medium sized enterprise support formal adult education?**

The EC-funded ‘Lifelong Learning 2010’ research project<sup>70</sup> analysed participation by employees of small and medium enterprises (SMEs) in formal

<sup>69</sup> For more details, see [http://ec.europa.eu/enterprise/policies/sme/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/index_en.htm).

<sup>70</sup> The LLL2010 project (supported by the EC’s 6th Framework Programme for Research, 2006-2011 — <http://lll2010.tlu.ee/>) studied lifelong learning through a network of fourteen institutions in different countries/regions: Austria, Belgium, Bulgaria, Czech Republic, England, Estonia, Hungary, Ireland, Lithuania, Norway, Scotland, Slovenia and Russian Federation. It conducted research with adults who are participating in formal education (or studies the reasons for non-participation), within small and medium enterprises (SMEs) and within schools, universities and other providers of adult education.

A summary of the research on formal LLL practices within SMEs was published in the Journal of Workplace Learning (Vol. 22 No 1/2, 2010, pp. 79-93): ‘Formal adult learning and working in Europe: a new typology of participation patterns’ by Günter Hefler and Jörg Markowitsch, Danube University, Krems, Austria. This paper was the winner of the Best Paper Award at the 6th International Conference on Researching Work and Learning, Denmark, June 2009.

adult education (education and training in the regular system of schools, universities and colleges). Based on 89 case studies of SMEs in 12 European countries (covering 113 employees) the researchers developed a typology of adult participation in LLL, identifying five basic types of participation patterns:

- **Completing** – these are adults usually aged between 15 and 25 years who combine working and studying for economic reasons. Their main focus is on completing their education.
- **Returning** – these are adults who have stopped their education in the past and, having worked for some years, decide to take up education again.
- **Transforming** – these are adults who are making a fundamental change in career. Their current employment is considered temporary and will be left when a position comes up in the new field.
- **Reinforcing** – these are adults who enter education to progress within their chosen career and generally this provides the greatest potential for support from employers. [Four subtypes are distinguished: *progressing*, *adapting*, *specialising* and *peaking*.]
- **Compensation** – these are adults who engage in education because their career is unsatisfactory and education benefits them on a personal level.

The research provides a deeper insight into the individual and organisational interests of adult education, as well as on the interaction (and barriers) between workplaces and educational institutions.

#### **OECD project leveraging training: skills development in SMEs**

The OECD LEED programme is conducting a project to identify ways to overcome the barriers to workforce development faced by SMEs. The project aims to analyse formal education and training programmes and alternative ways of learning through knowledge-intensive service activities (KISA). The project examines local skills and training ecosystems of selected countries; it also analyses the relevance of green skills for SMEs, making an important contribution to the OECD green growth strategy by exploring the transformation and greening of SMEs towards a low-carbon economy.<sup>71</sup>

### **6.3: TRAINING — A KEY TO SUCCESS AND ADAPTATION**

The skills, motivation and activation of employees are crucial preconditions for the sustainable success, productivity and innovation of enterprises. However, SMEs in Europe —

<sup>71</sup> The first country report, from New Zealand, is available under the following link: [http://www.oecd.org/document/46/0,3343,en\\_2649\\_34417\\_44999662\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/46/0,3343,en_2649_34417_44999662_1_1_1_1,00.html).

and in particular micro and small enterprises — face many challenges and difficulties with regard to continuing training and the development of their human resources. For example:

- how to identify a training programme suited to the company's specific needs?
- how to find financing for training courses?
- how to organise training, for example further training for workers in micro companies where each worker is needed every day?
- how to attract more qualified young people?

The situation of SMEs with regard to training is characterised by a paradox. On the one hand, continuing training and lifelong learning (for both workers and managerial staff) are regarded as crucial elements of competitiveness for SMEs against the backdrop of globalisation. On the other hand, however, statistics show that continuing training and qualifications are less likely to be available to employees working in SMEs than to those in large companies.

#### **6.4: FINANCIAL AND ORGANISATIONAL MEANS**

A lack of financial means and organisational reasons are the first obstacles to training faced by many SMEs. There are, however, many examples of good practices that can help SMEs, alone or in cooperation, to develop training without disturbing their organisation too greatly. E-learning or distance learning, for instance, are particularly well adapted. Thanks to information and communications technology (ICT), training can be provided at the time that suits managers and employees best. To help employers to launch training, there are several tools offering organisational advice that seem particularly adapted to SME culture.

**Box 2.10: Supporting training in French SMEs**

In France, Agefos-PME is a collection body dedicated to SMEs. It has developed several innovative tools for SMEs, with the aim of facilitating their access to training. Among the initiatives proposed by the regional agencies of Agefos-PME is the 'Training Pack' (*Pass' Formation*). This is a series of training modules sometimes wholly financed by Agefos-PME for its members (with the participation of the ESF, the State and local authorities) – or offered at a very low cost (€200 a day for example). More importantly, Agefos-PME covers 100% of wages during training and 100% of any additional costs (travel and accommodation). In order to overcome organisational barriers, the training modules are short, lasting a maximum of five days. The contents of these training modules have been specifically designed for SMEs and focus on areas such as management, HR, commercial issues, languages, and law.

Regarding the lack of financial means, SMEs can be helped in several ways, for example through the sectoral joint bodies that collect special taxes for training measures in some Member States, or other public organisations. However, it is also important to support SME managers, employees and entrepreneurs by other means, for instance in looking for public subsidies or European funding, as access to information is often complex. Public aid can also help SMEs with related organisational matters. For instance, a company may be reimbursed for the absence of an employee. Many other initiatives exist that can address the issue of cost for SME managers and entrepreneurs, such as training vouchers or qualification cheques.

SMEs do not generally have the means to send their experienced staff on longer training courses. The training programmes and methods available on the market are too often unsuited to the size and needs of this type of company. Short training programmes (a few days that can be split over the whole year) that are 'straight to the point' can be very helpful from this perspective. It is important to note that training does not have to be expensive to work well. Informal or on-the-job forms of training can also address the needs of skills and competence development, if they are well organised and their needs and objectives are clearly identified.

All over the EU, initiatives are being implemented in order to adapt the content of training to the needs of SMEs. Examples include: the development of quality labels and the enhancement of skills through informal learning or 'communities of practice' for SMEs in the tourism industry; the upgrading of employees' skills in the textiles and leather industry to help companies facing internationalisation; or increasing employees' ICT-related skills in SMEs.

**6.5: HR AND SKILLS DEVELOPMENT POLICY**

Although human resources and the skills base are the most important factors in competitiveness and success for many SMEs, HR and skills development are often not

organised in a systematic way or with a medium- and long-term approach. This situation can be helped by the use of external advisory services, diagnostic tools and other practical instruments. External public or private actors can offer guidance and access to financing and aid for HR and skills development, which may target people with specific needs on the labour market, such as less qualified workers, older workers or women returning to employment. In the frequent absence of personnel resources in SMEs, external or internal facilitators, advisers, coaches, enablers and counsellors can help to develop a culture of training and, beyond that, a culture of anticipation and management of change. An example of an innovative awareness-raising approach is to appoint 'ambassadors' with the task of promoting training to help keep older workers in employment. Equally, training for managers and entrepreneurs should be given close attention.

### **Perceptions of training needs**

For many reasons — including a lack of opportunities, information and resources — in many SMEs training is not perceived as important by managers, entrepreneurs and workers alike, and it is often thought that existing training programmes are not suitable for SMEs. This makes it important to stress that there are many examples of good practice with regard to making suitable training and skills development possible in SMEs. For example, specific tools adapted to SMEs can identify a company's training or skills needs, while initiatives can inform SME managers, entrepreneurs and workers about existing opportunities, thereby raising the awareness of training opportunities.

### **Resource pooling and cooperation**

Involvement in networks, cooperation or cluster activities with other SMEs can enable companies to engage more effectively in ongoing training and competence development. Such networks can help them to find access to information, increase awareness of the importance of anticipating change and develop training. Networks can be organised on a local basis, generally with a sectoral dimension, while wider communities of practice can also be set up through online forums. An example of a network approach is the state-funded Skillnets in Ireland, which supports the development of enterprise-led learning networks dedicated to the promotion and facilitation of in-employment training and upskilling as key elements in sustaining national competitiveness.

### **Attracting young workers**

Increasingly, SMEs are facing significant challenges due to demographic change. An important issue is that many qualified young people prefer large companies, and consequently SMEs need to do more to attract and retain young workers. There are a range of innovative experiences in the EU that illustrate how they can do this. For example: joint apprenticeships programmes can be developed on a territorial basis, corresponding to the needs of SMEs; networks can be set up to exchange good practice in the successful management of demographic change; or practical courses to attract younger workers can be introduced in sectors facing recruitment difficulties.



## 6.6: LESSONS LEARNED

The guide for training in SMEs shows that there is a wide and rich diversity of practices and experiences in this area in Europe. However, in the end, they all lead to the same conclusion: if SMEs see training simply as an obstacle course, the obstacles can be easily overcome. However, this can be achieved only if SMEs receive help, support and guidance in approaching training measures.

Many SMEs are confused and not that well informed about the large range of training opportunities in their countries. The existence of a large body of different training programmes has often hindered entrepreneurs and employees in SMEs in making decisions on training. Further, organisational barriers, a lack of financial resources or a mismatch between actual training needs and supply are widespread barriers. However, as highlighted by the guide, innovative solutions exist, addressing the common constraints of SMEs with regard to training. While each company's situation varies according to its sector, size and region and there is no universal solution to all their problems, each case has its solution. The factors of success identified in the guide (see box 2.11) highlight important lessons that may facilitate better and more successful training methods in the future.

### **Box 2.11: The key messages of the guide for training in SMEs, drawn from experience across the EU**

**Anticipation.** In a rapidly changing economy, anticipation of skills and competence should become second nature to SMEs. They need to be equipped with the appropriate tools and advice in human resource management.

**Social dialogue.** Anticipating skills and competence implies a considerable degree of dialogue between workers and employers. Assessment tools can offer an initial basis for this dialogue to be implemented. The proximity between managers/entrepreneurs and employees in SMEs provides many opportunities for a common construction of company plans with regard to human capital.

**Assessment.** A permanent, lifelong, culture of assessment should be promoted. In the context of a knowledge society, skill needs are rapidly changing. Needs assessment is therefore a first step to anticipating needs and relevant social dialogue. Evaluation of the results regarding the chosen objectives is also an element of a permanent culture of assessment. Modifying the perception of needs is an important challenge, but European SMEs can do it.

**Collective approach.** SMEs should not be left alone: they are often at the centre of networks, including other SMEs and larger companies, public institutions in the field of training or employment, professional bodies and federations, and social partners. These networks need to be active. In view of the current economic crisis, a collective investment in SMEs will prepare them for the future.

**Guidance and tools.** When they step forward beyond their initial reluctance to receive external guidance offered by professional or public actors, SMEs can benefit from tailor-made tools to overcome obstacles (financial or organisational) in the field of training. Whether they are within or outside a company (or both), facilitators and enablers correctly trained to do their job can be promoted in their function.

**Opportunities.** Plenty of opportunities exist for SMEs, but the right information is often lacking. SMEs might not always be aware of these opportunities, considering them inaccessible or not intended for them. This is not the case. When correctly equipped and enabled, SMEs can more easily take advantage of these training opportunities, eventually resulting in new economic and social opportunities for the company and its workers.

### CHAPTER 3: EU ROLE WITH REGARD TO RESTRUCTURING SUPPORT

The EU plays an important role in the restructuring process, by means such as regulating and endorsing state aid packages and the specific help given by the European Social Fund (ESF) and the European Globalisation Adjustment Fund (EGF). During the crisis, the Commission's policy response has centred on a number of Communications setting out how it intended to apply state aid rules to government measures aimed at supporting the banking sector and the real economy.

Most specifically, temporary measures, adopted under Article 107(3)(b) of the Treaty, have proved to be an important tool in coping with the crisis. The Commission does not impose any specific restructuring measure from the outset and there is no specific business model that is rejected in principle. The starting point of the analysis is always the restructuring plan submitted by a Member State. A temporary framework for state aid has been prolonged until 2011, which will maintain some measures that facilitate access to finance, especially for SMEs, ie subsidised state guarantees and subsidised loans, for example for green products.

The ESF has been the EU's main financial instrument for the anticipation and management of change since its creation in 1957. Its specific aim is to render the employment of workers easier and to increase their geographical and occupational mobility within the Union, and to facilitate their adaptation to industrial changes and to changes in production systems, in particular through vocational training and retraining. Over 400 000 enterprises have benefited from ESF interventions in the field of adaptability, and the ESF has been particularly supportive to actions anticipating economic change.

More specifically, in the context of restructuring and change, the EGF was established in 2007 to help workers made redundant due to structural changes in world trade patterns, assisting them in finding alternative employment. The EGF can co-finance active labour market measures to benefit redundant workers, such as job-search assistance, training, incentives to take up alternative employment and the promotion of entrepreneurship. A total of 29 applications for an EGF contribution were submitted to the Commission in 2009, representing a significant increase on previous years.

Change and restructuring, in the context of globalisation, has a significant impact in the EU regions. Globalisation brings about rapid changes and an increasing speed of structural adjustment. In particular, low-skilled labour as well as low value-added economic activities have felt the force of global competition in recent years. Many regions throughout the EU will therefore have to restructure their economy and promote continuous innovation in products, management and processes, as well as human and social capital, in order to remain competitive. The crisis has had a varying impact and additional disparities for long-term growth perspectives. Particularly negatively affected are regions in the UK, Spain, Italy and Greece, which have become more vulnerable compared with their situation before the crisis. The European Regional Development Fund (ERDF) has played a vital role in facilitating structural adjustments initially induced by internal factors such as the establishment of the

Single Market and industrial restructuring, and will most likely continue to play a particular role in supporting adjustments of particular EU regions. There are a number of examples of specific success stories in terms of regional adjustment and regeneration, from all parts of the European Union.

## 1: THE ROLE OF STATE AID

The concept of state aid is defined in Article 107(1) of the Treaty on the Functioning of the European Union (TFEU)<sup>72</sup> and covers all aid granted by Member States or through state resources in any form whatsoever which distorts or threatens to distort competition on the internal market. Member States' interventions designed to help ailing companies can take different forms, but tend to include, in particular:

- capital injections;
- debt waivers;
- debt rescheduling;
- debt to equity swaps;
- soft loans; and
- loan guarantees.

If the public authorities claim that they are prepared to grant the above measures to companies on the same conditions as market operators, and thus these interventions do not grant any economic advantage to the company, the Commission will verify the existence of an advantage under the so called market economy operator principle.<sup>73</sup> Provided this test is not satisfied and the measure constitutes state aid, its *compatibility* with the internal market is assessed by the Commission under the Rescue and Restructuring Guidelines.<sup>74</sup> The Rescue and Restructuring Guidelines are based on Article 107(3)(c) of the TFEU and apply to all sectors, except the coal and steel sector.

Rescue aid to firms in difficulty can only be awarded as a temporary assistance in the form of a loan or guarantee to keep an ailing company afloat for a period of six months during which a restructuring plan or liquidation plan is devised. Restructuring aid can be granted in any form on the basis of a restructuring plan fully endorsed by the Commission which would

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<sup>72</sup> Treaty on the Functioning of the European Union: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0047:0199:EN:PDF>.

<sup>73</sup> The market economy operator principle is a test based on the conduct of a reasonable private investor or private creditor and consists of determining whether the undertaking which benefits from any state support measure could have obtained the same economic advantage this measure brings on the market.

<sup>74</sup> Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 244, 01.10.2004, p. 2.

lead to long-term viability of the company on the basis of realistic assumptions and in a reasonable timescale. The restructuring plan should include compensatory measures, in particular divestment of assets, reductions of capacity or market presence or entry barriers to the market concerned, in order to compensate for the distortive effect of the aid on the market. Write-offs and closure of loss-making activities which would at any rate be necessary to restore viability cannot be considered reduction of capacity or market presence for the purpose of the assessment of compensatory measures.

The underlying principle of both rescue and restructuring aid is ‘the one-time-last-time principle’ which means that a company in difficulty which has benefited from a rescue or restructuring aid in the past 10 years, is not eligible to receive further state support.

The Rescue and Restructuring Guidelines take into consideration policy objectives such as social and regional policy and recognise the beneficial role played by small and medium enterprises in the economy. On the other hand, the Rescue and Restructuring Guidelines clearly underline that rescue and restructuring aid cannot be justified to keep ailing companies artificially alive in a sector with long-term structural overcapacity or allow companies to survive only as a result of repeated state interventions.<sup>75</sup>

## **1.1: THE COMMISSION’S POLICY RESPONSE TO THE FINANCIAL CRISIS**

In order to assist Member States in taking urgent measures to preserve financial stability and provide legal certainty, the Commission adopted a number of Communications between October 2008 and July 2009, setting out how it would apply state aid rules to government measures aimed at supporting the banking sector and the real economy (which is that part of the economy which is concerned with producing goods and services, in contrast to that which is concerned with buying and selling on the financial markets) in the context of the economic crisis. The primary rationale of this guidance was to ensure that emergency measures taken for reasons of financial stability maintain a level playing field between firms which receive public support and those which do not, as well as between companies located in different Member States. These rules were adopted under Article 107(3)(b) of the Treaty in the light of the seriousness of the crisis and its impact in the overall economy of the Member States. An overview of these Communications is provided below.

### **1.1.1: STATE AID TO THE FINANCIAL SECTOR**

The Commission’s Communication entitled *The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis*,<sup>76</sup>

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<sup>75</sup> An overview of the rescue and restructuring cases can be found under this link: [http://ec.europa.eu/competition/elojade/isef/index.cfm?clear=1&policy\\_area\\_id=3](http://ec.europa.eu/competition/elojade/isef/index.cfm?clear=1&policy_area_id=3).

<sup>76</sup> The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis: [http://ec.europa.eu/competition/state\\_aid/legislation/banking\\_crisis\\_paper.pdf](http://ec.europa.eu/competition/state_aid/legislation/banking_crisis_paper.pdf).

issued in 2008, was the Commission's first response to the worsening financial crisis. Based on the principles of the existing guidelines on rescue and restructuring aid, this Communication provided guidance on the criteria for determining the compatibility of state support measures for the financial sector within the special circumstances of the crisis. In particular, the Communication provided detailed guidance on government guarantees for bank liabilities, which were the most widespread initial response to the crisis, when it was necessary to re-start the interbank lending markets.

The Communication of October 2008 recognised the importance of recapitalisation schemes in preserving the stability and proper functioning of financial markets. In response to requests for detailed guidance on the compatibility of recapitalisation schemes, the Commission issued a further Communication on 5 December 2008, entitled *The recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition*.<sup>77</sup> The Communication recognised that the recapitalisation of banks could serve a number of purposes, including not only the restoration of financial stability, but also the preservation of lending to the real economy.

Subsequently, several Member States announced an intention to complement guarantee and recapitalisation measures by providing some form of relief for impaired bank assets. In its February 2009 Communication on impaired assets,<sup>78</sup> the Commission provided guidance on the treatment of asset relief measures by the Member States. This guidance is based on the principles of transparency and disclosure, adequate burden-sharing between the state and the beneficiary and prudent valuation of assets based on their real economic value.

The Communication of October 2008 made clear that a far reaching restructuring would be required for financial institutions with problems resulting from their particular business model or business practices, whose weaknesses had been exposed and exacerbated by the crisis. Other, fundamentally sound institutions might require less substantial restructuring in order to ensure long-term viability. The Commission's July 2009 Restructuring Communication<sup>79</sup> clarifies some aspects of restructuring in the context of the present financial crisis. In particular, it gives detailed guidance on how restructuring plans need to address long-term viability, burden-sharing between the bank, its shareholders and the state, and distortions of competition created by the aid.

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<sup>77</sup> The recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition, 2009/C 10/03: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:010:0002:0010:EN:PDF>.

<sup>78</sup> Communication from the Commission on the treatment of impaired assets in the Community banking sector: [http://ec.europa.eu/competition/state\\_aid/legislation/impaired\\_assets.pdf](http://ec.europa.eu/competition/state_aid/legislation/impaired_assets.pdf).

<sup>79</sup> Communication from the Commission on the return to viability and the assessment of the restructuring measures in the financial sector in the current crisis under the State aid rules: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:195:0009:0020:EN:PDF>.

The Commission does not impose any specific restructuring measure from the outset and there is no specific business model that is rejected in principle. The starting point of the analysis is always the restructuring plan submitted by a Member State. In that respect, the first priority when dealing with the restructuring of banks is to ensure that they can operate profitably without state support. The benchmark of long-term viability may call for different solutions across banks, ranging from limited restructuring with no divestments to an orderly winding-down of unviable entities.

Any restructuring plan has to adequately address measures to limit distortions of competition. Taking account of the market circumstances of each case and the scale of State intervention, measures to limit competition distortion may include divestments, temporary restrictions on acquisitions by beneficiaries and other behavioural safeguards.

If, in all restructuring cases that have been dealt with by the Commission, the principles of the Restructuring Communication have been carefully applied, account has also been taken of the specificities of each individual case. Reaching the right balance between the multiple aspects of a restructuring case requires thorough knowledge of the facts and specificities of each bank. However, the principles guiding the Commission's approach are clear and consistently applied across cases.

### **1.1.2: STATE AID TO THE REAL ECONOMY**

In parallel to the measures directly addressing financial institutions, the Commission also adopted a temporary framework<sup>80</sup> for state aid measures in order to counteract the increasing difficulty of the real economy in obtaining credit and other types of financial support, while maintaining a level playing field and avoiding undue restrictions of competition.

The additional state aid measures provided for by the temporary framework basically pursued two objectives:

- to immediately unblock bank lending and thereby help provide continuity in company access to finance; and
- to encourage companies to continue investing into a sustainable future, including the development of green products.

The temporary framework provides for a number of new measures that could be applied by Member States for a limited period of time, until the end of 2010, as well as a number of temporary derogations from existing state aid rules:

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<sup>80</sup> Communication from the Commission — Temporary Community Framework for State aid measures to support access to finance in the current financial and economic crisis.

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- a lump sum of aid of up to €500000 per company for two years, which can cover investments and/or working capital. In October 2009, the Commission introduced an amendment to the Temporary Framework in order to allow for a compatible limited amount of aid of €15000 for the agricultural sector,<sup>81</sup> which was initially excluded from the scope of application of this measure;
  - subsidised guarantees for loans at a reduced premium. The guarantee can cover up to 90% of the loan and it may relate to both investments and working capital loans;
  - aid in the form of a subsidised interest rate;
  - subsidised loans for the production of green products (meeting environmental protection standards early or going beyond such standards); and
  - a risk capital injection for SMEs of up to €2.5 million per year (an increase on the previous €1.5 million per year) in cases where at least 30% (instead of the previous 50%) of the investment cost comes from private investors.

Further, Member States can benefit from a simplification of the 'escape clause' contained in the Communication on short-term export-credit insurance.<sup>82</sup> This clause gives the possibility of using public funds to cover marketable risks, which are usually excluded from this benefit.

The temporary framework is, in principle, of general application to all types of firms. However, a significant exception was that it was not applicable to firms that were in difficulties on 1 July 2008. Aid to companies where difficulties date from before the economic crisis had to be assessed exclusively on the basis of general rules regarding rescue and restructuring aid (see above). This rule acknowledged that a number of companies might have found themselves cut off from financing due to the drying up of the lending market, although they had a sound business plan. The temporary framework could therefore be applied to relieve temporary financial difficulties. If the difficulties arose before the crisis, however, the normal rules of rescue and restructuring aid had to be applied. In this way, the Commission ensured that over-protective aid measures devised by the Member States would not revitalise structurally failing firms to the detriment of competition and healthier firms.

By way of example, the Commission approved guarantees to be issued by the Swedish state as collateral for a loan from the European Investment Bank to finance green projects by Volvo cars, after concluding that this company was not in difficulty on 1 July 2008.<sup>83</sup> The

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<sup>81</sup> Communication from the Commission amending the Temporary Community Framework for State aid measures to support access to finance in the current financial and economic crisis: [http://ec.europa.eu/competition/state\\_aid/legislation/atf\\_en.pdf](http://ec.europa.eu/competition/state_aid/legislation/atf_en.pdf).

<sup>82</sup> Communication of the Commission applying Articles 92 and 93 of the Treaty to short-term export- credit insurance: [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997Y0917\(01\):EN:NOT](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997Y0917(01):EN:NOT).

<sup>83</sup> Case N 80/2009 — *State guarantees in favour of Volvo cars* (OJ C 172, 24.07.2009).



Commission, following a notification by the United Kingdom, also approved rescue aid to the LDV Group.<sup>84</sup> Since that company had been in difficulties for some time, the measure was based on the Rescue and Restructuring Guidelines.

Between 17 December 2008 and 1 October 2010, the Commission approved 73 schemes under the Temporary Framework, and 4 *ad hoc* aid measures, including:

- 23 schemes for aid up to €500 000 per company;
- 18 subsidised guarantee measures;
- eight schemes for subsidised loan interests;
- five schemes offering reduced interest loans to businesses investing in the production of green products; and
- six risk-capital schemes and 13 export-credit schemes.<sup>85</sup>

Financial support from public authorities in the context of restructuring, including labour market measures that are undertaken by the public authorities particularly at regional and/or local level, may involve state aid. Care must therefore be taken to ensure that such support complies with the applicable rules on state aid.

## 1.2: WAY FORWARD

On 1 December 2010, the Commission prolonged into 2011 the crisis-related state aid measures that enable Member States to support their financial sector as well as the temporary framework, in both cases on stricter conditions.

The Commission believed there were still grounds to deem the requirements for the application of crisis-related rules fulfilled. But the continued punctual availability of specific crisis aid measures must go hand in hand with a gradual disengagement from the temporary extraordinary support<sup>86</sup>.

For the financial sector, this approach had already started with the tightening of conditions for new government guarantees from July 2010 through a fee increase and a closer scrutiny of the viability of heavy guarantee users. It is now required that, as of 1 January 2011, every bank in the EU having recourse to state support in the form of capital or impaired asset

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<sup>84</sup> Case NN 41/2009 — *Rescue Aid to LDV* (OJ C 212, 05.09.2009).

<sup>85</sup> State Aid Scoreboard, Autumn 2010 Update, p.11. See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0701:FIN:EN:PDF>.

<sup>86</sup> The Temporary Framework for the real economy has not been prolonged after 1st January 2012. From this date, normal State aid rules should apply.

measures will have to submit a restructuring plan. Until now this was limited to distressed banks, ie banks that, in particular, received support above 2% of their risk-weighted assets.

The prolonged temporary framework maintained some measures facilitating the access to finance, especially for SMEs, ie subsidised state guarantees and subsidised loans, inter alia for green products. In these areas, the market is not yet able to entirely meet small companies' financing needs. The introduction of stricter conditions for those measures aimed at facilitating a gradual return to normal state aid rules while limiting the impact of their prolonged application on competition. This includes that, in 2011, for large firms working capital loans were excluded from the application of the Temporary Framework and that firms in difficulty could no longer benefit from the framework.

As companies still have difficulties in finding adequate trade insurance coverage from private insurers in many sectors and Member States, the Commission also extended the procedural simplifications on short-term export credit insurance that were introduced by the Temporary Framework.

The next section of this chapter looks in detail at the role of the European Social Fund in providing help to organisations to enable them to better anticipate and manage change.

## 2: THE ROLE OF THE EUROPEAN SOCIAL FUND

The European Social Fund (ESF)<sup>87</sup> has been the EU's main financial instrument for the anticipation and management of change since its creation in 1957. Under Article 162 of the Treaty on the Functioning of the European Union, the ESF aims 'to render the employment of workers easier and to increase their geographical and occupational mobility within the Union, and to facilitate their adaptation to industrial changes and to changes in production systems, in particular through vocational training and retraining'.

In the context of globalisation, continuous innovation in technology, the occurrence of major change in consumer demand and new business models, anticipating and managing change has become a key issue in the employment strategies of both companies and authorities in the past decade. One of the key challenges for the ESF in 2007-2013 is to reconcile security for workers with the flexibility which companies need (which forms part of the flexicurity debate).

Acknowledging and responding to these needs, the ESF for the period 2000-2006 placed the development of employment through improving the adaptability and skills of people among its chief priorities (see box 3.1 below).

### Box 3.1: The 2000-2006 programming period

23 out of 25 Member States used the ESF for actions supporting the adaptability of their companies and their workers. Between 2000 and 2006, almost €12 billion in total was invested to support the anticipation, management and mitigation of economic change. The ESF contributed €5.2 billion, 43% of the total expenditure in the area of adaptability.

More than 7 million people have been supported through ESF-funded actions, mainly in the UK and Italy (1 million participants in each of these countries). Most beneficiaries were people between the ages of 26 and 54 and one in seven beneficiaries was an older worker. This share is almost twice as high as their average involvement in ESF actions. In some Member States, they represent a very significant part, such as in Finland (40%) and Belgium (35%).

Over 400 000 enterprises have benefited from ESF interventions in this field. ESF has been particularly supportive to actions anticipating economic change. Special attention was given to actions in support of SMEs. ESF support for adaptability has been further enhanced for the 2007-2013 programming period. The ESF is currently supporting adaptability interventions in all 27 EU Member States. It is making major contributions in the anticipation and management of change, providing support for individuals, systems and

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<sup>87</sup> [http://ec.europa.eu/employment\\_social/esf/index\\_en.htm](http://ec.europa.eu/employment_social/esf/index_en.htm).

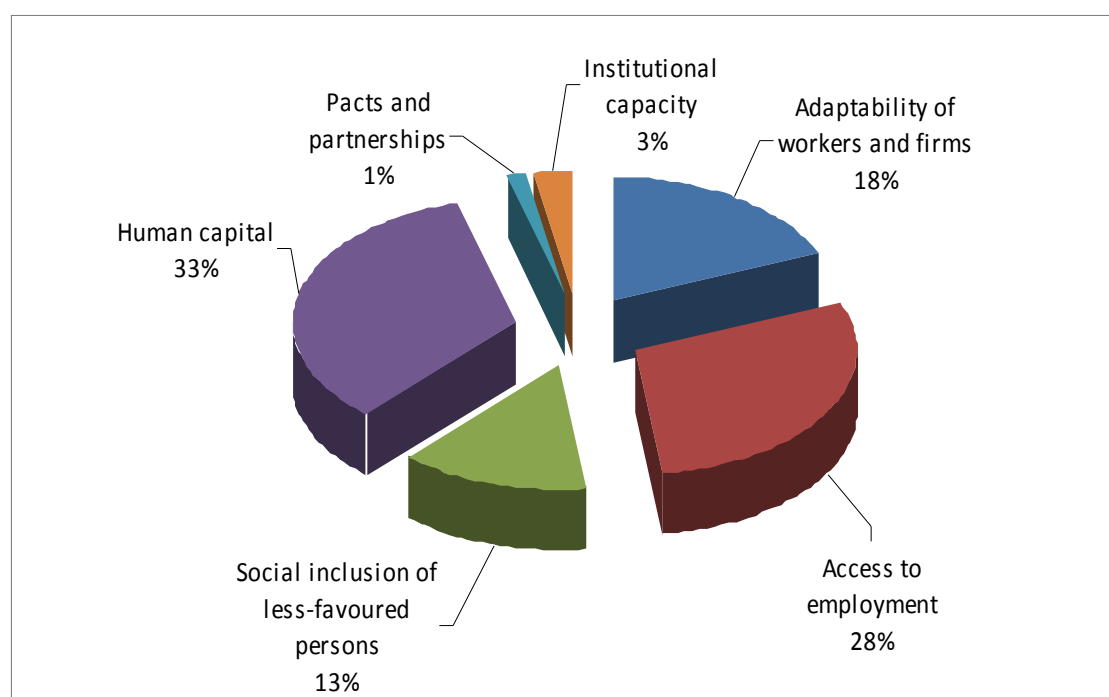
companies. This contribution is presented in more detail in the following sections of this chapter.

### **2.1: ADAPTABILITY IN THE ESF OPERATIONAL PROGRAMMES FOR DURING 2007-2013**

In the programming period 2007-2013, the ESF is supporting interventions under the following six policy fields:

- adaptability of workers and companies;
- access to employment for jobseekers and inactive people;
- social inclusion of disadvantaged people with a view to their sustainable integration in employment;
- development of human capital through the promotion of reform of education and training systems and learning;
- promotion of partnership and the involvement of the social partners; and
- strengthening of the institutional capacity and the efficiency of public administrations and public services at national, regional and local level.

During this period, the ESF budget has been significantly increased, to €13.5 billion, to co-finance adaptability interventions. This represents 18% of the total ESF investment across the EU (€76 billion), almost one fifth of ESF funds. For an overview of ESF expenditure by category during this period, see figure 3.1 below.

**Figure 3.1: ESF expenditure by category, 2007-2013**

A detailed mapping of interventions to support the anticipation and management of economic change and restructuring was carried out in 2009.<sup>88</sup> This exercise identified 106 operational programmes addressing adaptability out of a total of 117 operational programmes for the entire programming period 2007-2013.

In the period 2000-2006 there were no adaptability operational programmes in Cyprus and Latvia. Now interventions are foreseen in all Member States. However, there are considerable differences between Member States, when it comes to the ESF allocations dedicated to adaptability in relation to all ESF subsidies for the period 2007-2013, ranging from 7% in Portugal to 76% in Ireland.

Table 3.1 below gives an overview of the three main categories of measures that the fund may support and the financial allocation to each of these categories of measures, based on the ESF regulation that was adopted in 2006.<sup>89</sup>

<sup>88</sup> Report on 'The European Social Fund: adaptability and continuing training of workers', Bernard Brunhes International, 2010.

<sup>89</sup> Regulation (EC) No 1081/2006 of the European Parliament and of the Council (5 July 2006) on the European Social Fund and repealing Regulation (EC) No 1784/1999.

**Table 3.1: ESF allocations aimed at increasing the adaptability of workers and firms, enterprises and entrepreneurs by categories**

Category	Financial allocation in Million Euros	Percentage
Development of lifelong learning systems and strategies in firms; training and services for employees	9.4	69.6%
Design and dissemination of innovative and more productive ways of organising work	1.6	11.8%
Development of special services for employment, training and support in connection with restructuring of sectors	2.5	18.6%
<b>Total</b>	<b>13.5</b>	<b>100%</b>

The improvement of human resources planning and development in companies accounts by far for the largest part of ESF support in this area, with around €9.4 billion (almost 70% of the total expenditure). €2.5 billion (18.6% of the total expenditure) is more directly linked to sector and company restructuring through the development of systems to effectively anticipate change. Finally, innovative and more productive ways of organising work account for almost €1.6 billion (12% of total expenditure).

## 2.2: ESF INTERVENTIONS AT THE DIFFERENT STAGES OF THE RESTRUCTURING AND CHANGE PROCESS

ESF interventions can be distinguished according to the different stages of the restructuring and economic change processes:

- anticipation of economic change and skills needs;
- managing economic change and promoting adaptability; and
- mitigating the effects of economic change and restructuring processes. The individual stages of anticipation, management and mitigation are addressed in 19, 23 and 17 Member States respectively.

### Anticipation of economic change and skills needs

The ESF supports various activities in the context of the anticipation of economic change and skills needs, such as forecasting, analysing skills gaps and future skills requirements and/or early warning diagnosis.

These measures mainly focus on enterprises as a main target group, for example by providing information, counselling, and aid with work organisation and working time. However, there are also some targeted actions for workers, for example by providing career development, guidance, counselling, and individual skill development plans, and supporting professional mobility.

**Box 3.2: National occupational skills needs forecasting (Finland)**

The national occupational skills needs forecasting project (Valtakunnallinen ammatillisten osaamistarpeiden ennakointi, VOSE) is one of several projects developing anticipation methods in Finland currently underway, many of which receive funding from the ESF. The Finnish National Board of Education initiated the project, focusing on anticipating future competences and skills needs. The VOSE project has a budget of 1 million euros for three years, from 2008 to 2011.

The aim of the project is to develop procedures which enable the anticipation of competences and skills needs for the future for post-compulsory education and in all vocational and professional fields. These include methods for anticipating competences and skills needs, anticipation processes and networking of the institutions involved. The procedures will be tested in the social and health care, real estate and construction sectors. The VOSE project also aims to create a web-based tool that works in social media.

VOSE is a cooperation project engaging several stakeholders, including the state administration, social partners, vocational education providers, polytechnics, universities, local authorities, research institutes and student organisations.

[http://www.oph.fi/tietopalvelut/ennakointi/osaamistarpeiden\\_ennakointi/vose-projekti](http://www.oph.fi/tietopalvelut/ennakointi/osaamistarpeiden_ennakointi/vose-projekti)

**Managing economic change and promoting adaptability**

The ESF finances different activities in the context of managing economic change and promoting adaptability. These include measures to help companies to keep pace with modern technologies by developing their research and development capability (through actions such as research grants and pre- and post-doctoral training), activities in the field of innovative and modern types of work organisation to enhance company competitiveness (for example in the area of working time and work-life balance), further training, skills and competence development, targeting addressing managers, entrepreneurs and individual workers.

**Box 3.3: Devising the Romanian labour market's response to the economic crisis – enhancing company flexibility and the security of the workforce (Romania)**

The stated goal of this project is to contribute to the promotion of the core concept of flexicurity in the Romanian economy.

The objectives of the project are:

- to analyse various scenarios of growth and job creation for the Romanian economy and to explore ways and means of exiting the crisis and resuming growth with job creation;
- to devise for this purpose an ‘anticipation tool kit’ using both enterprise investigation as well as modelling techniques; and
- to explore and implement at enterprise level innovative ways by which the incorporation of flexicurity could help in boosting the chances of corporate entities in a global, highly competitive environment.

Activities of the project include: studies and analyses of good practices at European level and the likelihood of transferability into national practice, an in-depth analysis of the national context, a preliminary assessment of available anticipation tools, scenario analysis, development of anticipation instruments, activities to devise tailored flexicurity arrangements and set the stage for their subsequent application, training in internal flexibility arrangements for 45 line managers and human resources managers in the two selected enterprises, a number of dissemination activities and the publication of the results of the first test run of the anticipation instrument, based on the outputs of scenario analysis. This project was launched at the end of 2009 and will run until the end of 2011, with a total budget of € 3 million.

[www.flexicoverly.ro](http://www.flexicoverly.ro) (under construction)

In 43 operational programmes, the specific needs of small and medium-sized enterprises (SMEs) are addressed explicitly, with actions foreseen to support the development of adequate training and competence development structures and systems such as tailor-made training programmes, job rotation schemes and/or pooling of resources.

#### **Box 3.4: The Working Skills for Adults initiative (Wales, UK)**

A £ 15 million scheme to increase the skills of over 16 000 workers across six counties in south-east Wales was launched in June 2010. Led by Torfaen County Borough Council in collaboration with three other local authorities and three further education colleges, the Working Skills for Adults initiative will help employees gain new qualifications and skills as well as help employers identify training to boost business productivity.

Operating across Torfaen, Blaenau Gwent, Bridgend, Caerphilly, Merthyr Tydfil and Rhondda Cynon Taf, it will address the general skills that employees need and that can be transferred between jobs, such as basic skills training, ICT and Welsh language.

In addition, specialised support for small- to medium-sized enterprises (SMEs) will help identify specific skills gaps and supply national vocational qualification (NVQ) programmes to address them.



Working Skills for Adults is backed by £ 8.8 million from the European Social Fund, with further funding from the local authorities and further education colleges who will deliver the scheme.

Training and support will be offered in a wide range of community, college and workplace settings and through a range of channels, including online and face-to-face, to meet individual needs and reduce barriers to learning.

### **Mitigating the effects of economic change and restructuring processes**

The ESF funds many interventions which accompany restructuring and structural change, both at the enterprise level as well as helping individual employees to cope with the effects of restructuring and change.

At the enterprise level, particular activities such as advice and studies are being implemented throughout the European Union to support social dialogue and improve crisis management. Other actions have been focusing more on the consolidation of sectors' competitiveness or the redeployment of companies in sectors in decline (through actions such as consulting, guidance and re-qualification).

#### **Box 3.5: Evolution of organisational culture in times of restructuring: research and information project (Poland)**

This project was implemented from January 2009 to March 2010 by the social partners in Poland. Its principal objective was to raise awareness of the importance of organisational culture in the process of restructuring and to deliver model solutions of organisational culture in order to improve the competitiveness of companies facing change. The project was based on a diagnosis and has delivered a model of adaptable organisation and standard measures which should be carried out during the process of restructuring. Employers, employees and social partners participated in designing and delivering standards, which were disseminated at conferences and meetings with employers and employees throughout the entire country. It is estimated that 70% of participating employers and employees raised their awareness of their role in the design of the culture of organisation. Further, representatives of 40 trade unions and at least 10 regional organisations of employers were targeted by the information and promotion campaign, which was one of the elements of the project. The total budget of this project was 807 000 PLN.

[http://www.fzz.org.pl/index.php?option=com\\_content&view=article&id=110&Itemid=76](http://www.fzz.org.pl/index.php?option=com_content&view=article&id=110&Itemid=76)

At individual employee level, assistance includes advice, tailored help and training (often through dedicated structures) for individuals who have been made redundant, and promotion of professional mobility, self-employment and start-ups.

**Box 3.6: Restart – Vysočina / Restart – Highlands (Czech Republic)**

This project aims to assist 1 000 employees who are under threat of redundancy or who are already under notice, working in companies in sectors undergoing structural changes.

The project consists of a mix of activities – from introductory consultancy through to training and re-qualification until individuals find alternative employment – designed to help participants potentially before their employment is terminated. Employers receive partial reimbursement of salary and social and health insurance costs during the period in which the employees participate in the activities (which are free of cost for the employees).

The project is implemented by Regional Labour Offices in the Highlands region of the Czech Republic from October 2009 to February 2012. Its total budget is €2.6 million, with €2.2 million from the European Social Fund.

<http://www.esfcr.cz/zakazky/restart-vysocina>

As the length and significance of each stage varies greatly according to Member States' characteristics, ESF measures address each stage of the change process in a different way in individual Member States. In some cases, measures are concentrated on one stage only, and in others they cover two or three stages of the process (see box 3.7 below).

**Box 3.7: Rapid reaction to change, including prevention and crisis intervention measures (Poland)**

This project was launched in April 2009 and will be terminated in December 2013 with the establishment of the centre of Monitoring of Economic Change. Its budget is 56 million PLN. Based on a comprehensive system of indicators for anticipation of change and through the analysis of sensitive sectors (12 reports), the three sectors that are in most need will be identified.

A total of 200 companies (10 micro enterprises, 130 SMEs and 60 large enterprises) will receive support in the framework of individual development plans drawn up on the basis of indexes of early warning.

A total of 4 000 workers and employees will receive support: at least 80% will increase qualifications and/or change jobs; at least 50% will benefit from outplacement schemes, including 30% who will find a job after six months.

**Support for business creation and self-employment**

The European Social Fund has a long history of supporting people who want to start their own companies and be self-employed. Supporting self-employment and new businesses is

one of the priorities of the European Social Fund 2007-2013 programming period. Seventeen Member States have included this priority in their Operational Programmes which set out the employment and social priorities they have selected for ESF funding. Overall, this priority is receiving some €2.75 billion of ESF funding although the total spend will be higher as matching national funding is added.

Much of this funding is devoted to supporting would-be entrepreneurs according to their needs. They can obtain training, advice and mentoring through ESF programmes which will help them set up their companies. Once up and running, training, guidance and consulting can contribute greatly to the new business' survival through the first months — providing the new entrepreneur with the skills and advice to avoid common pitfalls. As well as providing new entrepreneurs with the skills and advice they need, the ESF also helps them surmount the other main obstacle many face — access to finance. Several Member States deploy ESF funding to support micro-credit lending aimed at raising employment and promoting entrepreneurship.

The other main EU-level fund to which actors can turn to help them in their efforts to anticipate and manage change is the European Globalisation Adjustment Fund (EGF), which is discussed in detail in the next part of this chapter.

### **3: THE ROLE OF THE EUROPEAN GLOBALISATION ADJUSTMENT FUND**

The European Globalisation Adjustment Fund (EGF)<sup>90</sup> was established in 2007 to help workers made redundant due to structural changes in world trade patterns, so that they can find alternative employment. The EGF can draw down funds from a maximum annual reserve of €500 million, with which it can co-finance active labour market measures to benefit redundant workers, such as job-search assistance, training, incentives to take up alternative employment and the promotion of business creation.

The EGF was designed as a means of reconciling the overall long-term benefits of open trade in terms of growth and employment with the short-term adverse effects which globalisation may have, in particular in relation to the employment of the most vulnerable and lowest-skilled workers. In addition to the EU's Structural Funds, the programmes of which are carried out over multi-annual periods, the EGF was intended as an instrument to be available in situations where mass redundancies were caused by globalisation and were likely to have a severe impact on the local, regional or national economy.

In its European Economic Recovery Plan of 26 November 2008, the Commission stated that it would revise the rules of the EGF so that workers affected by the global financial and economic crisis would also be in a position to benefit from EGF assistance; the rules of the EGF were amended accordingly in 2009. This resulted in a steep increase in the number of applications for EGF funding as well as a rise in the number of workers targeted for help.

#### **3.1: THE FUNCTIONING OF THE EGF**

The rules governing the EGF are laid down in Regulation (EC) No 1927/2006, which was adopted by the European Parliament and the Council on 20 December 2006. This Regulation states that a Member State (not a company or an individual) can submit an application for a contribution from the EGF when redundancies within one company and its suppliers and customers, or in an economic sector within one or two contiguous regions, have a significant adverse impact on the regional or local economy.

Originally, the EGF could intervene only in cases where at least 1000 workers had been made redundant because of structural changes in world trade patterns (eg a substantial increase of imports into the European Union, or a rapid decline of the EU market share in a given sector or a delocalisation to third countries). A consultation of stakeholders (the EGF national contact persons, social partners, and academics) in September 2008 showed that the threshold of 1000 redundancies was considered too restrictive since mass redundancy events affecting fewer than 1000 workers still have a European scale, which would justify the involvement of the EU as they can cause severe effects at the level of the regional or local labour market.

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<sup>90</sup> For more details, see: <http://ec.europa.eu/social/main.jsp?catId=326&langId=en>.

In the light of the scale and the speed of development of the global economic and financial crisis, the Commission announced in its European Economic Recovery Plan<sup>91</sup> its intention to extend the scope of the EGF as part of European response to the crisis and to transform it into an early, more effective intervention instrument in line with the fundamental principles of solidarity and social justice.

The intention to improve the EGF resulted in an amendment<sup>92</sup> to the 2006 EGF Regulation, which applied to new cases from 1 May 2009 and introduced both temporary and permanent modifications. The permanent changes focus in particular on: a reduction in the number of redundancies required to trigger EGF assistance (500 instead of 1000); and the extension of the period in which the measures may be implemented (24 months instead of 12 months). The temporary provisions — until the end of 2011 — broaden the scope of the EGF to cover redundancies caused by the financial and economic crisis in addition to those due to world trade slowdown between 2008 and 2009, and they also increase the EGF co-financing rate from 50% to 65%. For an overview of the provisions contained in the EGF Regulation as amended, see table 3.2 below.

**Table 3.2: Main provisions of the 2009 EGF Regulation**

<b>Intervention criterion</b>	Art. 2(a) of EGF Regulation 2009	Art. 2(b) of EGF Regulation 2009
<b>Enterprises concerned</b>	One enterprise and its suppliers/downstream producers	Enterprises operating in the same economic sector <sup>93</sup> (typically SMEs)
<b>Geographical scope</b>	National	Regional (one or two contiguous regions <sup>94</sup> )
<b>Number of redundancies</b>	500 or more	
<b>Period to count redundancies</b>	4 months	9 months

An EGF contribution can be sought only for *active* labour market policy measures such as:

<sup>91</sup> Communication from the Commission to the European Council on A European Economic Recovery Plan, COM(2008) 800.

<sup>92</sup> Regulation (EC) No 546/2009 amending Regulation (EC) No 1927/2006 on establishing the European Globalisation Adjustment Fund.

<sup>93</sup> For the purpose of the EGF the economic sector is defined as a NACE Revision 2 Division, Regulation (EC) No 1893/2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC regulations on specific statistical domains.

<sup>94</sup> For the purpose of the EGF the region is defined at NUTS II level, Regulation (EC) No 1059/2003 on the establishment of a common classification of territorial units for statistics (NUTS).

- occupational guidance, tailor-made training and retraining (eg ICT skills, certification of acquired experience), outplacement assistance, entrepreneurship promotion or aid for self-employment;
- special time-limited measures, such as job-search allowances, mobility allowances or allowances to individuals participating in lifelong learning and training activities; and
- measures to stimulate in particular disadvantaged or older workers, to remain in or return to the labour market.

All of the above measures are eligible for EGF assistance, as long as they do not replace measures provided for under national law or collective agreements. Only the targeted workers can benefit from EGF assistance. The EGF does not co-finance the restructuring of companies or sectors.

### **3.2: OVERVIEW OF APPLICATIONS RECEIVED IN 2009**

A total of 29 applications for an EGF contribution were submitted to the Commission in 2009, of which 27 were received after 1 May 2009 when the amended rules of the EGF entered into force. By comparison, the EGF had received only 14 applications in its first two years of operation.

The applications received in 2009 were submitted by 13 Member States (seven applications were from the Netherlands, four from Lithuania, three from Ireland, two from Portugal, Germany, Belgium, Spain, and Denmark, and one each from Italy, Sweden, Austria, France and Bulgaria) and aimed at helping almost 29000 redundant workers for a total requested amount of €164.7 million. These applications related to 17 different sectors, of which the printing industry (5 applications), the automotive sector (4) and the textiles industry (3) were the most prominent. It must be noted that the EGF Regulation does not restrict the scope of the EGF to specific economic activities, meaning that any worker from any type of enterprise — be it operating in industry, the services or in primary sectors — can benefit from its assistance, provided the intervention criteria are met.

#### **EGF applications by amount requested**

The Member State applying for EGF support must design a coordinated package of measures that best fits the targeted workers' profile, and decide on the level of assistance to request. The EGF Regulation does not limit the amount requested per measure or per application, but the Commission's assessment of an application may raise issues which cause the applicant Member State to revise its package of measures, thereby affecting the level requested.

In 2009 the contributions requested from the EGF ranged from €258164 to €56385144, with an average of €5.5 million.

In terms of categories of measures provided to the targeted workers, most of the expenditure relates to training and retraining, job-search assistance and allowances while

workers are involved in an active labour market measure. In 2009, for instance, the breakdown of estimated costs per type of actions for the 10 applications approved by the Budgetary Authority that year is set out in table 3.3 below.

**Table 3.3: EGF co-financed measures approved in 2009 according to EUROSTAT classification**

		Estimated cost EGF + Member State (€)	% of total
<b>Sub-total Labour market policy services</b>		<b>12 954 880</b>	
1	Individual job-search assistance & case management and general information services <sup>95</sup>	9 406 680	10.91%
	Job-search allowances	174 600	0.20%
	Mobility allowances	2 528 400	2.93%
	Other allowances (eg apprenticeship schemes)	845 200	0.98%
<b>Sub-total Labour market policy measures</b>		<b>69 664 315</b>	
2	Training and retraining	35 806 540	41.51%
	Training allowances	12 579 650	14.58%
	Subsistence allowances while in training or in other active labour market measures	13 077 200	15.16%
3	Job rotation and job sharing	N/A	N/A
4	Employment and recruitment incentives	2 577 500	2.99%
5	Supported employment and rehabilitation	281 600	0.33%
6	Direct job creation	594 000	0.69%
7	Start-up incentives to promote entrepreneurship	4 747 825	5.50%
<b>Expenditure for implementing EGF (Art. 3 of EGF Regulation)</b>		<b>3 635 200</b>	<b>4.21%</b>
<b>Total</b>		<b>86 254 395</b>	<b>100%</b>

In qualitative terms, the feedback provided by the applicant Member States suggests that the EGF contributions they received allowed them to intensify the assistance provided to redundant workers and to extend the duration of support beyond what would have been

<sup>95</sup> This category consists in particular in career guidance, skills certification, personalised action plans, open information services for jobseekers, etc.

available without the EGF. In other cases, the EGF made it possible to use successful new approaches (eg interaction in peer groups, increased guidance and counselling) specifically designed for low-skilled or older workers.

### **EGF applications by workers targeted for assistance**

The number of workers affected by redundancies in an EGF application can differ from the number of workers actually being helped. Depending on the intervention criterion used, the applicant Member State has the possibility of including among the target group the workers made redundant because of the same global event, but before and/or after the reference period (ie the period during which the redundancies triggering the EGF application are being counted). Furthermore, the Member State can also decide to focus the EGF assistance on a reduced number of workers, for instance on those facing exceptional difficulty in remaining in the labour market or those who are deemed to be most in need of support.

In 2009 the number of workers targeted for EGF support in individual cases ranged from 139 to 3 582, with an average of just under 1 000.

### **EGF applications by amount requested per worker**

The package of individualised services that a Member State may propose to the redundant workers concerned is at its discretion, within the terms of the EGF Regulation. The amount requested per worker affected can therefore vary according to the scale of the redundancy event, the labour market situation in the region affected, the individual circumstances of the workers concerned, or even the general cost structures in the Member State or region affected. Applications received in 2009 were submitted under two consecutive sets of rules (ie an implementation period of 12 or 24 months, or a co-financing rate of 50% or 65%) depending on whether they were submitted before or after the entry into force of the revised EGF Regulation. This had an impact on the contents of the applications submitted.

In 2009 the amount requested per worker varied from slightly above €500 to over €15 700, with an average of €5 698.

Box 3.8 below contains a summary of cases for which the EGF received final reports in 2009, following the original 12-month implementation period. These describe how the EGF has helped Member States to re-integrate redundant workers into employment, to intensify their assistance for these workers and to extend the duration of support beyond what would have been available without the EGF contribution.

#### **Box 3.8: Case studies of EGF funding in Member States**

##### **EGF/2007/004 Perlos/Finland**

Of the 921 workers who benefited from the measures co-funded by the EGF, 56.9% were in work again at the end of the implementation period. Training for new jobs with a future was a significant benefit not only for the workers but also for the region



as a whole, which is remote and threatened with depopulation. The development and maintenance of a broad network of stakeholders supported the redundant workers and put them back into work more quickly. Early collaboration with the Commission allowed a more ambitious package of measures to be designed for the workers than would otherwise have been possible. The final report contained a SWOT analysis (strengths and weaknesses, opportunities and threats) of the case which may be helpful in planning future cases. The measures co-funded by the EGF enabled the North Karelia authorities to draw up contingency plans for future large-scale redundancies.

#### **EGF/2007/006 Piemonte/Italy**

Of the 1298 workers who benefited from the measures co-funded by the EGF, 48.9% were in work again at the end of the implementation period (including five who created their own businesses). The employment status of the other 51.1% was not reported. The intervention paid special attention to incentives to women and workers older than 55 to participate and not leave the labour market. A high percentage of workers over 40 were able to find new employment, and the rate of re-employment of older workers achieved by these measures was especially high for the area. Thanks to retraining, workers were moved from the textile sector to other, more competitive, sectors of production.

#### **EGF/2007/008 Textiles/Malta**

Of the 672 workers who benefited from the measures co-funded by the EGF, 65.5% were in work again at the end of the implementation period (including 24 who started their own businesses). The intervention meant that the workers affected received more personalised assistance to re-enter the labour market. Consequently, it also helped them to face fewer social and economic difficulties. Malta found occupational guidance very useful, as it enabled many workers who were unaware of job opportunities in other sectors to consider employment outside the textiles sector. Most of the workers had limited transferable skills, so the wage subsidy encouraged employers to give them job opportunities. The use of the start-up grant scheme was also considered an achievement.

#### **EGF/2007/010 Lisboa-Alentejo/Portugal**

Of the 558 workers who benefited from the measures co-funded by the EGF, 19.5% were in work again at the end of the implementation period (including 11 who started their own businesses). This fairly low percentage should be seen in the light of the structural problems of the automotive sector, which pre-dated the global financial and economic crisis and were exacerbated by it. In the last quarter of 2008, when the measures ended, new car registrations in Europe fell by an average of 20%. Despite this unfavourable situation, individual skills recognition and validation programmes for those workers with the lowest educational qualifications gave them a better start in finding a new job. The EGF measures were usefully complemented by other measures, including some co-funded by the European Social Fund.

**EGF/2008/002 Delphi/Spain**

Of the 1589 workers who benefited from the measures co-funded by the EGF, 10.7% were in work again at the end of the implementation period (including eight who started their own businesses). According to the final report, this low percentage should be seen against the rapid deterioration of the labour market in Andalusia at that time. In February 2009, when the implementation period ended, employment was 6.6% lower than in February 2008. The Spanish authorities continued to provide training measures for specific target groups, using their own means, until 31 July 2009. Despite the unfavourable economic background, by the end of July 2009 there were thus good prospects of re-entering the labour market for about 600 of the dismissed Delphi workers.

This information is taken from the report on the activities of the European Globalisation Adjustment fund in 2009, COM(2010) 464 final.

**3.3: NEXT STEPS**

The sharp increase in the number of applications submitted to the EGF shows that the improvements brought to the EGF Regulation in 2009 met the expectations of the stakeholders and provided the European Union with an additional instrument to mitigate the employment consequences of the economic crisis. The crisis derogation of the EGF will come to an end on 31 December 2011, while full economic recovery may take longer to achieve. The Commission is therefore considering proposing to the European Parliament and to the Council an extension of the temporary crisis derogation until the end of 2013 (which is when the EGF as set in the current Regulation must be reviewed).

A review of the EGF Regulation will be necessary to coincide with the next multi-annual financial framework (2013-2020). Several options are currently being considered to streamline the functioning of the EGF, aiming in particular to simplify the budgetary procedure necessary to grant a contribution, with the possibility of converting it into a permanent fund with its own budget line under the multi-annual financial framework.

These technical improvements could also be implemented together with a further extension of its scope to meet the objectives set in the Europe 2020 strategy.<sup>96</sup> In this, the Commission explicitly referred to the EGF in its Flagship Initiative *An industrial policy for the globalisation era*:

*'At EU level, the Commission will work (...) to promote the restructuring of sectors in difficulty towards future oriented activities, including through quick redeployment of skills to emerging high growth sectors and markets and support from the EU's state aids regime and/or the Globalisation Adjustment Fund.'*

<sup>96</sup> Communication from the Commission 'Europe 2020 — A strategy for smart, sustainable and inclusive growth', COM(2010) 2020.

This means that the EGF could act in synergy with European industrial policy to mitigate its potential adverse effects and encourage the integration of redundant workers in sectors with a brighter future, just as it has been doing so far for those negatively affected by change in world trade patterns.

The impact of restructuring on the EU regions is diverse, a trend which has continued during the recent crisis. The next part of this chapter looks in more detail at the impact, anticipation and management of restructuring in the EU regions.

#### **4: THE IMPACT OF RESTRUCTURING IN THE EU REGIONS**

Globalisation creates increased opportunities for producers and entrepreneurs as well as for consumers.<sup>97</sup> It is also a motor for growth and creating jobs. However, globalisation also brings about rapid changes and an increasing speed of structural adjustment. In particular, low-skilled labour as well as low value-added economic activities have felt the force of global competition. Many regions throughout the EU will therefore have to restructure their economy and promote continuous innovation — in products, management and processes, as well as human and social capital — to turn globalisation challenges into opportunities. Globalisation creates pressure for rapid structural change in order to adjust regional development paths and preferably stay ahead of competitive pressures. This will become ever more important in the years to come, particularly as regions begin to exit the crisis.

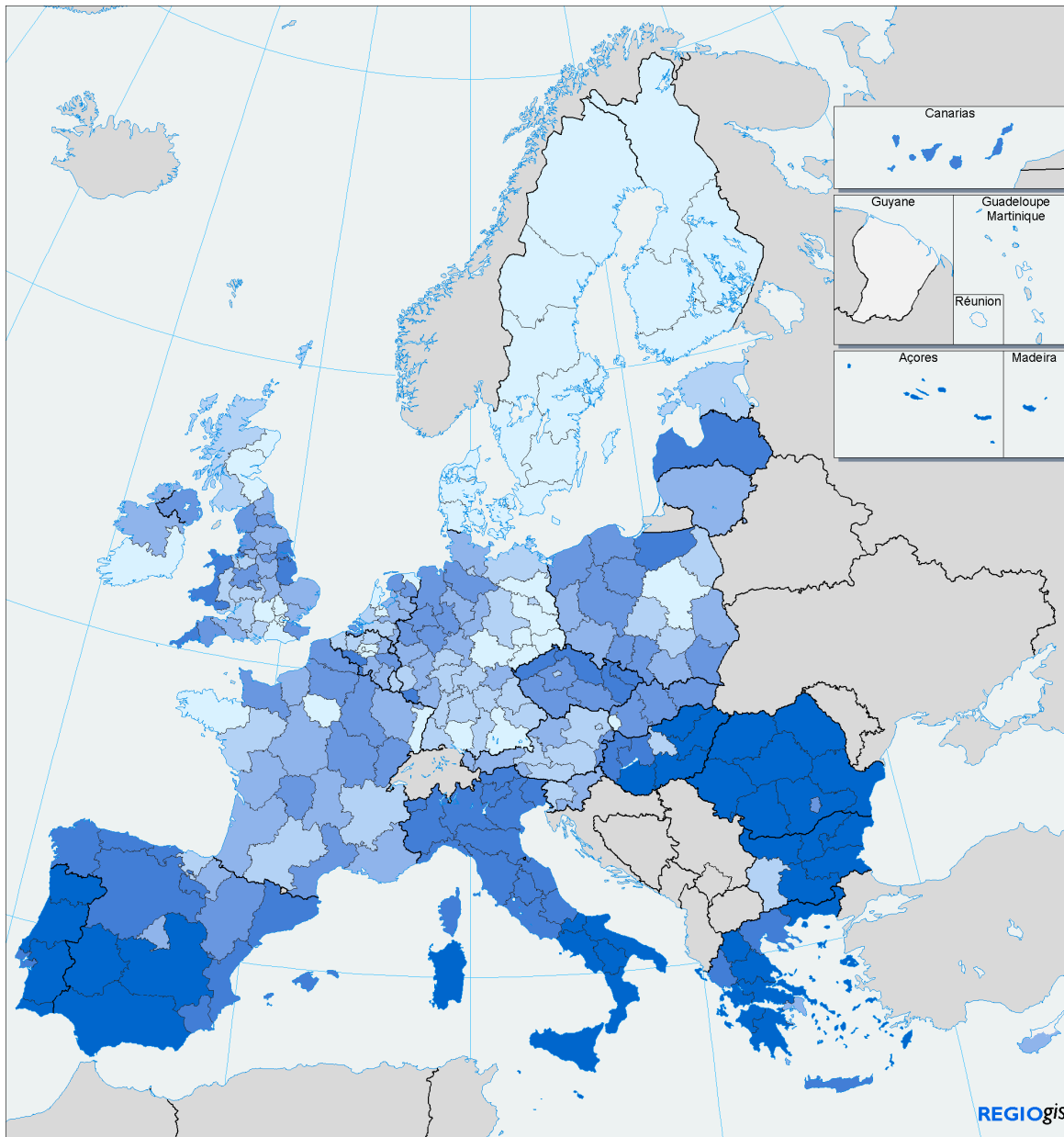
##### **4.1: THE INFLUENCE OF GLOBALISATION**

The globalisation index, as set out below, measures regional opportunities and vulnerabilities by looking at long-term structural conditions. The Europe 2020 agenda identifies low employment rates as being as one of the main structural weaknesses of Europe. Consequently, the globalisation index contains employment as well as indicators measuring educational attainment and general growth perspectives.

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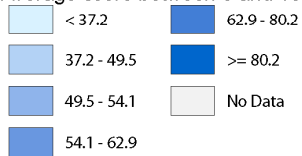
<sup>97</sup> This contribution is based on *Regions 2020: Regional vulnerability — Globalisation* (Update of the Commission Staff Working Paper: Regions 2020 ‘An Assessment of Future Challenges for EU Regions’, which was published in November 2008).

Figure 3.2: Globalisation vulnerability index, 2020



**Globalisation vulnerability index, 2020**

Average score between 0 and 100



Index based on estimated productivity, employment rate, high educational attainment and low educational attainment in 2020  
Sources: Oxford Economics, Eurostat, DG REGIO



© EuroGeographics Association for the administrative boundaries

A number of studies and economic forecasts suggest that the economic crisis has diminished overall growth perspectives over the medium term in all European regions. The crisis has had a differentiated impact and additional disparities for long-term growth perspectives. Particularly negatively impacted are regions in the UK, Spain, Italy and Greece, which have become more vulnerable compared with their situation before the crisis. On the other hand, a number of central and western regions appear less weak than before the crisis.<sup>98</sup>

Many regions located in the northern periphery of the EU, as well as some central and western regions, appear in a rather favourable position. Capital and metropolitan regions, including London, Paris, Hamburg, Madrid, Bucharest, Sofia, Prague and Warsaw, appear among those regions which are likely to turn the globalisation challenge into opportunities. All of these regions have a highly educated workforce and a high share of employment. In addition, these regions display good framework conditions for supporting innovation. In sum, these regions are on an economically sustainable path of development with reasonable long-term growth perspectives.

By contrast, most regions located in the southern and south-eastern parts of the EU, in addition to Latvia and Lithuania, appear to be highly vulnerable. A high share of low-skilled workers, combined with low value-added economic activities characterise southern and south-eastern regions. Some of these regions, particularly in the eastern parts of the EU experienced high growth in the past, despite these structural disadvantages. The basis of these gains has been structural adjustment from agriculture and heavy industry towards basic industrial activities and basic services. However, these activities are subject to largely cost-driven intense competition from other emerging economies. The stability of the future growth path of these regions will therefore depend on improving the value-added in regional economic activities. Improving the conditions of innovation will be key.

#### **4.1.1: RESTRUCTURING IN OBJECTIVE 2 REGIONS**

An ex post evaluation of cohesion policy programmes 2000-2006<sup>99</sup> examined restructuring in Objective 2 regions in the context of globalisation. This consisted, first, of an overall analysis of structural change over the period 1990-2005 across regions in the EU15 in order to try to detect differences in performance between regions with different sectoral specialisations, distinguishing between those specialising in traditional industries, those in capital-intensive — or heavy — industries and those in equipment, or engineering, industries. The second, and main, part of the analysis consisted of case studies of regions receiving Objective 2 funding. These included Tuscany (Italy), Brittany (France), North West England, North East England, North Netherlands, Basque Country (Spain), Rhône-Alpes (France), Southern

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<sup>98</sup> Crips, F. et al. (2009), Regional challenges in the perspective of 2020. Regional disparities and future challenges. Background paper Globalisation. Study carried out for the European Commission. Brussels.

<sup>99</sup> For more details, see: [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2006/wp4\\_exec\\_summary\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2006/wp4_exec_summary_en.pdf).

Finland, North Rhine-Westphalia (Germany), Bavaria (Germany), and Styria (Austria). The aim in each case was to examine the efforts of the regions concerned to restructure in the face of increased competitive pressure from globalisation and the contribution of Objective 2 funding in this regard.

The main findings of the analysis can be summarised as follows:

- a number of Objective 2 regions (defined at the NUTS 2 level) across the EU changed their specialisation over the period examined, shifting from traditional to capital-intensive industries or from capital-intensive to equipment industries. In both cases, this was associated with a positive economic performance and, in most cases, an improvement in their estimated international trade balance;
- of the case study regions, only Styria (Austria) had succeeded over recent years in changing its area of specialisation, emphasising the difficulties of achieving this and breaking free from an historical development path. The strategy adopted in the region succeeded in building an automotive sector almost from scratch based on inward investment, with the regional agency pursuing a selective policy of attracting suitable foreign companies;
- the experience of Styria as compared with that of the Ruhr area of North Rhine-Westphalia in Germany highlights two important aspects of restructuring. The first is that it takes many years, and even decades, to bring about an effective change in areas of specialisation, even with continuous support. The second is that this is easier to accomplish if the area concerned is smaller rather than larger;
- long-standing policy efforts to diversify the economies in many of the industrial Objective 2 regions have not led to the intended shifts in their sectoral pattern of economic activity. The pattern inherited from the past, and often in place for a century or more, has proved highly resistant to change. In North Rhine-Westphalia, the Ruhr remains adversely affected by the past dominance of heavy industry, despite numerous policy initiatives and substantial investment aimed at developing and expanding new activities. Even in Styria, the case study found no evidence so far for the further diversification of the economy away from relative reliance on the automotive industry into higher-tech and more knowledge-intensive sectors;
- the case studies demonstrated that enterprise support focused on increasing the innovation capacity of firms, especially SMEs, and their performance on international markets can strengthen competitiveness and assist restructuring, as in Styria, the Basque Country (Spain) and, to a lesser extent, Tuscany (Italy). Measures that proved to be the most effective were those aimed at encouraging new clusters of activity in specific sectors and in particular areas of technology;
- in some case study regions (Brittany and Rhône-Alpes in France, for example), the regional development strategy was not so much directed at structural change as at maintaining the internal territorial balance and safeguarding employment. Since the

evaluation was concerned explicitly with restructuring and with the development of regional economies, it did not investigate the effectiveness of this strategy;

- the evidence is that three regions which showed the clearest signs of restructuring were also the ones where the regional authorities were aware the earliest of the need for structural change. They accordingly reacted to the threat of globalisation sooner than those in other regions by promptly developing strategies for encouraging the diversification of their economies. This demonstrates the importance of looking ahead and trying to anticipate the need for change in areas of specialisation;
- analysis of the relationship between Objective 2 programmes and the broader set of regional policy measures suggest that the most effective programmes were those which were in line with and, therefore, reinforced, the main thrust of development strategies being pursued in the regions. Support of the European Regional Development Fund (ERDF) for 'mainstream' measures contributed more than where additional 'complementary' objectives were pursued;
- at the same time, the possibility of using ERDF finance to support these strategies was hampered in some regions by 'micro-zoning', which concentrated funding on small areas with very specific territorial needs;
- the effectiveness of intervention was closely related to the competence and expertise of local institutions and their strategic vision. The evidence is that these attributes can change the path of development — and overcome historical 'path dependency' — by persistent, focused and concentrated policy effort; and
- the evidence from the evaluation is that, despite its small scale, the funding provided under Objective 2 was of major importance for the regions examined. A large majority of those interviewed in the course of the case studies confirmed that ERDF support was instrumental in encouraging the adoption of a long-term strategic view of development, which was vital for both designing and building effective support for restructuring. It, accordingly, played a key role in setting the agenda for change as well as providing valuable funding which could be used to lever larger-scale financial support. In short, it acted as a catalyst for change, encouraging regional authorities to prioritise and enabling them to innovate as well as to put in place long-term action programmes.

#### **4.1.2: ANALYSIS OF RESTRUCTURING IN THE EU REGIONS**

DG Regio has produced an analysis of the effect of restructuring on the increase in labour productivity in 2000-2007. Restructuring in this context means the shift of labour from less to more productive sectors, for example between agriculture and industry or services.<sup>100</sup>

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<sup>100</sup> The contribution of restructuring to labour productivity is calculated by dividing an adjusted figure for labour productivity in 2007 by productivity in 2000. The adjusted productivity figure in 2007 is calculated by combining sectoral productivity of 2000 with the distribution of sectoral employment in 2007. Productivity is calculated as GDP in constant prices divided by employment. Sectoral GDP is adjusted to the



Figure 3.3 presents the average annual change in labour productivity due to employment shifts between sectors. Restructuring occurs mostly in countries at an earlier stage of economic development. As a result, its effects are strongest in the Convergence regions<sup>101</sup> where nearly half of the increase in labour productivity came from the shifts of employment between sectors. The more developed regions are usually much more productive and have a higher share of employment in high value-added sectors. Employment shifts occur mainly within sectors, eg from low to high-tech industry. Employment shifts in the Regional Competitiveness and Employment (RCE) regions contributed only 11% to the increase in labour productivity. In the Transition regions, which occupy a middle stage of economic development, the contribution of restructuring to the increase in labour productivity was 28%.

In the EU27, where labour productivity grew 1.4% annually between 2000 and 2007, the growth of productivity due to restructuring was 0.4% a year, thus employment shifts contributed around 30% to the total growth in labour productivity. The remainder came from productivity increases within sectors which is a result of innovation in a broad sense. Table 3.4 shows the contribution of restructuring to the growth in labour productivity between 2000 and 2007.

**Table 3.4: Contribution of restructuring to the growth in labour productivity, 2000-2007**

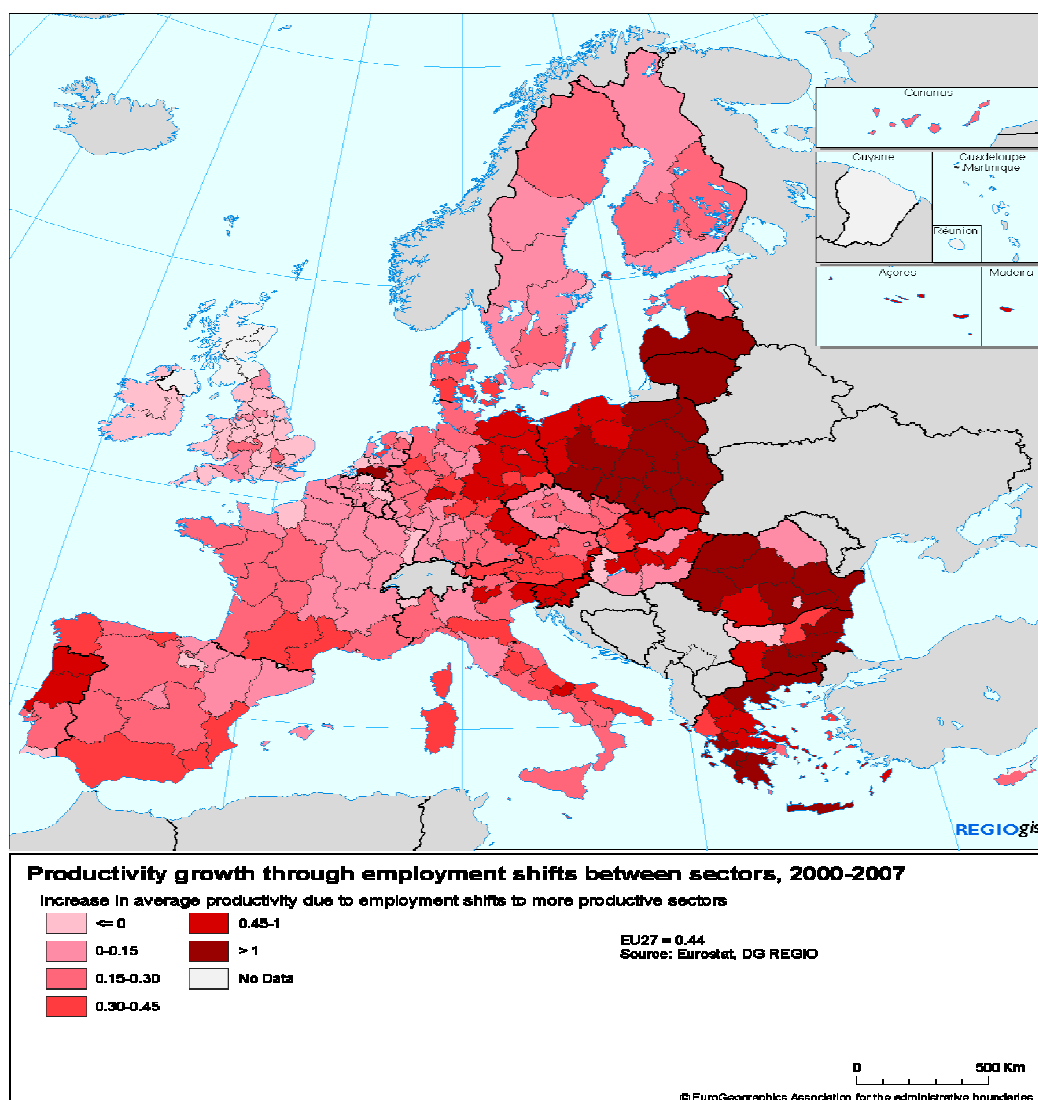
	<b>Total growth of labour productivity</b>	<b>Growth of productivity due to restructuring</b>	<b>Contribution of restructuring to productivity growth</b>
EU-27	1.4	0.4	31%
CONV	2.5	1.2	46%
TRANS	1.0	0.3	28%
RCE	1.1	0.1	11%

*Source: DG REGIO calculations, Eurostat.*

sectoral share of GVA. The analysis is based on a six-sector breakdown: Agriculture, Industry, Construction, Trade, Financial and business services and Public services.

<sup>101</sup> Regions with a GDP per capita which is below 75% of the EU average.

Figure 3.3: Productivity through employment shifts between sectors, 2000-2007



#### 4.1.3: 'SMART SPECIALISATION STRATEGIES' AND THE SMART SPECIALISATION FORUM

'Smart specialisation strategies' and the smart specialisation forum, that REGIO is promoting as a policy priority, can be an important tool for regions to use in their restructuring process.

The establishment of a 'Smart Specialisation Platform' (S<sup>3</sup>P) was announced in the communication of the European Commission 'Regional Policy contributing to smart growth in Europe 2020' (COM(2010) 553 final) with the purpose of assisting regions and Member

States to develop, implement and review regional smart specialisation strategies. The Commission staff working document (SEC(2010) 1183) accompanying the communication added more details on the form, structure and components of the S<sup>3</sup>P.

The process of establishing and implementing smart specialisation strategies is expected to lead to a and more strategic and efficient use of national, regional and EU funding the current programming period 2007-2013 and to provide a quick-start for the future Cohesion Policy ) along the lines of the Europe 2020 strategy and priorities.

**Smart specialisation** is an important policy rationale and concept for innovation policy. It promotes efficient, effective and synergetic use of public investments and supports Member States and regions in diversifying and upgrading existing sectors that are the basis of their economies and in strengthening their innovation capacity.

It aims to harness regional diversity by avoiding uniformity and duplication. It combines goal-setting (EU 2020, Innovation Union) with a dynamic and entrepreneurial discovery process involving key stakeholders from government, business, academia and other knowledge-creating institutions.

**A smart specialisation strategy** is a multi-annual strategy aimed at developing a well-performing national or regional research and innovation system, which can be assessed through the self assessment tool proposed by the Innovation Union flagship. It defines a policy mix and budgetary framework focusing on a limited number of priorities targeted at stimulating smart growth.

The strategy is preceded by sound analyses of the assets of the region and technology foresight studies focusing on the relevant sectors identified with a view to access emerging markets and niche markets. It includes the analysis of potential partners in other regions and avoids unnecessary duplication and fragmentation of efforts.

It is based on a strong partnership between business, public entities and knowledge institutions, that need to work together to produce the above mentioned analyses, and on the setting-up of adequate bodies responsible to implement them. The 'quality' of this partnership is essential for its success.

The EU Regional Policy and EU innovation policy have **a long experience of working with a large number of regions on developing regional innovation strategies**, through several Community initiatives as for example, the Innovative Actions. This initiative led to an appreciable impact in all regions assisted. In a number of cases this impact has led to sustained structural changes to the way regional policy is designed and delivered, specifically by establishing the bases of high quality partnerships that in the most developed regions became sustainable and developed the strategic intelligence bodies that achieve to reconvert the economy and lead regions to competitive growth, even during the present crises. Nevertheless those with shorter involvement in these processes struggled to sustain these partnerships and hence results waver or fade.

Aiming at developing the strategic intelligence needed in each region/Member State and keeping it in a sustainable way the S<sup>3</sup>P will act as a facilitator in bringing together the relevant EU funding programmes and policy support activities in research, SMEs, innovation, clusters, digital agenda, health, climate change, creative industries and cooperation universities business. It includes high level experts in these fields, including the OECD and networks of regions, of representatives of SMEs and other business bodies that focus on innovation and on targeted support measures to innovate.

It intends to develop the critical mass at EU level to provide direct feed-back and information to regions, Member States and their bodies, provide a learning platform that speed-up the learning process between regions and develop processes of peer review that assess the strategies, establish criteria of assessment and lead to the improvement of these strategic documents.

The S<sup>3</sup>P is run by a steering team that gathers representatives of DG REGIO, RTD, ENTR, EAC, INFSO, EMPL, SANCO, CLIMA and the JRC. A mirror group for advise and follow-up composed by high-representatives of networks and bodies took their functions in June 2011 (for example, EURADA, ERRIN, EBN, OECD).

#### **4.2: MANAGEMENT OF RESTRUCTURING UNDER THE EUROPEAN REGIONAL DEVELOPMENT FUND**

Since its inception, the European Regional Development Fund (ERDF) has played a vital role in facilitating structural adjustments initially induced by internal factors such as the establishment of the Single Market and industrial restructuring. In recent years, external challenges have shifted the focus of the ERDF to supporting adaptations triggered by rapid globalisation and the integration of new Member States in the Single Market. Subsequently, the ERDF has increasingly focused on investments facilitating a move up the value chain, such as research and development innovation and ICT.

In the future, the ERDF will most likely continue to play a particular role in supporting adjustments to smart, sustainable and inclusive growth in Europe.

The boxes below contain examples of restructuring and reaction to change.

##### **Box 3.9: UNIC – URBACT Fast track network on restructuring of European ceramics cities**

Economic change has left visible footprints in cities with a strong industrial history. The process of transition from heavy resource-intensive production to innovation-driven and high-technology systems is ongoing, and will remain a challenge in years to come.

The development of cities, the home of most industrial sites in Europe, is strongly bound to the economic success of their industries. Modern industry, on the other hand, relies on competitive business locations and innovating environments. Ceramics cities from all over Europe are showcases of this dependency. The consequences of industrial reorganisation (concentration, relocation) are felt largely in cities with a strong ceramics industry, and a lively history in ceramics manufacturing. This not only requires cities to reshape and adapt, but also industries to collaborate with cities. It is also vital to keep and develop specific urban identities, building upon prestigious manufacturing tradition.

This example of ceramics cities illustrates the fact that strong dependencies on one sector of the urban economy constitute a significant risk to the economic well-being of cities as a whole. Negative developments have a strong and widespread impact, not only on the employees in the industry itself, but also on those in the supply companies, and this has wide-ranging effects on social and economic cohesion within cities and regions.

The UNIC<sup>102</sup> (Urban Network for Innovation in Ceramics) network links nine leading ceramics cities in Europe (Limoges, Aveiro, Delft, Pécs, Castellón, Stoke-on-Trent, Faenza, Cluj Napoca and Seville) – cities with long and vivid histories in the ceramics industry and manufacturing. UNIC is designed to focus on re-inventing the image of ceramics cities and on reinforcing their attractiveness by offering good living conditions, interesting business locations and professional development perspectives for more social and economic cohesion at local level. In this context, close cooperation with local stakeholders and interest groups is just as vital as strong links with relevant regional, national and European authorities.

The network is financed under the URBACT II programme (2007-2013) and has been selected by the European Commission as a fast track network. Under active participation of Commission Services these nine cities have designed their future strategies in the form of local action plans, which identify possible paths from traditional industry towards a sustainable innovation-driven economy, while preserving and using the cities' asset of a common, strong industrial heritage. Implementation projects evolving from this network will focus on effective links between research and education, and between innovation and local traditions. The nine local action plans were launched in Brussels on 20 May 2010, and will – with support of structural funds – help to drive forward innovation and economic competitiveness.

In times of economic crisis in particular, a dependence on traditional industries is usually seen as a major risk. However, the UNIC network demonstrates that this does not need to be the case: cities can build on their technological and cultural know-how in order to branch into long-term, sustainable paths of innovation.

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<sup>102</sup> More information can be found at [www.urbact.eu/unic](http://www.urbact.eu/unic).

### Box 3.10: REGIO STARS 2011<sup>103</sup> – anticipating economic change category

The Europe 2020 strategy proposed that the exit from the current crisis should be the point of entry into a new sustainable social market economy. Future prosperity will come from innovation, where the key input will be knowledge, and the more efficient use of resources. Crises have always shown that regional economies must permanently transform and renew in order to tackle future challenges.

The objective of the RegioStars Awards is to identify good practices in regional development and to highlight original and innovative projects which could be attractive and inspiring to other regions.

Projects proposed for an award under the Region Stars scheme should describe the policy tools that have underpinned the economic transformation agenda and regional adaptability to change in the recent past.

Examples of projects that could be submitted include:

- use of dedicated innovation strategies, economic intelligence or foresight exercises to anticipate and adapt to economic change, thus promoting improvements of productivity within a sector;
- use of innovative policy tools in order to promote productivity growth within sectors and/or shifts between sectors (ie restructuring, diversification) through innovation in a broad sense, including better use of existing technology and resources, and new management and organisation techniques; and
- successful development of entrepreneurship and innovation-based incubation policies to promote economic transformation and renewal by developing new, future-oriented economic activities in the region.

The winners of the 'RegioStars' 2010 were announced on 20 May in Brussels during the annual 'Regions for Economic Change' conference. Awards were given to the most innovative regional projects which had received funding from the EU's cohesion policy. A jury made up of professionals in regional development chose the six winners from the record 87 applications, as follows:

- the C-Mine Centre, Genk, Belgium (€3.2 million in EU funding from the ERDF), for innovative use of brownfield sites in an urban context. Building upon the legacy of Genk's mining foundations, the multi-purpose C-Mine centre has transformed a former industrial site into a hub for entrepreneurs and visitors alike. It includes two concert halls, exhibition space and a design centre;

<sup>103</sup> [http://ec.europa.eu/regional\\_policy/cooperation/interregional/ecochange/regiostars\\_11\\_en.cfm?nmenu=4](http://ec.europa.eu/regional_policy/cooperation/interregional/ecochange/regiostars_11_en.cfm?nmenu=4).

- the Micro-Finance Institute, East-Mid-Sweden (€340 000 in EU funding from the ERDF), for the integration of migrants or marginalised groups in urban areas. Set up in 2008, this project focuses on improving access to finance for migrant women who often face difficulties in trying to secure capital to start-up or develop their own business. The main aim of the project was to establish a permanent micro-finance institute to help overcome these barriers. At the time of the award, the project had supported 80 new female entrepreneurs and contributed to the start-up of 15 micro enterprises, creating 20 jobs;
- computer literacy basics for a Lithuanian e-citizen, Lithuania (€2 million in EU funding from the ESF). In 2002, a group of companies, banks, and telecommunications and IT businesses formed the Langas j Ateitj alliance. The aim was to provide training, establish public internet access points and stimulate growth in e-services, to enhance computer literacy skills. The main target groups were the elderly, disabled and people living in remote areas with little access to digital services. In total, 50 400 adults completed courses over the two years;
- new business model for ambulatory monitoring of patients, Brandenburg, Germany (€86 000 in EU funding from the ERDF), for ICT applications by or for SMEs. The first of its kind in Brandenburg, this project combined the expertise of various regional partners in using tele-medicine to monitor and treat people, outside a traditional medical environment, who have suffered from a heart attack. Its overall aim was to reduce the number of hospital admissions per patient. At the time of the award, over 100 patients had benefited;
- high-speed broadband in Auvergne, France (€10 million in EU funding from the ERDF). High-speed broadband is an essential ingredient in ensuring competitiveness in today's world. But in sparsely populated areas, private telecommunication operators are frequently reluctant to take on all the risks of investing in these so-called 'white areas'. Faced with this challenge, Auvergne established a public/private partnership (PPP) in 2005 to extend high-speed broadband coverage to 100% of households, which was achieved by early 2009; and
- [www.esparama.lt](http://www.esparama.lt), Lithuania (€110 000 in EU funding). 'Esparama' in Lithuanian means EU assistance – this official website provides information on all EU structural funding in the country from data supplied by content administrators in 15 government institutions. The site's easily navigable homepage clearly presents separate sections for funding applicants, beneficiaries, media and general public, institutions and news.

Four other projects received **special mentions** from the 2010 jury:

- Pieper Site, Wallonia, Belgium. Part of a wider urban business renovation process, this project took an innovative approach in re-developing a former industrial brownfield site into a business park. The main aim of the site has been to attract companies compatible with the surrounding urban residential area;

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- successful integration of Roma children, Ljubljana, Slovenia. The Roma constitute the largest ethnic minority in central and eastern European countries, and often struggle with discrimination and social exclusion. This project seeks to address some of these problems with the help of Roma teaching assistants, aiming to strengthen the links between Roma children, their schools and their parents;
  - eREGIO, North Karelia, Finland. This project aimed at extending high-speed broadband coverage in rural and very remote areas of Finland. Despite the challenge, eRegio achieved excellent results, with almost 99% of the region having broadband access by 2008; and
  - entdecke-efre website, Brandenburg, Germany. The website 'entdecke-efre' – 'discover ERDF' – sets out, in an easily navigable format, a range of information on EU-funded projects and processes involved to benefit from the funds.



## CHAPTER 4: DIALOGUE AND LAW

The anticipation and management of restructuring in the European Union takes place within a legislative framework comprising a number of EU Directives, largely in the field of informing and consulting with the workforce on changes that are likely to affect them. In particular, through the implementation of the Directive establishing a general framework for informing and consulting employees, which was due in March 2005, there has been significant progress in certain Member States regarding the national level of the anticipation of change in companies. Nevertheless, in the context of the increased challenges of corporate restructuring, the European Commission believes that the operation of the set of Directives dealing with information and consultation at company level needs to be evaluated, and this led to a review of the European Works Councils Directive in 2008-2009. Further, the crisis, the increasing pace and cross-border dimension of change, the emergence of innovative ways to protect transitions from job to job, promote anticipation and develop constructive dialogue between stakeholders, and the importance given to skills adaptation bring new challenges and new prospects for EU labour law in the area of corporate restructuring.

The legislative framework is complemented by a range of joint texts agreed by the EU-level social partners at both cross-sector and sector level. Social dialogue between representatives of management and labour can be a powerful means of successfully anticipating and managing change and restructuring, given the participants' specific insight into the reality of workplaces and their responsibility for many of the issues concerned. Most recently, between 2004 and 2009, the cross-industry social partners carried out a project in 26 Member States, which looked at the role of the social partners at national, sectoral, regional and enterprise levels in economic restructuring.

Social dialogue also takes place at sectoral level, and a wide variety of sectors have embarked upon joint actions or concluded joint texts aimed at improving the management of change, notably in railways, the sugar industry, civil aviation, postal services, chemicals, and local and regional government. This is a valuable level for social dialogue on this theme, as the actors understand the very specific factors that are relevant to the organisations that operate in their sector.

Social dialogue in the form of transnational agreements has gained in importance in recent years, due to the growth of social dialogue in transnational companies, the rise in the number of European Works Councils, and deliberate moves on the part of trade unions to provide a counterweight to the increasing global dimension of the employer side. Many such agreements with European scope tend to have as their core aim the establishment of partnerships to deal with company restructuring and anticipate change, and these agreements are thought to constitute some of the most innovative and positive examples of actions in this area. The types of transnational agreements in existence address specific restructuring events, provide for the socially responsible management of potential future restructuring, anticipate change in a longer-term perspective, and deal with restructuring as part of a broader global accord on workers' rights or corporate social responsibility.

Social dialogue and worker participation also plays a role in European Companies (SEs), although this varies according to a range of factors, such as the type of company and origin of participating companies.

## **1: EU LABOUR LAW AND RESTRUCTURING**

Corporate restructuring has been an area dealt with by EU labour law since the first oil shock and difficult economic conditions of the 1970s, when Directives were adopted ensuring the protection of workers in the event of collective redundancies, transfers of undertakings and employer insolvency. The growing cross-border dimension of such processes was first addressed in the 1990s with the Directive on European Works Councils, and in the past decade by generalised provisions on forward-looking employee information and consultation at both national and transnational level.

The ongoing economic crisis, the increasing pace and cross-border dimension of change, the emergence of innovative ways to protect transitions from job to job, promote anticipation and develop constructive dialogue between stakeholders, and the importance given to skills adaptation in the EU's new Europe 2020 strategy (see chapter 2), bring new challenges and new prospects for EU labour law related to corporate restructuring. This relates in particular to:

- the effectiveness and linkage of employee information and consultation rights at transnational and national levels;
- the protection of workers making transitions between companies;
- the adaptation of skills, and anticipation of employment and skills needs in companies;
- the promotion of European social dialogue and transnational company agreements; and
- fair conditions for the cross-border mobility of workers.

Here, we review the existing framework and fresh developments relating to EU labour law on corporate restructuring.

### **1.1: MAIN EU LABOUR LEGISLATION RELATING TO RESTRUCTURING**

The provisions of several labour law Directives relate to corporate restructuring. Their aim is to ensure the protection of workers' rights and provide for the involvement of workers' representatives in the restructuring process. They play a crucial role in promoting an approach aimed at anticipating change and encouraging cooperation in responding to it.

Like all Directives, these Directives are binding on the Member States as regards the objective to be achieved, although Member States are free to determine the form and methods with which to fulfil Community obligations under their internal legal order. In addition, in the areas to which the Directives apply, national legislation and practice may provide for a higher level of protection for workers than stipulated by these Directives.

The protection of workers' rights is ensured in the event the employer becomes insolvent or changes, under the Directives set out below:

- the Directive on employer insolvency (2008/94/EC) aims to provide minimum protection for employees in the event of the *insolvency* of their employer. It obliges Member States to establish a body (a guarantee institution) to guarantee the payment of employees' outstanding claims. Moreover, Member States must take the necessary measures to ensure that non-payment of compulsory contributions due from the employer, before the onset of its insolvency, does not adversely affect employees' benefit entitlements in as much as the employees' contributions were deducted at the source from their remuneration; and
- the Directive relating to the safeguarding of employees' rights in the event of *transfers of undertakings*, businesses or parts of businesses (2001/23/EC) provides that rights and obligations that arise from a contract of employment or employment relationship that exists on the date of a transfer, shall be transferred from the transferor (the party that ceases to be the employer), to the transferee (the 'new' employer, in short). The Directive further provides that the transfer must not constitute grounds for dismissal by either the transferor or the transferee.

Special information and consultation procedures are established by EU Directives in the event of collective redundancies or transfers of undertakings, as set out below:

- the Directive relating to *collective redundancies* (98/59/EC) provides that an employer which envisages collective redundancies must provide workers' representatives with specified information concerning the proposed redundancies and must consult with the workers' representatives in good time with a view to reaching an agreement. These consultations should cover ways of avoiding or of reducing the redundancies, and of mitigating their consequences by recourse to social accompanying measures aimed, in particular, at aid for redeployment and retraining of the redundant workers. The Directive also provides for the public authorities to be notified of any projected collective redundancies, and requires that these redundancies cannot take effect earlier than 30 days after this notification; and
- in addition to the protection of workers' rights, the Directive on *transfers of undertakings*, businesses or parts of businesses provides that both the transferor and transferee must provide specified information to the representatives of employees affected by the proposed transfer and, if either party envisages measures in relation to the employees, their representatives must be consulted with a view to reaching agreement.

Moreover, a set of Directives provides for the information and consultation of workers on a regular basis, at both national and transnational levels, as set out below:

- the Directive establishing a *general framework for informing and consulting employees* in the European Community (2002/14/EC) seeks to strengthen dialogue within enterprises and ensure employee involvement upstream of decision making with a view to better anticipation of problems and the prevention of crises. It applies to undertakings with at least 50 employees or establishments with at least 20 employees and provides for employee representatives to be informed and consulted on developments in the undertaking's economic situation, the development of employment and decisions likely to lead to changes in work organisation or contractual relations;
- the Directive providing for the establishment of a *European Works Council (EWC)* or a procedure for informing and consulting employees in Community-scale undertakings and groups (94/45/EC, recast by Directive 2009/38/EC) applies to undertakings or groups with at least 1000 employees and at least 150 employees in each of two Member States. It allows for the establishment of a European Works Council, representative of employees in the Member States where the group has operations, to be informed and consulted on the progress of the business and any significant changes envisaged; and
- three Directives provide for the *involvement of employees* (ie information, consultation and in some cases participation on the supervisory board or board of directors) in companies adopting the European Company Statute (Directive 2001/86/EC) or the European Cooperative Society Statute (2003/72/EC) or deriving from a cross-border merger (2005/56/EC).

## 1.2: IMPLEMENTING AND ADAPTING LEGISLATION

Through the implementation of the Directive establishing a general framework for informing and consulting employees, which was due in March 2005, there has been important progress in certain Member States regarding the national level of the anticipation of change in companies.<sup>104</sup> However, in the context of the increased challenges of corporate restructuring, the European Commission believes that the operation of the set of Directives dealing with information and consultation at company level needs to be evaluated.

The main area of concern over recent years has related to the effectiveness of the transnational level of information and consultation in case of restructuring operations in the context of EWCs established by Directive 94/45/EC, and this led to its review in 2008-2009. In addition, the crisis revealed growing concerns over the legislation applied in the event of an employer's insolvency. These initiatives add to the permanent monitoring that the Commission undertakes in order to ensure that the Directives are properly implemented by Member States.

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<sup>104</sup> See European Commission (2008) Communication on the review of the application of Directive 2002/14/EC in the EU, COM(2008) 146, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52008DC0146:EN:HTML>, and accompanying Commission staff working document, SEC(2008) 334, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52008SC0334:EN:HTML>.

Legislative action complements non-legislative measures in this area, for which the EU continues to provide substantial support, especially through budget line 04.03.03.03. This budget line provides support for measures to promote best practice in the field of information, consultation and participation of representatives of undertakings. A sum of €7.3 million was allocated to this for 2010.

### **Implementation of the recast Directive on European Works Councils (EWCs)**

Directive 2009/38/EC, adopted in May 2009 following a 2008 proposal from the Commission,<sup>105</sup> recasts the 1994 Directive on EWCs. The main provisions concern: concepts of information and consultation; the link between national and European levels of information and consultation; a right to training for employee representatives; the role of trade unions; the adaptation of EWCs to change; and a two-year window to conclude or renew anticipatory agreements on EWCs.

The Commission is assisting the Member States in the implementation process of this Directive, which must be completed by June 2011.

Together with the promotion of best practice, the new legal framework should meet the following objectives:

- ensuring the effectiveness of employees' transnational information and consultation rights in existing EWCs;
- increasing the take-up rate (the proportion of EWCs established compared with the number of companies falling within the scope of the Directive);
- ensuring legal certainty in the setting up and operation of EWCs; and
- achieving a better coherence and interplay between EU legislative instruments on the information and consultation of employees.

### **Evaluation and 'fitness check' of Directives on information and consultation at national level**

As outlined above, the provisions of several labour law Directives provide for information and consultation of employees in the context of corporate restructuring. Special procedures have applied to collective redundancies and transfers of undertakings since the 1970s, while the 2002 framework Directive on information and consultation secured a right to regular information and consultation in undertakings/establishments. Going beyond the implementation in national legal orders of the individual Directives, which has already been

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<sup>105</sup> Proposal for a Directive on the establishment of a European Works Council or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees (Recast) COM(2008) 419: [http://ec.europa.eu/prelex/detail\\_dossier\\_real.cfm?CL=en&DosId=197188](http://ec.europa.eu/prelex/detail_dossier_real.cfm?CL=en&DosId=197188).

reviewed in Commission's reports,<sup>106</sup> an 'ex-post' evaluation will investigate how these Directives are being applied at present, as well as any shortcomings and room for improvement. These Directives are also among the first clusters of Directives to be examined by the Commission under a new 'fitness check' of EU legislation. This process aims to determine whether Directives are fit for purpose, in terms of meeting their objectives in an efficient way (looking at issues such as implementation, infringements, complaints, ex-post evaluations and administrative burdens), and to design further actions that may be required, notably simplification.

### **Implementation and application of legislation on employer's insolvency**

As described above, Directive 2008/94/EC aims to protect employees' rights in the event of the insolvency of their employer, in particular by guaranteeing payment of their outstanding claims (wages, pensions and other benefits). The Commission will report on the implementation and application of several of the Directive's provisions. It has also commissioned a study on the protection of defined-benefit pension schemes and book-reserve schemes, in relation to the Directive's Article 8 on protection of supplementary occupational entitlements to pensions. The Commission will also launch a study on measures and practices relating to transfers of undertakings (under Directive 2001/23/EC) in insolvency or similar situations.

#### **Box 4.1: Interpretation of Directives by the European Court of Justice**

The European Court of Justice (ECJ) had the opportunity to interpret several provisions of EU labour law Directives relating to restructuring in a number of judgments rendered between 2008 and early 2010.

In relation to Directive 98/59/EC on *collective redundancies*, the ECJ delivered three judgments. Most importantly, it ruled in case C-44/08 on the question of who should consult employees on collective dismissals in the case of a group of undertakings, and at what time.<sup>107</sup> In its judgment, the Court ruled as follows:

The adoption within a group of undertakings of strategic decisions or of changes in activities that compel the employer to contemplate or to plan for collective redundancies, gives rise to an obligation on that employer to consult with workers' representatives.

The consultation procedure must be started by the employer once a strategic or commercial decision compelling it to contemplate or to plan for collective redundancies has been taken.

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<sup>106</sup> Available at: <http://ec.europa.eu/social/main.jsp?catId=707&langId=en>.

<sup>107</sup> Judgment of 10 September 2009, *Akavan Erityisalojen Keskusliitto AEK ry and Others v Fujitsu Siemens Computers Oy*.

The obligation to start negotiations does not depend on whether the employer is already able to supply to the workers' representatives all the information required by the Directive – the information can be provided during the consultations and not necessarily at the time when they start.

In the case of a group of undertakings consisting of a parent company and one or more subsidiaries, the obligation to hold consultations with the workers' representatives falls on the subsidiary which has the status of employer only once that subsidiary, within which collective redundancies may be made, has been identified.

In the context of a group of undertakings, a decision by the parent company that has the direct effect of compelling one of its subsidiaries to terminate the contracts of employees affected by the collective redundancies can be taken only on the conclusion of the consultation procedure within that subsidiary, failing which the subsidiary, as the employer, is liable for the consequences of failure to comply with that procedure.

In case C-12/08, the Court clarified that the collective redundancies Directive allows national legislation that subjects the exercise of the rights of individual workers to certain requirements.<sup>108</sup>

In case C-323/08, the Court clarified the scope of the Directive in the event of the employer's death.<sup>109</sup>

The ECJ delivered one judgment relating to Directive 2002/14/EC on *information and consultation*, clarifying in case C-405/08 the extent of the protection granted to employees' representatives.<sup>110</sup>

The Court issued four judgments relating to Directive 2001/23/EC on *transfers of undertakings*. In case C-313/07, it clarified that the Directive does not have effects on contracts other than employment contracts.<sup>111</sup> In case C-396/07, the ECJ clarified the effects of the termination of an employment contract because a transfer involved a substantial change of working conditions.<sup>112</sup> In case C-466/07, the Court ruled that where the transfer concerns only part of an undertaking, for the Directive to be applicable it is not required that this part retains organisational autonomy.<sup>113</sup> In case C-561/07, the Court ruled that Italy had infringed the Directive through its legislation on

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<sup>108</sup> Judgment of 16 July 2009, *Mono Car Styling SA, in liquidation v Dervis Odemis and Others*.

<sup>109</sup> Judgment of 10 December 2009, *Ovido Rodríguez Mayor and Others v Herencia yacente de Rafael de las Heras Dávila and Others*.

<sup>110</sup> Judgment of 11 February 2010, *Ingeniørforeningen i Danmark v Dansk Arbejdsgiverforening*.

<sup>111</sup> Judgment of 16 October 2008, *Kirtruna SL and Elisa Vigano v Red Elite de Electrodomésticos SA and Others*.

<sup>112</sup> Judgment of 27 November 2008, *Mirja Juuri v Fazer Amica Oy*.

<sup>113</sup> Judgment of 12 February 2009, *Dietmar Klarenberg v Ferrotron Technologies GmbH*.

undertakings in critical difficulties, which relieved these undertakings from certain obligations resulting from the Directive.<sup>114</sup>

As far as the Directive on *employer insolvency* is concerned, two judgments were handed down. This Directive requires Member States to establish institutions that guarantee the payment of unpaid salaries. In case C-310/07, the Court clarified the conditions for the competence of the guarantee institution in a Member State in cases where the insolvent company had activities in more than one Member State.<sup>115</sup> In case C-69/08, the ECJ clarified the conditions that national law can impose for limitation periods on making claims to the guarantee institution.<sup>116</sup>

### 1.3: PREPARATION OF NEW INITIATIVES

The main new initiatives of the Commission regarding dialogue and law relate to the European Code of conduct and to transnational company agreements. Challenges and proposals relating to labour law and restructuring will also be addressed as part of a series of initiatives taken by the Commission, notably in the areas of employment, internal market and transport.

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<sup>114</sup> Judgment of 11 June 2009, Commission of the European Communities v Italian Republic.

<sup>115</sup> Judgment of 16 October 2008, Svenska staten v Anders Holmqvist.

<sup>116</sup> Judgment of 16 July 2009, Raffaello Visciano v Istituto nazionale della previdenza sociale (INPS).



## 2: EUROPEAN-LEVEL SOCIAL DIALOGUE ON MANAGEMENT AND ANTICIPATION OF CHANGE

The legislative framework set out above is complemented by a range of joint texts agreed by the EU-level social partners at both cross-sector and sector level. Overall, social dialogue between representatives of management and labour at all levels (company, sector, national and European) can be a powerful means of successfully anticipating and managing change and restructuring, given the participants' specific insight into the reality of workplaces and their responsibility for many of the issues concerned. Here we look at relevant initiatives taken recently within the social dialogue at European level. This dialogue, supported by the European Commission, encompasses:

- the cross-industry dialogue, which involves the European Trade Union Confederation (ETUC) — plus the Eurocadres/CEC liaison committee, which represents managerial and professional staff unions — BusinessEurope, the European Centre of Employers and Enterprises providing Public Services (Ceep) and the European Association of Craft, Small and Medium-sized Enterprises (Ueapme); and
- the sectoral social dialogue, based on 40 sectoral social dialogue committees brings together European-level representatives of management and labour in the industry concerned.

The focus here is mainly on developments over 2008-2010. For more information on earlier initiatives — including Commission consultations of the cross-industry social partners on tackling restructuring in 2002 and 2005, and a set of 'orientations for reference in managing change and its social consequences' on which the cross-industry partners have worked in 2003 without having reached a formal agreement on the issue— and on the European social dialogue more generally, see the *Restructuring in Europe 2008* report.<sup>117</sup>

### 2.1: UNDERSTANDING WHAT HAPPENS

Between 2004 and 2009, the cross-industry social partners carried out a project in 26 Member States, which looked at the role of the social partners at national, sectoral, regional and enterprise levels in economic restructuring. The first phase of the project, undertaken in 2005 and 2006, covered 10 new Member States (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia).<sup>118</sup>

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<sup>117</sup> European Commission (2009) 'Restructuring in Europe 2008. A review of EU action to anticipate and manage employment change' pp. 106-113. <http://ec.europa.eu/social/main.jsp?langId=en&catId=103&newsId=434&furtherNews=yes>.

<sup>118</sup> For details, see European Commission (2009) 'Restructuring in Europe 2008. A review of EU action to anticipate and manage employment change' p. 109.

The second phase of the project, conducted in 2007 and 2008, involved 10 more Member States: Austria, Denmark, France, Greece, Ireland, Italy, the Netherlands, Spain, Sweden and the UK. It found that the restructuring that took place in many sectors in most of these countries reflected a growth in the importance of services and a parallel reduction of employment in manufacturing. Whilst job reductions took place, the overall background to restructuring was one of economic and employment growth, with Europe as a whole adding 7 million new jobs over the period 2000 to 2005. The burden of job loss did not fall evenly between sectors and regions and there were often clear distinctions between those who gained and those who did not.

The third phase of the project, covering six countries, took place against the background of the financial and economic crisis that took hold towards the end of 2008. Discussions with the social partners in Belgium, Finland, Germany, Luxembourg, Portugal and Romania were dominated by the impact of the crisis and the design and adoption of anti-crisis measures to the exclusion of virtually all other issues.

The project concluded with a final conference and an expert report in January 2010 — see Box 4.2. No further follow-up has yet taken place.

**Box 4.2: Excerpt from the final expert report\* of the European cross-industry social partners' project on social dialogue and restructuring (2005-2009)**

The macro themes that together make up an agenda for successful social partner engagement in the management of change and which are common to any national system are: anticipation and shared diagnosis; managing job transitions; preparing the workforce of the future; and restructuring, social dialogue and the crisis. Second, there are very specific and practical micro-level examples from a country, sector or organisation that are capable of adaptation and adoption in differing environments and circumstances.

A 'road map' identifying a number of areas for successful social partner engagement in the management of change, is meant to work in any national context and includes the following:

*Assuring timely and relevant information and consultation.* This is one of the areas where the engagement of the social partners is currently weakest. Anticipation of change is crucial if sudden and unexpected workforce shocks are to be avoided and restructuring take place against timescales that facilitate both organisational change objectives and the delivery of acceptable solutions for affected workers. In organisations where works councils are present and, in the case of large organisations, a European Works Council (EWC), these bodies can play an important role in the prior information and consultation process.

*Anticipating change and developing a shared diagnosis and agenda.* The specific concern expressed was that information was provided to workers' representatives too

late, and that consultation was frequently, at best, peremptory. Where this question was raised it was pointed not only toward employers but also toward governments in their consultation related to employment policy and restructuring related laws or projects.

*Managing job transitions.* It appeared from the discussions that took place in the 26 countries that interest is being shown by both workers' and employers' representatives in job transition schemes. In countries where job transition arrangements have not traditionally been commonplace, considerable interest is shown in the Trygghetsrådet in Sweden (which have generally been inappropriately translated as 'job security councils' whilst in reality they are about 'career' rather than 'job' security), the Danish model of flexicurity, Finnish job foundations, or German transfer enterprises.

*Preparing the workforce of the future.* The social partners in every participating country highlighted current skills mismatches and/or the future skills needs to support the changing economy as key issues for the social partners and for government.

*Addressing the specificities of SMEs.* In the national seminars, the amount of discussion and focus on small and micro enterprises was limited and indicates a need for more substantive work to be undertaken.

*Transformational change.* An important objective of this project has been to go beyond defining economic restructuring in terms of mass job losses in single large enterprises. Better practice is to anticipate and manage change incrementally over a more extended timescale. Where change anticipation in social dialogue processes is inadequate, social partner engagement typically occurs only at the time when dramatic job loss is almost inevitable.

*Restructuring, social dialogue and the crisis.* The discussions centred on the broad areas of government job protection schemes, improving job security through pay moderation and flexibility, and the 'post crisis' world.

The points above lead to an important conclusion of the project as a whole. Whatever the national framework for the management of change, we found that the active engagement of the social partners in the anticipation and management of change at all levels improved performance in the design of change management architecture and in restructuring practice. Within every national framework, the role and influence of the social partners on restructuring the enterprise or sectoral level varied widely. It was clear that the potential for adopting good practice was not chronically inhibited by national employee relations systems.

\* Aritake-Wild (2010) 'Joint European Level Social Partners' Study on Restructuring in the EU – Improving the anticipation and management of restructuring ... adding value through social partner engagement', Brussels.

## 2.2: SECTOR-LEVEL SOCIAL DIALOGUE

Social dialogue at sector level has also focused on understanding the reality of restructuring, using its potential to develop tailored, sector-specific responses. The following section describes some of the main sectoral initiatives relating to a range of restructuring issues in the following sectors:

- railways;
- the sugar industry;
- civil aviation;
- postal services;
- chemicals; and
- local and regional government.

### ***Railways — impact of freight restructuring***

The social partners in the railway sector published a joint report in February 2009 on the impact of European rail freight restructuring on employment. The fundamental objective of this report was to provide input for social dialogue, which was achieved by the organisation of discussion seminars and visits to freight sites in six Member States. This was the first time that the social partners had addressed this subject on a European scale.

The social partners concluded that staff numbers in the rail freight sector have been cut substantially due to insufficient productivity improvements and a decline in market share. Railway companies have, with some exceptions, introduced social support measures. Restructuring has taken place, new job configurations have emerged, and training has fostered enhanced competences. Outright dismissals have been avoided through redeployment and early retirement. In addition to these changes for employees, the European Transport Workers' Federation (ETF), representing trade unions, emphasised the spread of job insecurity, and the increase in geographical mobility and in working time in certain Member States, along with the coexistence of different contractual status for workers within the same company. Employers stressed the survival of their companies, performance improvements and cost control, notably through greater flexibility in order to respond to demand more effectively and withstand the impact of cyclical economic changes, and on efforts to find solutions for employees.

The social partners' joint objective is to use social dialogue to strike a balance that can be acceptable for both parties, notably between the economic and the social perspectives, occupational and family life etc. However, they fear that the pressure of lower transport prices on the whole and for rail transport in particular may make certain developments more difficult.

### ***Civil aviation — worker involvement in development of functional airspace blocks***

In the civil aviation social dialogue committee, the development of functional airspace blocks (airspace blocks based on operational requirements, regardless of national boundaries) has been a key topic in the context of sectoral restructuring affecting air-traffic management. The relevant working group of the committee issued a joint statement in the framework of a European conference on functional airspace blocks in October 2007, in which the social partners agreed to assess annually the progress made by their members in terms of consultation of workers on the new system. To this end, the social partners jointly drafted a first questionnaire to assess the consultation process concerning functional airspace blocks during the feasibility study stage.

In their assessment of progress, the social partners found that more precise and joint definitions of levels of worker involvement were needed, although in general an information process had been activated. Social dialogue needed to be reinforced in the implementation phase. The trade unions felt informed and involved but not always sufficiently consulted nor treated as real partners, leading to dissatisfaction with the way that the views of the employees were considered. On the other side, the providers were of the view that the level of involvement of staff representatives was adequate, since no decisions had yet been taken, and said that further consultations were foreseen on the possible social consequences of the development of functional airspace blocks. Based on these results, the social partners suggested discussing possible joint recommendations in the social dialogue committee.

### ***Postal services — examining the development of the sector***

In postal services, the economic crisis that took hold in late 2008 compounded the ongoing decline in mail volumes due to electronic substitution and the opening of the market to create additional pressure on postal operators. Accordingly, the social partners in the sector treated the crisis as an integral part of their work on the evolution of the sector (an issue on which they had agreed a joint statement in 2007), discussing how postal services are regulated with respect to their employment and social dimension in different Member States, and working towards an up-to-date 'dashboard' on this area of regulation across the entire EU.

### ***Chemicals industry — the nature of restructuring***

In 2007-2008, the sectoral social dialogue committee for the chemicals industry carried out a project on restructuring, managing change, competitiveness and employment. Many different types of restructuring were identified, such as merger and acquisition, change of ownership, delocalisation/offshoring, outsourcing, relocation, closure and expansion. All these types of restructuring are becoming more complex, which led to various different viewpoints being expressed by the social partners. Contrary to initial plans, it was therefore

not possible to prepare general guidelines on restructuring in the sector. However, the social partners agreed a set of ‘joint lessons learned’ in May 2008.<sup>119</sup>

### ***Local and regional government — social dialogue on reform***

The European Federation of Public Service Unions (EPSU) and the Council of European Municipalities and Regions (CEMR), the European social partner organisations involved in the sectoral social dialogue covering local and regional government, completed a reflection on social dialogue in public services reforms with a study published in 2008.<sup>120</sup> It identifies the main drivers of reform and seeks to raise the understanding of main trends by putting into perspective 10 case studies of reform approaches in different countries. It concludes that only in a few countries has information and consultation of trade unions had a real impact on restructuring. Therefore, the document puts forward points for reflection on how the potential of a constructive social dialogue could be better used.

#### **2.2.1: KEEPING WORKERS EMPLOYABLE AND COMPANIES COMPETITIVE**

How to ensure that workers keep their skills up to date and therefore remain employable is a key issue in today’s globalised economy. Companies need to engage with this issue in order to ensure that they remain competitive. The following are sectoral examples of initiatives that aim to increase worker employability and company competitiveness.

##### ***Sugar industry — improving employability***

In 2009, in a context of substantial instability due to restructuring, the social partners in the sugar sector focused on the need to improve employability in their industry. To this end they organised a conference on employability in October 2009 in Brussels in the framework of a project co-financed by the European Commission. This project:

- defined the concept of employability;
- highlighted good practices in the sugar and agro-food industry, as well as from outside these sectors;
- made recommendations concerning success and employability factors;
- listed skills that should be developed and that are required in the sugar sector;
- gave an overview of European and national financing possibilities in 20 sugar-producing countries; and

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<sup>119</sup> The text is available here:  
[http://ec.europa.eu/employment\\_social/dsw/public/actRetrieveText.do?id=8735](http://ec.europa.eu/employment_social/dsw/public/actRetrieveText.do?id=8735).

<sup>120</sup> The study is available here:  
[http://ec.europa.eu/employment\\_social/dsw/public/actRetrieveText.do?id=8711](http://ec.europa.eu/employment_social/dsw/public/actRetrieveText.do?id=8711).

- provided a practical dictionary defining concepts connected with employability.

This information is presented in the form of an interactive computer-based tool, allowing the content to be progressively enriched by new contributions. The tool is available in multiple languages on the website of the sugar social dialogue committee ([www.eurosugar.org](http://www.eurosugar.org)).

### ***Railways — employability as a common challenge***

In the railways sector, the social partners organised a conference on employability in 2008, designed to implement the joint recommendations on the concept that they had approved in late 2007.<sup>121</sup> This conference allowed employers, trade unions, experts and other stakeholders to exchange views on the current status and progress in the implementation of the strategy of employability. With the help of specific examples of good practice, participants discussed the significance of this approach for European railway companies and their employees. The unanimous acknowledgement that employability is a common challenge for corporate management, employees, trade unions and works councils was a clear signal for the European social dialogue committee to continue working on this issue and to closely support and promote the process of implementing the strategy of employability in the various national contexts.

### ***Civil aviation — best practices on training and qualifications***

In the ground-handling working group of the civil aviation social dialogue committee, the European social partners jointly organised a conference on best practices on training and qualifications in the ground-handling sector in 2008. The conference highlighted the evolution of the sector and the link between training, safety and the quality of service. Following the conference, the European social partners acknowledged that the development of staff skills is an essential factor to deliver safe and high-quality services. A priority is to recognise the proficiency of the employees, thereby improving their employability and facilitating the adaptation of companies, which are confronted by new challenges in an international economy. The European social partners generally agreed that it is vitally important to their industry that workers have the necessary skills and qualifications to meet the challenges of a sustainable aviation market. They therefore decided to examine several examples of good practice in a study conducted in 2008. As a result, the social partners signed a joint declaration in 2009, outlining their common understanding and examining joint initiatives deriving from the study.<sup>122</sup>

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<sup>121</sup> The concept of employability in the railway sector. Recommendations. [http://ec.europa.eu/employment\\_social/dsw/public/actRetrieveText.do?id=8555](http://ec.europa.eu/employment_social/dsw/public/actRetrieveText.do?id=8555).

<sup>122</sup> Joint declaration on training and qualification in the ground-handling sector: [http://ec.europa.eu/employment\\_social/dsw/public/actRetrieveText.do?id=8773](http://ec.europa.eu/employment_social/dsw/public/actRetrieveText.do?id=8773).

## 2.2.2: ANTICIPATION OF FUTURE SKILLS NEEDS

Faced with increasing globalisation, the social partners in the textile and clothing sector agree on the crucial importance of early anticipation and training to optimise the management of jobs and skills of European workers and companies. In 2009, in the context of the European Commission's proposal to establish European Sector Councils on Jobs and Skills, they finalised a project studying good practices in this area and the feasibility of establishing a network of existing skills observatories. As a follow-up, the social dialogue committee has started to explore the creation and working arrangements of a possible sector council. Similarly, the commerce, postal services and tanning and leather sectoral social dialogue committees have also expressed an interest in becoming pilot sectors for the proposed European Sector Councils on Jobs and Skills.

In a January 2010 joint appeal on 'Emerging from the crisis: fostering growth and jobs for a sustainable construction industry', the European social partners in the construction industry called for a substantial increase in efforts for sector-specific vocational and professional training facilities. The aim would be: on the one hand, to help ensure that workers have the required skills to carry out energy-efficiency upgrades in the housing sector; and, on the other hand, to facilitate labour market transition and the strengthening of construction workers' skills. At the time of writing this report, the social partners in this sector had not yet published any evaluation of actions in this area.

### **Box 4.3: Guiding restructuring – a toolkit in the electricity sector**

To help employers and trade unions better manage restructuring processes, the European social partners in the electricity sector published in December 2008 a toolkit for socially responsible restructuring, including a best practice guide.<sup>123</sup>

This toolkit builds on in-depth case studies and analyses the context of restructuring in the industry (such as liberalisation and technological change), and the importance of social dialogue and of anticipation and transparency in the process. It addresses the questions of:

- outsourcing and offshoring;
- training, lifelong learning and redeployment;
- health and psychosocial issues;
- the role of public authorities; and
- cross-border learning.

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<sup>123</sup> Restructuring in the Electricity Industry: A Toolkit for Socially Responsible Restructuring with a Best Practice Guide: [http://ec.europa.eu/employment\\_social/dsw/public/actRetrieveText.do?id=8751](http://ec.europa.eu/employment_social/dsw/public/actRetrieveText.do?id=8751).



A practical checklist on each of these topics for the design of restructuring strategies complements the explanations. The toolkit is published in English, Polish, Romanian and Bulgarian.

### 3: TRANSNATIONAL COMPANY AGREEMENTS AND RESTRUCTURING

#### 3.1: AN EMERGING PHENOMENON

Since the early 2000s, there has been an increasing tendency for multinational companies, and especially those headquartered in Europe (or with major European operations), to engage in transnational negotiating activity with workers' representatives, resulting in the conclusion of agreements dealing with issues common to all or some of the countries where the multinational operates. Some 200 transnational company agreements (TCAs, a term used here also to include other transnational joint texts not labelled as agreements) have so far been recorded by the European Commission in around 100 companies employing a total of 9.8 million employees.<sup>124</sup>

TCAs may be of global scope or focus on European countries. On the employee side, their signatories are usually global or European trade union federations, European Works Councils (EWCs), or a combination of these parties, sometimes alongside national unions and works councils. While global TCAs typically focus on fundamental rights or aspects of corporate social responsibility, many TCAs with European scope tend to have as their core aim the establishment of partnerships to deal with company restructuring and anticipate change. Indeed, these agreements constitute some of the most innovative and positive examples of actions in this area.

Here we outline the main ways in which TCAs deal with restructuring and change, often in a very innovative way. Broadly, they may:

- address specific restructuring events;
- provide for the socially responsible management of potential future restructuring;
- anticipate change in a longer-term perspective; or
- deal with restructuring as part of a broader global accord on workers' rights or corporate social responsibility.

#### 3.2: ADDRESSING SPECIFIC RESTRUCTURING EVENTS

A number of TCAs have been negotiated after the announcement of a specific restructuring plan, in order to lay down a set of guarantees for the employees affected by this operation, and sometimes also addressing economic issues. For example, specific circumstances have prompted the negotiation and adoption of TCAs at companies such as *Danone* (France, food) and *DaimlerChrysler* (at the stage when it was a single German/US automotive group), while a series of important European-level agreements on specific restructuring exercises have been concluded at *General Motors* and *Ford* (both US, automotive) since 2000,

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<sup>124</sup> See <http://ec.europa.eu/social/main.jsp?catId=707&langId=en&intPagId=214>.

providing for alternatives to closures and dismissals as well as pan-European social guarantees.

The most common contents of this type of specific restructuring agreement are set out below.

### ***Avoiding redundancies***

When plant closures and workforce reductions are planned, agreements often include commitments to avoid compulsory redundancies. For example, the series of agreements concluded at *General Motors* Europe played a key role in avoiding plant closures and large-scale, concentrated job losses between 2000 and 2010.

### ***Guarantees linked with transfer and redeployment***

When closures and/or redundancies are unavoidable, agreements sometimes provide for internal and/or external redeployment. Employees who are transferred after a plant closure often benefit from the maintenance of employment terms and conditions and/or job security. The same applies when employees are transferred to another company as a consequence of a spin-off, alliance or sale. Several TCAs of this type also contain a commitment to ensure the return of transferred employees in their former company in some circumstances. For an example of a recent agreement containing guarantees on transfer and redeployment for the integration of a branch of Areva in Alstom and Schneider Electric, see Box 4.4.

### ***Other accompanying measures***

Other accompanying measures are generally offered by agreements to employees affected by the restructuring plan, especially in the case of redundancies. These may include: part-time work programmes; outplacement assistance; support in starting up a business; compensation payments on termination of contract; compensation for shortfalls in earnings in a new job; training to attain the necessary skills to find jobs with a new employer; or a priority right of application in future new recruitment. Social and employment guarantees can also result indirectly from agreements' provisions addressing economic issues, for example commitments to provide sourcing or investments.

### ***Procedural rules and social dialogue***

Agreements may provide for information, consultation and dialogue over the restructuring in question and, in cases of transfers, deal with the consequences for collective agreements and representation. For example, they may provide that the existing collective agreements will stay in force (one states that a divested company will join the industry's employers' association so that the relevant sectoral collective agreements will continue to apply). Some agreements contain rules on employee representation during the restructuring and/or after the transfer of employees, maintaining the rights of the EWC and national trade unions.

Others adapt representation to the new situation or provide for the creation of a new EWC. An example of a TCA of this type is an agreement signed in March 2010 by Air France-KLM (Netherlands/France, civil aviation) and its EWC, which lays down the information and consultation arrangements to apply at various levels over the reorganisation of the airline's sales agencies at European airports.

#### **Box 4.4: European agreement on social guarantees following the acquisition of Areva T&D**

Two France-based multinationals, Alstom (power) and Schneider Electric (electrical engineering), jointly acquired in 2010 the energy transmission and distribution (T&D) business of Areva (France, nuclear power). Alstom will integrate Areva's transmission activities into its own operations, and Schneider Electric will integrate the distribution activities.

In July 2010, Alstom and Schneider Electric signed a European agreement with the European Metalworkers' Federation (EMF), which provides social guarantees for former Areva T&D employees and the rest of the Alstom and Schneider Electric workforces.

The agreement guarantees former Areva T&D staff throughout Europe continued employment at Alstom or Schneider Electric in an equivalent job in the same geographical area, and on the same pay. There will be no compulsory redundancies before March 2013 affecting either the former Areva T&D staff or the existing Alstom and Schneider Electric employees in the same divisions, unless economic conditions deteriorate significantly. The agreement's commitments to former Areva T&D employees will not be detrimental to other Alstom or Schneider Electric employees.

The accord also sets out provisions on integration and training for former Areva T&D staff, social dialogue (including the integration of former Areva T&D activities into dialogue structures at all levels, including the Alstom and Schneider Electric EWCs) and collective bargaining (including the adaptation of agreements at Alstom and Schneider Electric to reflect those formerly applicable at Areva T&D).

### **3.3: SOCIALLY RESPONSIBLE MANAGEMENT OF FUTURE RESTRUCTURING**

Some TCAs jointly plan for potential future restructuring in advance, setting out general rules and/or more concrete measures to apply to employees when restructuring occurs. Agreements of this type have, for example, been signed at *Axa* (France, insurance), *Danone*, *Deutsche Bank* (Germany, finance), *Dexia* (Belgium/France, finance), *Diageo* (UK, food and drink), *EADS* (Netherlands, aerospace), *General Motors*, *RWE* (Germany, utilities) and *Total* (France, petrochemicals). These agreements seek to ensure that restructuring occurs in a socially responsible manner, explaining the companies' social and employment policy in the event of restructuring and change, and setting Europe-wide guidelines and minimum standards, often with a particular focus on business disposals. The aim is generally to promote job security and employability and to mitigate the impact of restructuring on

employees. A recent agreement at *ArcelorMittal* contains provisions of this type (as well as on other aspects of restructuring) — see box 4.5.

### ***Avoiding redundancies***

In this type of agreement, companies often pledge to avoid, as far as possible, job losses and to seek alternatives to compulsory redundancies. These alternatives include: internal redeployment; geographical mobility; part-time work; redistribution and reduction of working hours; cuts in overtime; voluntary departures or early retirement (often with financial compensation).

### ***Accompanying measures***

In future cases where job reductions are unavoidable, agreements often stipulate accompanying measures, such as practical and financial assistance in internal and/or external redeployment, notably through vocational training and outplacement assistance. Where business disposals occur, agreements may provide for the maintenance of rights, employment terms and conditions, and pay-bargaining arrangements, or even give employees a right to return to the original employer within a certain period. Where plants close, some agreements provide for site rehabilitation aimed at creating new jobs or stimulate economic development (for example through consulting services, market or feasibility studies and financial assistance).

### ***Social dialogue procedures***

These agreements usually establish procedural rules on social dialogue over restructuring. The companies commit themselves to informing and consulting employee representatives — the EWC and/or local trade unions and representatives — on restructuring plans and their social impact. At the planning stage, one agreement provides for the company and workers' representatives to examine potential business opportunities jointly in order to lessen the impact on employees and to favour joint ventures.

#### **Box 4.5: Managing and anticipating change at ArcelorMittal**

In November 2009, ArcelorMittal (Luxembourg, steel) and the European Metalworkers' Federation (EMF) signed a European agreement on 'managing and anticipating change', prompted by the economic crisis and the global fall in demand for steel. The agreement both deals with the immediate effects of the crisis and lays down minimum Europe-wide principles with a view to anticipating and managing change in a socially responsible manner.

The agreement commits ArcelorMittal to maintaining European plants currently temporarily closed because of the fall in demand and reopening them in future, while drawing up industrial plans for the future, covering matters such as: the upgrade and renewal of machinery and tools; the preservation of critical skills; and the

role of key contractors. Compulsory redundancies will be avoided and workers will be trained during periods of short-time working.

In a longer-term perspective, the agreement stipulates a range of policies aimed at anticipating changes in jobs and skills needs, and training and developing employees to improve their employability. It also promotes social dialogue on anticipation and management of change at local, national and European level, and creates a formal European-level union-management consultative committee.

### **3.4: ANTICIPATING CHANGE**

The TCAs that seek to anticipate change and manage jobs and skills in a forward-looking way are among the most innovative company-level initiatives relating to restructuring. Rather than dealing with specific instances of restructuring or laying down principles or rules to guide future restructuring, they establish a long-term employment policy with a view to ensuring the future of employees, whatever organisational changes occur. Examples of such agreements have been signed at *Danone*, *Dexia*, *Eni* (Italy, energy), *Schneider Electric*, *PSA Peugeot Citroën* (France, automotive), *Total*, and *Thales* (France, technology). A recent example is at *GDF Suez* — see box 4.6.

#### ***Planning***

Agreements of this type usually put in place a planning process to assess current and future jobs and training needs in a context of change, for example putting in place a system to monitor anticipated technological and labour market developments.

#### ***Management of employment and skills***

Based on assessments of future developments in occupations and work, agreements seek to manage employment and skills. The Europe-wide agreement on this anticipation/training policy may take the form of a framework that sets orientations for subsequent national agreements, or contain more concrete and detailed provisions, dealing with matters such as:

- general forward planning tools, with assessments for each country, group company, workplace and/or job;
- professional development for employees, for example through individual competence reviews, vocational training, mobility or validation of work experience;
- an active training policy open to all employees, defined through local annual discussions;
- aspects of recruitment policy, such as giving priority to internal candidates, integrating new recruits or transferring skills between generations;

- mobility issues, such as anticipating compulsory internal and external mobility, encouraging and accompanying voluntary internal mobility, and disseminating job vacancies within the group; and
- specific measures to manage the future careers or retrain employees who have reached mid-career or work in physically strenuous occupations.

### ***Social dialogue procedures***

These agreements highlight the importance of information and consultation at European and local level in enabling an anticipatory social dialogue. They may enhance the scope of information given to the EWC, link the European dialogue with the information and consultation of representative bodies at local level, or establish specific committees at different levels.

#### **Box 4.6: European employment and expertise plan agreed at GDF Suez**

GDF Suez (France, energy and utilities) signed in February 2010 a European agreement introducing an ‘employment and expertise plan’, with a negotiating group made up of national trade union representatives and the European Federation of Public Service Unions (EPSU). The accord introduces a Europe-wide system of forward-looking management of jobs and skills.

The agreement establishes a ‘stock-taking exercise’ of human resources, HR management systems and practices, and company activities in all GDF Suez subsidiaries, followed by regular monitoring, as a basis for forecasts of future employment and skill needs. It lays down Europe-wide principles and policies in areas such as career development, skills assessment, vocational training, internal advertising of vacancies, recruitment, equal opportunities, mobility, mentoring, older workers, and tackling the issues associated with physically demanding work.

The agreement provides for information and consultation on relevant issues for the EWC and national employee representative bodies, and creates specific joint committees at European and national levels to monitor the employment and expertise plan.

### **3.5: ADDRESSING RESTRUCTURING IN GLOBAL AGREEMENTS**

Many TCAs, generally those with worldwide scope, are ‘global agreements’ or ‘international framework agreements’, dealing with fundamental workers’ rights and/or corporate social responsibility issues. Some of these agreements, while not specifically focusing on restructuring or accompanying and anticipating change, include references to these issues. Examples of such global agreements include those at *EADS*, *EDF* (France, electricity), *Eni*, *Generali* (Italy, insurance), *Lukoil* (Russia, energy), *Rhodia* (France, chemicals), *Pfleiderer* (Germany, wood) and *Renault* (France, automotive).

A number of these agreements refer explicitly to the social management of restructuring by committing the company to: protecting jobs through training and mobility; minimising the impact of restructuring on employment and working conditions; ensuring the employability of employees in a long-term perspective; or providing for the information and consultation of employee representatives on restructuring. Some global agreements contain specific commitments by the company to anticipate, as far as possible, economic and industrial changes and their consequences in terms of human resources. The most common means of implementing this 'anticipation principle' include the management of skills and training, and a forward-looking and permanent social dialogue.

**Box: 4.7: Two examples of global agreements**

The international framework agreement at the German wood and by-product wholesaler Pfeleiderer AG, signed in November 2010 between the company's Works Council, the German metal union, IG Metall, and the Building and Wood Workers International (BWI), commits the company to respect the international labour standards of the International Labour Organisation (ILO) for all its employees. It also commits to applying, on its German sites and elsewhere, minimum standards in terms of working conditions, in keeping with the ILO's international labour standards. The agreement, in the form of a social charter, also contains other commitments on the health and safety of workers, the protection of the environment, learning and vocational training, and a commitment to work only with contractors, sub-contractors and suppliers who recognise and implement these social principles.

The international framework agreement at the European Aeronautic Defence and Space Company (EADS NV), which also dates from 2005, makes a commitment to promoting the employment of the company's workforce. Specifically, in the case of company 're-orientation' or restructuring, the agreement says that it will do 'all it can to protect employment by means of all possible measures, including training and mobility, whenever appropriate'. The accord was concluded between the European Works Council and management at the company.

**3.6: COMMISSION'S ROLE IN PROMOTING TRANSNATIONAL COMPANY AGREEMENTS**

Since 2005, the European Commission has been active in promoting TCAs.<sup>125</sup> The Commission started organising 'stock-taking' activities on TCAs as a contribution to the implementation of the Social Agenda 2005-2010, which included plans for the drafting of a proposal for an optional legal framework for transnational collective bargaining. In 2006, the Commission organised study seminars for governmental experts, social partners, academics and company actors to analyse the emerging TCA phenomenon, its background and the first experiences with this kind of joint text. The seminars were complemented by

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<sup>125</sup> See <http://ec.europa.eu/social/main.jsp?catId=707&langId=en&intPagelD=214>.



background reports, company case studies and interviews with company actors. In 2008, a company workshop was held, which allowed for an in-depth exchange between Commission experts and management and EWC representatives from multinationals with such agreements. The findings of this workshop contributed to a wider conference, organised with the French Presidency of the Council in November 2008, on the transnational dimension of social dialogue and restructuring.

In the framework of the 2008 renewed social Agenda, the Commission issued a report<sup>126</sup> analysing the role of TCAs in the context of increasing international integration, and the issues to be addressed (actors involved, effects of agreements, transparency and dispute settlement). This report was accompanied by a mapping of existing TCAs.

Since 2008, the Commission's promotion of TCAs has included support for initiatives aimed at:

- facilitating the identification of the actors, approaches or mechanisms that could be promoted in this area;
- identifying ways of ensuring that the texts agreed are more transparent; and
- determining conciliation or mediation mechanisms that could be promoted with a view to facilitating dispute settlement.

Specific actions launched with the aim of supporting TCAs have included:

- financial support for social partner projects on TCAs under budget heading 04.03.03.03 on information, consultation and participation of representatives of undertakings;<sup>127</sup>
- the commissioning of studies on international private law rules and on the effects produced by company agreements;
- the creation of a database of transnational texts (under way); and
- the establishment in 2009 of an expert group on TCAs made up of social partners, governmental experts and experts from other institutions, to monitor developments and discuss ways to best support TCAs — the Commission will draw conclusions from its work and propose future steps in 2011.

An extensive range of further documentation on transnational company agreements is available at: <http://ec.europa.eu/social/main.jsp?catId=707&langId=en&intPageId=214>

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<sup>126</sup> Commission staff working document — The role of transnational company agreements in the context of increasing international integration COM(2008) 419 final.  
<http://ec.europa.eu/social/main.jsp?catId=707&langId=en&intPageId=214>.

<sup>127</sup> <http://ec.europa.eu/social/main.jsp?catId=157&langId=en&furtherCalls=yes&callType=2>.

## 4: CROSS-BORDER MERGERS

Many transnational companies are created as a result of cross-border mergers, and these can have complicated provisions regulating the information, consultation and participation of workers. This section looks at issues surrounding cross-border mergers.

Since 15 December 2007 (the date by which Member States should have adopted the national implementing legislation), cross-border mergers have been facilitated by European legislation. Directive 2005/56/EC of 26 October 2005 on cross-border mergers of limited liability companies sets out the conditions and procedures for these restructuring operations, building on the national requirements for domestic mergers. The Directive responded to strong demand from businesses to facilitate cross-border mergers in the European Union, which had previously been impossible or very difficult and expensive. It aimed to reduce costs and guarantee legal certainty for companies taking part in these procedures.

The rules apply to limited-liability companies which were formed in accordance with the law of a Member State and have their registered office, central administration or principal place of business within the Community. The merging companies need to be governed by the laws of at least two Member States.

The procedure of carrying out a cross-border merger is developed to protect the rights and interests of shareholders, creditors and employees. The participating companies must draw up and publish common draft terms of mergers that set out, *inter alia*, the ratio applicable to the exchange of shares, the terms of the allotment of the shares of the resulting company and information on the evaluation of the assets and liabilities which are transferred to this company (the acquiring company or a new company). The draft terms must also describe the likely repercussions of the cross-border merger on employment and, where appropriate, information on the procedures by which arrangements for the involvement of employees in determining their participation rights in the resulting company.

The management of the merging companies must draw up a report to explain and justify not only the legal and economic aspects of the merger but also the implications for shareholders, creditors and employees. The report must be made available to the shareholders, as well as to the representatives of the employees or the employees themselves, one month before the general meeting that decides on the merger. If the management receives an opinion from the employees in good time, it has to be attached to the report.

### 4.1: EMPLOYEE PARTICIPATION IN CROSS-BORDER MERGERS

As a general rule, employees' participation rights in the board of the company resulting from the cross-border merger are governed by national law. However, there are three exceptions:

- if at least one of the merging companies has, in the six months before the publication of the draft terms of the merger, an average number of employees exceeding 500 and it is operating under an employee participation system;
- if the law applicable to the resulting company does not provide for at least the same level of employee participation as operated in the merging companies; and
- if the national law applicable to the resulting company does not provide for the employees of the foreign establishments of the resulting company the same entitlement to exercise participation rights as enjoyed by the employees in the company's country of registration.

In these cases, the merging companies must start negotiations with the employees (or their representatives) in order to find an agreement on the exercise of participation rights in the board of the resulting company. The detailed rules of the negotiation follow the requirements of Directive 2001/86/EC that govern the involvement of employees in a European Company (SE).

The Directive also makes sure that Member States protect employee participation rights, in the event of subsequent domestic mergers, for a period of three years after the cross-border merger has taken effect.

#### **4.2: EUROPEAN COMPANIES (SEs)**

Council Regulation (EC) No 2157/2001<sup>128</sup> establishes a Statute for a European Company with a view to creating a uniform legal framework enabling companies from different Member States to plan and carry out the reorganisation of their business on a Community scale. Council Directive 2001/86/EC<sup>129</sup> supplements the Regulation as far as the involvement of employees<sup>130</sup> is concerned, with the aim of ensuring that the establishment of an SE does not entail the reduction of practices of employee involvement existing within the companies participating in the creation of the SE.

The fundamental principle and stated aim of the Directive is to secure employees' rights as regards involvement in company decisions. Employee rights in force before the establishment of SEs should provide the basis for employee rights of involvement in the SE (the 'before and after' principle). This aim is sought primarily by means of an agreement negotiated between the management of the companies concerned and the employees'

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<sup>128</sup> Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE).

<sup>129</sup> Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees.

<sup>130</sup> Involvement of employees means any mechanism, including information, consultation and participation, through which employees' representatives may exercise an influence on decisions taken within the company.

representatives. In the absence of agreement within a six-month period (which can be extended to up to 12 months by agreement), the Directive establishes a set of standard rules. Furthermore, employees' representatives may decide not to open negotiations or to terminate negotiations already opened, and simply rely on the rules on information and consultation of employees in force in the Member States where the SE has employees. According to the SE Regulation (Article 12(2)), an SE cannot be registered unless one of these conditions is met (ie an agreement on employee involvement is reached, or standard rules, or national information and consultation rules, apply).

In 2008, the European Commission commissioned an external study on the operation and impact of the SE Statute.<sup>131</sup> The study, which was published in March 2010, was based on questionnaires and interviews with stakeholders. In May 2010, the Commission launched a consultation on the results of the study in order to test the study's results with a wider audience and provide the Commission with stakeholders' views on issues relevant in assessing the SE Statute. In November 2010, the Commission issued a report on the application of the SE Statute,<sup>132</sup> accompanied by a Staff Working Document, which, among other things, makes an inventory of the existing SEs, presents trends on SEs' distribution throughout the EU, and analyses the main problems encountered when setting up and running an SE.<sup>133</sup>

As to the current state of play as regards agreements on worker involvement in SEs, the European Trade Union Institute (ETUI) reports that by November 2010, 67 agreements on worker involvement could be identified from the 658 SEs established.<sup>134</sup> The agreements of the larger SEs, in particular, are generally in line with good 'EWC practice' and, on certain points, go beyond the provisions of the SE Directive.

In 32 SEs the rights enshrined in the agreement include board-level participation, thereby adding an important dimension for workers' voice in company decision-making.

At present, more than 90 employee board members represent the interests of the workforce on SE supervisory or administrative boards. A fundamental innovation introduced by the SE legislation is the transnational component of participation at board level. In a number of SEs (eg Allianz SE, BASF SE and MAN Diesel SE) employee representatives from several countries sit on the board and represent the interests of the European workforce as a whole. SE employee board-level representatives today come from 10 different countries (AU, BE, DK, FR, DE, IT, NL, NO, PL, UK). For more information, see box 4.8.

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<sup>131</sup> Study on the operation and the impacts of the Statute for a European Company (SE) — 2008/S 144-192482. Ernst & Young. December 2010. [http://ec.europa.eu/internal\\_market/consultations/docs/2010/se/study\\_SE\\_9122009\\_en.pdf](http://ec.europa.eu/internal_market/consultations/docs/2010/se/study_SE_9122009_en.pdf).

<sup>132</sup> Report on the application of the SE Statute (COM(2010) 676 final: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52010DC0676:EN:NOT>.

<sup>133</sup> [http://ec.europa.eu/internal\\_market/company/docs/se/report112010/sec2010\\_1391\\_en.pdf](http://ec.europa.eu/internal_market/company/docs/se/report112010/sec2010_1391_en.pdf).

<sup>134</sup> Information from the ETUI's worker participation website: <http://www.worker-participation.eu/>.

#### **Box 4.8: Worker involvement in ‘normal’ SEs (those operating and employing 5 or more employees)**

At least 67 SEs have arrangements on information and consultation at transnational level.

32 SEs have board-level representation (participation):

- 24 companies registered in Germany: Allianz, ASIC, BASF, BP Europa, Clariant, Dekra, DVB Bank, E.on-Energy Trading, Fresenius, GfK, Knauf Interfer, Lenze, MAN Diesel & Turbo, MAN, Porsche Automobil Holding, SGLCarbon, SCA Hygiene Products, Q-Cells, RKW, Surteco, Tesa, Warema, WILO, Wacker Neuson
- 3 companies registered in Austria: STRABAG, Plansee, Conwert Immobilien Invest
- 3 companies registered in France: SCOR (3 SEs)
- 1 company registered in Cyprus: Prosafe
- 1 company registered in Hungary: Wamsler

*Source: ETUI November 2010.*

#### **Box 4.9: Examples of worker involvement in SEs**

##### **MAN Diesel SE, Germany**

MAN affiliate MAN Diesel SE, founded in August 2006, made history as the first SE. As a result of this, German co-determination was spread to other EU member states: on the SE supervisory board the German workforce representatives now share the 50% of the seats formerly reserved for them in accordance with German co-determination law with their colleagues from Denmark. No less important, the SE works council is now much more European than the previous European Works Council. This Europeanisation of interest representation to the highest achievable extent is well in line with the objectives of the European Metal Workers Federation (EMF).

MAN Diesel SE was set up by a national conversion, and is registered in Augsburg, Germany. According to the SE statute, the management decided to retain the existing two-tier corporate structure and, consequently, the German form of co-determination, giving the workers 50% of the seats on the supervisory board. At the same time, the management used the founding of the SE to reduce the size of the supervisory board from 12 to 10 members. This was not considered a reduction of participation at this level by IG Metall, however: only the employee seat reserved for the management staff representative was lost (according to German co-determination law this person is considered as being on the employees' side). At the time of SE establishment MAN B&W Diesel – mainly the result of a German-Danish merger of heavy diesel machinery

production in 1980 – the company employed 6 423 people, mainly in Germany (2 875) and in Denmark (2 362), but also in France, the UK and the Czech Republic, with some service departments in Greece, Norway and Sweden. The transformation of MAN B&W Diesel into an SE may be seen as only a first step against a broader background of reorganising the company's whole machinery and truck branch in Europe, making it a bigger, globally more competitive player. Meanwhile, negotiations have commenced with the workers as the company has decided to convert into an SE wholesale (Oct 2008). Although the outcome was received positively by the workers' national representatives, in the course of the negotiations a number of difficulties arose, caused by the different standpoints and backgrounds of the employee representatives. These difficulties concerned the character and consequences of the particular form of foundation and the location of the company's registered seat in Germany, and the understanding of board-level participation, particularly between representatives of the two strong legal systems involved, the German and the Danish.

### **Elcoteq, Finland**

Finnish-owned Elcoteq opened a new chapter of high company mobility and flexibility in Europe by taking advantage of the SE legislation. But its employees are dependent on cross-border information and consultation only somewhat above the standard provisions. No board-level representation has been introduced by negotiating workers' involvement in Elcoteq SE.

Elcoteq SE was set up by a conversion of the parent company effective from 1 October 2005 and registered in Helsinki/FI. At the time of establishment c. 7 500 employees from five EU member states were represented by the special negotiating body: c. 860 from Finland, c. 3 340 from Estonia, c. 2 700 from Hungary, c. 550 from Germany and 7 from Sweden. Elcoteq is an electrical manufacturing services company supplying customers such as Nokia and Ericsson. Worldwide Elcoteq has c. 20 000 employees and operates in 15 countries.

According to management the foundation of an SE was motivated by the desire to adopt a European identity. Since Elcoteq publicly announced it would move its headquarters from Helsinki to Luxembourg, however, other considerations have emerged as important motives for using this new opportunity to increase company mobility throughout Europe, probably including tax savings.

The negotiations between management and employee representatives were used to set up a cross-border interest representation body – the SE works council – for the first time. Because of a peculiarity of Finnish law on worker participation no board-level presentation had been established in the previous parent company. Accordingly, no board-level representation could be introduced (on the basis of the standard rules) in the administrative board of Elcoteq SE. Given the fundamental resistance of management to the board-level representation of employees and the heterogeneous composition of the special negotiating body, however – particularly the weak interest representation of the Estonian workforce (only 100 trade union members out of 3 340

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employees) – the make-up of the transnational interest representation agreed upon can be regarded a remarkable success. The SE works council obtained rights somewhat above the standard provisions: in addition to its information and consultation rights it has the right to be informed about and to discuss, both in advance and afterwards, the agenda of meetings of the administrative board. This could be perceived as a kind of ‘informal participation’.

The negotiation process was characterised by the important role of the external expert working for the Finnish trade unions, serving as facilitator, legal adviser and educator at the same time. Cultural differences and lack of language competence turned out to be particular obstacles to achieving a common understanding and a mutually agreeable outcome. Not surprisingly, the agreement also contains provisions and days off for taking language courses (English). Finally, all parties involved were by and large content with the agreement.

*Case study source: ETUI.*

## CHAPTER 5: MEMBER STATE ACTIONS TO SUPPORT RESTRUCTURING

The response of individual Member States to anticipating and managing restructuring, particularly over the past two years, has been mapped by a number of recent EU-wide research projects. These projects add a great deal of value to the debate in terms of enabling key actors and policy makers to understand the main challenges involved, and how they have been overcome.

There are a range of schemes, instruments and mechanisms of support available to workers who have been affected by restructuring and which have been set up in parallel to and complementing the typical support mechanisms of public employment services (PES). Overall, the emphasis, or certainly the desired emphasis, of measures is moving away from the more traditional passive measures, towards active measures that involve an element of training and active support in the search for alternative employment. These can include schemes such as outplacement and measures designed to support occupational and geographical mobility. Studies of the measures available conclude that there is a common objective which is shared by national key actors: in times of globalisation and accelerated change in every part of the EU's economy and society, an efficient system to organise professional and job transfer seems to be crucial.

The role of flexicurity in easing the transition of workers into alternative employment is a growing issue. Overall, the flexicurity concept moves away from a job security mentality to an employment or employability security mentality. It is a policy approach geared less towards the protection of jobs, and more towards the protection of people, and therefore can provide a useful framework for actions designed to support workers facing the need to make the transition into alternative employment.

Flexicurity has a specific role to play in the current crisis, and recent studies have highlighted the ways in which many of the EU Member States have been trying to implement flexicurity principles in order to try to weather the crisis. This has been undertaken in varying ways and to varying degrees, depending on a range of factors, including national social security and industrial relations systems, culture, traditions of social dialogue and economic governance systems. Short-time working schemes provide numerical flexibility for the employer, together with job and income security for the employee and so can as such be considered as a flexicurity measure. However, the uptake is limited and workers are not always motivated to take part. Further, firms may have limited experience of providing training to workers and the capacity for training, particularly in SMEs, is very problematic, as is the fragmented nature of training systems in some countries. Nevertheless, the consensual nature of short-time working schemes provides a promising basis for further tripartite cooperation.

### 1: RESTRUCTURING IN THE MEMBER STATES

To support knowledge-sharing on restructuring, in 2009, the European Commission launched an initiative for disseminating the lessons learnt on existing and innovative



measures being carried out in all EU Member States for anticipating and managing restructuring at the national, regional and local levels and across specific economic sectors. This was carried out through the project *Anticipating Restructuring in Enterprises: National Seminars (ARENAS)*, which was managed by the International Training Centre of the International Labour Office (ITC-ILO) and funded by the Directorate-General for Employment, Social Affairs and Inclusion.

The overall objective of this project was to further advance the debate and the dissemination of good practices and innovative measures and tools for anticipating and managing restructuring. This was to be achieved by holding national seminars in each of the 27 EU Member States, organised by national experts, who were also responsible for drafting a national background paper for their country in order to support debate during the seminar.

The exchanges during the national seminars aimed at focusing on the effectiveness and usefulness of specific measures and tools, taking into consideration the current economic downturn. Each national seminar aimed to add to the existing body of knowledge on how to anticipate and manage restructuring and how to mitigate its negative social and employment impacts.<sup>135</sup> The seminars also showcased case studies of good practice in anticipating and managing restructuring. They were tripartite in nature, attended by representatives of central, regional and local government authorities, trade unions, employers' organisations, companies, chambers of commerce, universities, research networks, and other relevant bodies. The seminars were held in each EU Member State between April 2009 and June 2010.

The main purpose of the seminars was to allow participants to share their views on the effectiveness of the different measures available in their countries to anticipate and manage restructuring. Seminar participants were given the opportunity to discuss the case studies and assimilate the lessons learnt, with a view to applying this to their own organisations and disseminating the ideas more widely.

A final synthesis report of the entire project draws out the project's main themes. This report also provides an overview of the main measures that are available to anticipate and manage restructuring in all of the 27 Member States. The aim of the report was to contribute to better understanding the various tools available to anticipate and manage restructuring, in addition to identifying which lessons could be disseminated to other countries in Europe. The intention was also that this exercise might contribute to debates on how the European Union could facilitate the development of sustainable measures to anticipate and manage restructuring across Europe.

Measures to anticipate and manage restructuring in the 27 EU Member States share many similar features, which may be capable of being transferred between Member States. For

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<sup>135</sup> All of the national background papers can be found on the following website: <http://arenas.itcilo.org/>.

example, in all Member States there are some measures available to anticipate economic and labour market developments, all countries have legal frameworks that regulate how restructuring should be managed and all have public authorities that initiate labour market policies to reduce unemployment in the best possible way given each country's circumstances. These policies operate in the context of a variety of traditions, cultures, economic structures, industrial relations systems and the differing roles of actors such as the state, the social partners and the nature of the legal framework that supports restructuring.

This project did not set out to evaluate the legal frameworks and labour market policies of the 27 EU Member States, but rather to describe and discuss the measures related to anticipating and managing restructuring. Box 5.1 below sets out some examples of early warning and anticipation systems from EU Member States.

**Box 5.1: Examples of measures to anticipate economic and labour market developments****Government Foresight Network in Finland**

The Government Foresight Network is an inter-ministerial forum for cooperation and exchange of information in issues relating to the anticipation of the future. Anticipation of the future refers to a systematic and inclusive process involving the collection, assessment and analysis of information. It also includes outlining projections and visions for the future in the medium and long term.

All ministries are involved in anticipation activities relevant to their appropriate administrative sector. Anticipation activities undertaken by the ministries serve the strategic planning and direction of the administrative sector as well as the Government's decision-making. The Government Foresight Network is a forum for discussing the results of the anticipation work carried out in the administrative sectors. Appointed by the Prime Minister's Office, the Network's term lasts until the end of the Government's term of office. The Network includes members from all ministries, and its presidency rotates among the ministries.

**Regional economic forums in the UK**

The South West Regional Economic Task Group, chaired by the government minister for the region, has a remit to:

- assess the regional impact of current economic uncertainties;
- provide a conduit for the Regional Minister to discuss economic challenges with private and public sector bodies, and for the views of South West regional stakeholders to be represented at national level; and
- provide a structure through which problems affecting particular sectors or sub-regions/localities can be addressed, ideas can be harnessed, and public sector intervention can be coordinated to optimum effect.

It has considered detailed reports of the economic situation in the region. In May 2009, for example, a report to the Task Group identified four sectors which were both vulnerable and of particular importance to the region: engineering, construction, retail and business services. The report suggested particular localities that might then be particularly impacted by the recession, in order to plan appropriate responses.

In terms of managing restructuring, there is a wide range of measures in existence in EU Member States, ranging from those that aim to prevent redundancies, those that aim to mitigate the effects of redundancy and those that support redundant workers. Box 5.2 below gives an overview of these measures, their advantages and disadvantages.

**Box 5.2: Overview of the main measures designed to manage restructuring**

Measure	Advantages	Disadvantages
Wage and labour cost reduction	<ul style="list-style-type: none"> <li>● Redundancies may be avoided</li> </ul>	<ul style="list-style-type: none"> <li>● Difficult to come to agreement with workers' representatives</li> <li>● Wage subsidies provide distorted incentive structure for employers</li> </ul>
Short-time work	<ul style="list-style-type: none"> <li>● Quick adjustment</li> <li>● Termination of contracts avoided</li> <li>● Recruitment and training not necessary when demand resumes</li> </ul>	<ul style="list-style-type: none"> <li>● Reduced income for workers</li> <li>● Long-term effects not clear</li> <li>● Redundancies cannot be avoided</li> <li>● Risk of postponing redundancies</li> </ul>
Partial unemployment	<ul style="list-style-type: none"> <li>● Quick adjustment</li> <li>● Termination of contracts avoided</li> <li>● Recruitment and training not necessary when demand resumes</li> </ul>	<ul style="list-style-type: none"> <li>● Reduced income for workers</li> <li>● Long-term effects not clear</li> <li>● Redundancies cannot be avoided</li> <li>● Risk of postponing redundancies</li> <li>● Risk of misuse</li> </ul>
Temporary lay-offs	<ul style="list-style-type: none"> <li>● Quick adjustment</li> <li>● Termination of contracts avoided</li> <li>● Recruitment and training not necessary when demand resumes</li> </ul>	<ul style="list-style-type: none"> <li>● Reduced income for workers</li> <li>● Long-term effects not clear</li> <li>● Redundancies cannot be avoided</li> <li>● Risk of postponing redundancies</li> </ul>
Early retirement	<ul style="list-style-type: none"> <li>● Quick adaptation</li> <li>● Can be regarded as compensation for long tenure</li> </ul>	<ul style="list-style-type: none"> <li>● Risk of losing skilled employees</li> <li>● Passive measure</li> <li>● High costs</li> <li>● Negative effect on pension system</li> </ul>

Dismissal and severance pay	<ul style="list-style-type: none"> <li>● Can be preferred by workers</li> </ul>	<ul style="list-style-type: none"> <li>● Passive</li> <li>● High costs for employers when least able to pay</li> <li>● Reduces attraction to activating measures</li> </ul>
Dismissal and transition to new job	<ul style="list-style-type: none"> <li>● Activates workers</li> <li>● Unemployment can be avoided</li> </ul>	<ul style="list-style-type: none"> <li>● Limited coverage and availability in member states</li> <li>● Temporary workers excluded</li> <li>● Costly for employers</li> </ul>
Training for transition and re-integration	<ul style="list-style-type: none"> <li>● Increase employability</li> <li>● Prepare for future jobs</li> <li>● Funding often available</li> </ul>	<ul style="list-style-type: none"> <li>● Not always well perceived by employers and employees</li> <li>● Lack of adaptation (time, access, methods, contents)</li> <li>● Costly for employers</li> <li>● Redundant workers are not always motivated to take part in training</li> </ul>

This project culminated in the production of a final synthesis report, which highlighted the main themes to emerge from the project, and the lessons learned. It covers the following areas:

- an overview of the context and regulation of restructuring and on the actors involved in restructuring. It sets out the EU regulatory context governing restructuring, largely in the area of the information and consultation of workers regarding any changes that are likely to affect the workforce. It also gives an overview of the main actors involved in restructuring, which include the employer, company-level workforce representatives, national governments, regional authorities, joint tripartite bodies, public employment services, social partners, training providers, external consultants and individual employees;
- the main measures and tools that are in place to anticipate restructuring in the EU, drawing out the communalities and highlighting innovative practices. These measures focus on economic and labour market forecasting tools, and tools that anticipate and support transition;

- the main measures and tools that are in place to manage restructuring in the EU, identifying the main common elements and showcasing differences and innovative elements. Management measures focus on: ways to avoid redundancies, such as wage reduction, short-time working and temporary lay-offs; ways to manage redundancies, such as early retirement, severance pay, and transition to alternative employment; and training measures for transition and re-integration;
- the dynamics, trends, issues and dilemmas related to the measures outlined in the previous chapters of the report. This covers issues such as the role of the social dialogue process, issues surrounding state intervention and the changing role of the public employment services, issues surrounding training and education, the impact of restructuring on health, and the effects of the crisis; and
- conclusions, including thoughts on future policy emphasis. This final section of the report contains a number of key findings, such as the need for the collection of data in order to allow measures to be evaluated, the fact that, although there is a diversity of measures in place around the EU to anticipate and manage restructuring, they share some common elements that may be capable of transfer across national borders, and the need for measures to stimulate demand for transition services in some countries.

The report also contains an annex which gives a brief description of the main existing measures for anticipating change and for managing restructuring processes in all EU Member States.

### **Box 5.3: Highlights of the European Synthesis Report**

The range of information gathered by this project confirms and underlines the work that has been developed in previous years by the European Commission and the social partners. Although there are differences in the systems and tools of anticipation and management of restructuring that are in place in the Member States, it is nevertheless possible to identify similar features amongst the existing systems and tools that could form the basis of convergence of practice in this area.

#### **Anticipation of restructuring:**

- almost all countries have been developing anticipatory measures. Examples: (1) forecasting and early warning systems; (2) measures aimed at enhancing skills and competences levels in order to (i) strengthen employability and thus mobility, (ii) as well as avoiding skills shortages or skills mismatches. Those measures are particularly important to workers as they allow them to be in the strongest position to react to any future restructuring event and not to be absent from the labour market as a consequence of a restructuring event; and
- the importance of social dialogue in the context of an anticipatory approach. Regular exchanges of information in the context of collective bargaining and a

permanent and effective information sharing and consultation at company level are a key element and work as the main anticipatory measures.

**Management of restructuring:**

- all countries have been developing measures for managing restructuring, and while there are some national differences, the majority of countries give priority to measures aimed at avoiding redundancies, such as short-time work, partial unemployment or temporary lay-offs; and
- there is state involvement in restructuring in all Member States, although the extent of state involvement varies.

The European Synthesis Report is available via the following link:  
<http://arenas.itcilo.org/>

**European Conference**

The synthesis report was presented at a European-level conference co-organised by the Belgian Presidency of the EU Council and the European Commission and held in Brussels on 18-19 October 2010.

The event gathered all the actors that had played a part in this project, in order to review best practices in anticipating change and managing restructuring in a socially responsible way and to consider the future, and most specifically the role of the European Union in adding value in this domain. This final gathering of all the participants was considered to be essential to develop a common view of the evolution of national systems in anticipating and managing restructuring, as well as to allow conclusions to be drawn up at European level.

The conference consisted of a series of workshops at which the project's national country expert for each of the 27 EU Member States gave a presentation of the main issues that were relevant for their country, in order to stimulate debate. An overview was also given of the debates that were held in each of the national seminars, which drew out useful issues and themes that were relevant for each of the countries. The national seminars brought together representatives of government, trade unions and employers for each country, and served to stimulate debate on the issue of restructuring in each country.

The next part of this chapter looks more closely at the tools that are available to support the transition of redundant workers to new employment.

## 2: ORGANISING TRANSITIONS

There are a range of schemes, instruments and mechanisms of support available to workers who have been affected by restructuring and which have been set up in parallel to and complementing the typical support mechanisms of public employment services (PES). A recent study carried out between August and November 2009 for the European Commission, DG Employment, Social Affairs and Inclusion presents a stock-taking analysis of these tools.<sup>136</sup>

Before the global financial and economic crisis took hold, the dynamics of restructuring resulted in a growing variety of activities at different levels supplementing as well as improving 'traditional' public employment services (PES) by more suitable instruments focusing in particular on the employability of workers and/or the effectiveness of re-conversion and re-deployment. In addition, flexicurity as a guiding principle of European and national labour market policy reforms has contributed to change in employment policies and public employment services in many European countries.<sup>137</sup>

While in the past such measures were often of a passive nature (such as early retirement, 'golden handshakes', ie severance payment packages and voluntary redundancies) learning processes, both in the context of previous local and sectoral crisis situations as well as learning from good and innovative practice throughout Europe have resulted in the development of more proactive measures. Accordingly, schemes of re-conversion and job transition are now often connected to occupational re-orientation, training and qualification as well as outplacement.

While this seems to be a common trend throughout the EU, there is a significant variety of country-specific backgrounds and experiences, depending very much on the respective traditions and frameworks of welfare state rationales and industrial relations. In Nordic Countries such as Sweden for example, restructuring processes at the company level have, since the 1970s, been accompanied by measures to support professional re-organisation and transition. In countries with a high share of part-time work and fixed-term employment contracts such as the Netherlands or Belgium, there is a strong tradition of outplacement support measures. Outplacement, job transition as well as occupational and professional re-conversion also have become an important field of labour market policy in countries such as France, Austria or Germany in the context of structural change in manufacturing or restructuring in public services since the 1990s.

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<sup>136</sup> 'Organising transitions in response to restructuring. Study on instruments and schemes of job and professional transition and re-conversion at national, sectoral or regional level in the EU.' Eckhard Voss, Wilke, Maack and Partner.

<sup>137</sup> See 'The role of Public Employment Services related to 'Flexicurity' in the European Labour Markets', Report for DG Employment, Social Affairs and Inclusion, March 2009.



Although active measures of occupational and professional transition and re-conversion in Southern Europe and the new EU member states in Central and Eastern Europe have been less important in the past, this has changed in recent years within the context of structural changes in the context of globalisation (for example in textile and other manufacturing sectors).

## 2.1: CLASSIFYING EXISTING SCHEMES AND MECHANISMS

The above-mentioned study covers a wide variety of different economic and social national contexts and identifies 27 instruments and schemes as relevant, which show significant differences with regard to legal sources, types of support measures, scope, co-financing by enterprises or the status of workers. However, if the notion of ‘transition’ with regard to professional orientation and employment is taken into account, there are three major groups or clusters of schemes that can be identified:

A first group of mechanisms and schemes which proactively seek to organise ‘transitional labour markets’, job transition, re-employment and outplacement, often in the context of dealing with redundancies in the context of restructuring. This could be company based, sector/region based or even covering — at least by nature — a whole country. Table 5.1 below gives an overview of the measures available for improving professional and job transition.

**Table 5.1: Overview and Classification of measures for improving professional and job transition**

Type	Characteristics	Schemes, funds, mechanisms
Focus transition, outplacement and re-employment	<ul style="list-style-type: none"> <li>• Either temporarily (in the case of restructuring or continuously) focusing on supporting and actively shaping ‘transitional labour markets’</li> <li>• Social partners and collective agreements at national, sector or company level playing a key role in designing and implementing measures</li> <li>• Often co-financing and clear obligations of employers in restructuring situations foreseen</li> </ul>	<ul style="list-style-type: none"> <li>• DK: Flexicurity operational model</li> <li>• SE: Job Security Councils</li> <li>• FI: Change Security operational model</li> <li>• FR: Occupational transition contracts (CTP)</li> <li>• FR: Mobility Leave</li> <li>• NL: Mobility Centres</li> <li>• BE: Outplacement and Employment Cells</li> <li>• LU: Job Retention Plan</li> <li>• DE: Transfer Companies</li> </ul>

Type	Characteristics	Schemes, funds, mechanisms
Focus training and skills	<ul style="list-style-type: none"> <li>● Based on the idea of professional/occupational mobility and very much orientated towards the individual jobseeker and effective professional transition</li> <li>● In the context of larger restructuring/globalisation also targeting those workers who are threatened by unemployment</li> <li>● Often state- or social partners driven approaches</li> </ul>	<ul style="list-style-type: none"> <li>● AT: Labour Foundations</li> <li>● IT: Wage Guarantee Funds</li> <li>● ES: Occupational Observatories</li> <li>● NL: Sectoral Training Funds</li> <li>● DK: Competence Development Fund</li> <li>● IT: Sectoral Training Fund</li> <li>● IE: Skillsnet Scheme</li> <li>● PL: Enterprise Training Fund</li> <li>● RO: Enterprise Training Fund</li> <li>● BG: Training vouchers scheme</li> <li>● LV: Training and retraining programme</li> </ul>
Focus efficiency of systems	<ul style="list-style-type: none"> <li>● Improving the capacity of PES to organise response to restructuring situations more efficiently</li> <li>● Often driven by PES itself</li> <li>● Central and Eastern European Countries (CEEC): important role of European Funds</li> </ul>	<ul style="list-style-type: none"> <li>● UK: Rapid Response Service Teams</li> <li>● PT: Integrated Intervention Offices</li> <li>● EL: Strengthening the efficiency of PES</li> <li>● CY: Individualised Public Employment Service</li> <li>● SK: Employing the disadvantaged jobseeker</li> <li>● EE: Reacting to Mass Redundancies</li> <li>● LT: Mini Labour Exchange</li> </ul>

Secondly, there is a type of mechanisms, schemes, programmes and funds which are not focused on actively implementing and organising transitions but rather on improving the capacity for job and professional transition by training, ie the capacity of workers as well as unemployed persons to find a new job. Here too, there are sectoral as well as company-based and national approaches, mechanisms and initiatives. These include initiatives such as sectoral training funds in the Netherlands and Italy, the Enterprise Training Fund in Poland, and the Skillsnet Scheme in Ireland. For more examples, see table 5.1 above.

Thirdly, there is a group of measures and schemes presented in this report which are mainly aiming at improving the efficiency of systems and their institutions (in particular the PES). The objective here is either to better support professional and job transition or to improve the efficiency of dealing with restructuring and mass redundancies in general. These include the Rapid Response teams in the UK, the Mini Labour Exchange in Latvia, and measures to employ disadvantaged jobseekers in Slovakia. For further examples, see table 5.1 above.

### 2.1.1: TRANSITION AND OUTPLACEMENT

There are a wide range of schemes in place in EU Member States that are designed to help workers to make the transition from one job to another, and to provide outplacement to help them to update and improve their skills levels and employability. The example below in box 5.4 is taken from France, where there are a large number of schemes in place to support occupational mobility and transition.

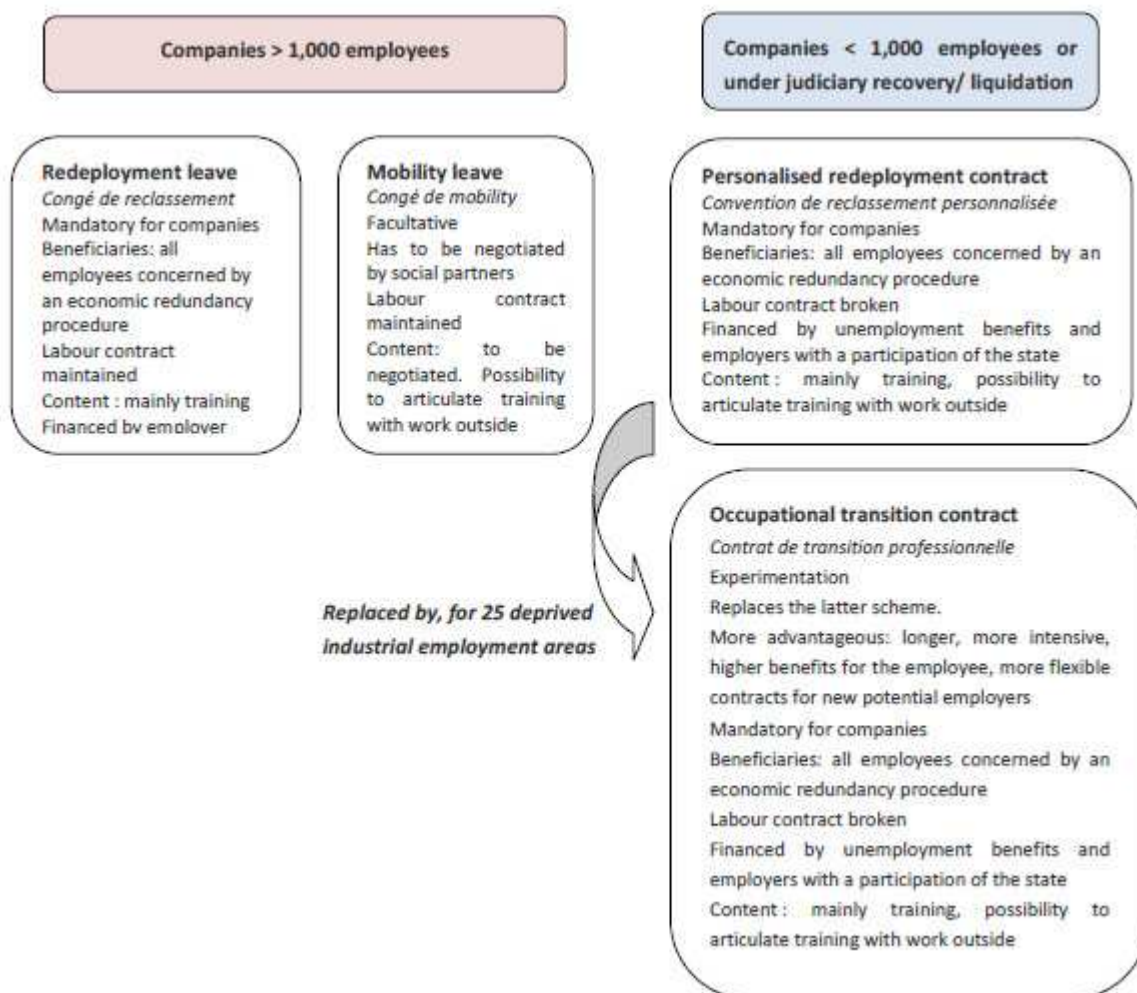
#### Box 5.4: Supporting occupational mobility and transition in France

In the context of French social law, a number of schemes have been implemented to facilitate the return to employment and/or transition to new occupations for redundant workers. Often, these schemes take place in the context of a social plan (*plan de sauvegarde de l'emploi*), which must be drawn up when at least 10 workers are made redundant in companies with more than 50 workers. The social law regulation of social plans imposes the setting up of a redeployment plan aiming at facilitating the return to work of the employees made redundant. Until relatively recently, the main mandatory schemes have only concerned large companies of over 1 000 employees ('redeployment leave' – *congé de reclassement*). However, in order to offer a similar approach to every worker, a redeployment scheme was recently created, in 2005, for employees from companies with fewer than 1 000 workers ('personalised redeployment contract' – *convention de reclassement personnalisée*). A reinforced version of the latter scheme was put into place in 2006, in 25 employment areas hampered by industrial restructuring, following an original 'transitional' approach ('occupational transition contract' – *contrat de transition professionnelle*).

Another scheme, which is not mandatory, shows another approach to job anticipation, transition opportunities and redeployment. The 'mobility leave' (*congé de mobilité*) is a measure open to companies with more than 1 000 employees. In contrast to the

former schemes, which are defined by law and put into practice through the public employment service, this scheme relies on company-based anticipatory agreements (GPEC) between the social partners. The logic of this scheme is to anticipate, for jobs and occupations threatened by economic change, the ending of the contract and the transition towards new jobs, through a reinforced personalised guidance, training measures, and possible work periods in other companies while still keeping – for the duration foreseen by the agreement – the individual’s own wage and labour contract. The employee is given a significant level of security to face the coming change, and can prepare in advance of their redeployment with the help of the company.

**Figure 5.1: Overview of major French schemes to support occupational mobility and transition**



**2.1.2: IMPROVING TRANSITION CAPACITY BY TRAINING AND SKILLS**

A number of schemes aim specifically to train workers, with the aim of improving their skills levels and thus allowing them to move on to alternative employment. This is an important

factor in ensuring the overall employability of workers, enabling them to move jobs within sectors and even across sectors where necessary. This will become increasingly important in the future context of increasing globalisation and competitiveness. The example below, detailing the provision of training vouchers for employees, is taken from Bulgaria.

### **Box 5.5: Training voucher scheme in Bulgaria**

Up until recently in Bulgaria, only unemployed persons were entitled to receive active labour market support such as vocational training programmes. Up until the economic crisis, Bulgaria enjoyed a relatively good economic situation: in 2008 the employment rate reached 64%, compared to 58.6% in 2006, while the unemployment rate declined to 5.6% in 2008 compared to 9% in 2006. However, long-term unemployment is still a serious problem for the Bulgarian labour market – the relative share of the long-term unemployed of the total number of registered unemployed people is high and rising (53% in 2004 and 57.8% in 2007).

Together with accession to the EU in 2007, the situation started to change, as more funds became available for training and employment purposes. Significant changes were introduced in 2009 on the basis of the Employment Promotion Act. The purpose of this was to ensure employment retention in companies facing economic problems (in industry and services, excluding agriculture). According to the measures, employers facing economic problems could reduce the working time of employees by 50% in the context of a partial unemployment scheme. New regulations allow employers to extend the period of reduced working time up to six months, while at the same time companies are reimbursed partially regarding expenses linked to employees' salaries (the reimbursement amounts to 50% of the minimum wage for three or six months). Further, companies are entitled to receive support for the training of their workers during the reduced working time. This support is financed by the European Social Fund.

Employers may receive partial reimbursement (up to 50%) of training costs of employees, provided they keep the jobs of trained employees for at least six months. But it is the individual decision of each employer as how to organise the training. Most recently, the Bulgarian government decided to guarantee more incentives to employees to invest in their human capital with a view to developing or changing their qualifications in order to adapt to the labour market situation or to increase their competitiveness. Based on the use of the ESF support, the new instrument is a training voucher, forming a kind of individual training account for each employee who decides to take up training. The employee is free to choose the training programme (with assistance of the labour office) as well as training provider. There are two types of training to which the voucher applies: training of key competences; and vocational training. In order to use the voucher, the employee must go to the local labour office which will assist them in choosing training as well as in choosing a training provider. The voucher can be used under the condition that the training should take place after working hours, in the employee's own time. The instrument is to be financed by the

EFS up to 2013, but there are proposals to finance it beyond 2013 from other sources, in order for it to become a permanent measure.

## 2.2: RESULTS OF A COMPARATIVE EVALUATION

The in-depth analysis of the schemes and instruments contained in the above-mentioned study has revealed an impressive plurality of mechanisms throughout the European Union. There are mature mechanisms, funds and instruments that have existed for decades, rather recent ones and a large group of mechanisms which have been subsequently adjusted and reformed in accordance with new challenges and framework conditions (eg the current economic crisis). In fact, the picture of practice and systems in a constant state of flux seems to be a significant result of this study — only a few mechanisms remained unchanged over a longer period of time.

The study also shows that no common path exists with regard to inventing, organising and funding employment and professional transition in response to restructuring. Instead, the 27 schemes presented in the study display specific national framework conditions of both labour policy and industrial relations, in particular the state of social dialogue and partnership. If any underlying ‘driving factor’ for certain types and models of transfer regimes should be identified, then it is the conditions of social dialogue and labour relations. The main structural factors, such as the organisation of collective bargaining at various levels, the role of social partners in labour market policy, and the tradition of co-determination and employee participation, seem to be an important factor of influence for certain kinds and types of transfer practice. This is particularly illustrated by the sectoral initiatives and funds on skills and training which exist in various countries. It is clear that most of the schemes and programmes presented in the study would simply not exist and would not be able to be run efficiently without active social partner involvement at all levels.

A major result of the study is that there is a common objective which is also shared by national key actors: throughout the EU there is a common trend of acknowledging transition as a major challenge of labour market policy in today’s context. In times of globalisation and accelerated change in every part of the EU’s economy and society, an efficient system in place of organising professional and job transfer seems to be crucial. Here, the survey shows that this challenge is felt not only in the well-known cases of labour market innovation in Northern and Continental Europe but also in countries which normally are not quoted in this context.

A further important result of the study is the fact that both sides of the industry are sharing responsibilities both in terms of co-financing (eg employers pay fees, employees resign from severance payments rights) as well as in terms of active involvement in the organisation and management of mechanisms and instruments. In the majority of examples analysed this also implies certain obligations of the restructuring company, in terms of following certain procedures, financial contributions and/or other duties. However, only a few schemes

analysed in the study display a clear ‘mutualisation of risks’, that is, co-financing job and professional transition practice or company-based outplacement services on a permanent basis.

Though the study presents a comprehensive overview and in-depth analyses of schemes and mechanisms supporting job and professional transition processes in the context of restructuring, the analysis — carried out in a relatively short period of time — leaves open some major questions and also raises issues for further activities. In particular, two follow-up activities would be very valuable.

First, the issues of ‘costs and efficiency’ in order to assess the success and effects of a scheme/mechanism/fund should be studied more thoroughly. Though the study presents on a case-by-case basis existing financial figures and major results of evaluations (if they exist), knowledge here is limited.

A second — and even more important — issue for follow-up activities would be to organise an exchange of experience and information of actors directly involved in the schemes and mechanisms presented in this study in order to identify current trends, increase knowledge and draw conclusions from the EU-level point of view.

### **2.3: THE ROLE OF FLEXICURITY IN SECURING TRANSITIONS**

Flexicurity can play an important role in easing the transition of workers into alternative employment. Flexicurity is a policy strategy to enhance, at the same time and in a deliberate way, the flexibility of labour markets, work organisations and labour relations on the one hand, and security — employment security and income security — on the other.<sup>138</sup> Companies are under increasing pressure to adapt and develop their products and services more quickly. If they want to stay in the market, they have to continuously adapt their production methods and their workforce. This is placing greater demands on business to help their workers acquire new skills. It is also placing greater demands on workers with regards to their ability and readiness for change. At the same time, workers are aware that company restructurings no longer occur incidentally, but are becoming a fact of everyday life. Protection of the specific job they have may no longer be sufficient, and might indeed be counterproductive. In order to plan their lives and careers, workers need new kinds of security that help them remain in employment, and make it through all these changes. New securities must go beyond the specific job and ensure safe transitions into new employment.

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<sup>138</sup> For more information on flexicurity, see: [http://ec.europa.eu/employment\\_social/employment\\_strategy/flex\\_meaning\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/flex_meaning_en.htm).

In its Communication *Towards Common Principles of Flexicurity: More and better jobs through flexibility and security*,<sup>139</sup> the Commission defined some components of successful flexicurity policies, including:<sup>140</sup>

- flexible and secure contractual arrangements and work organisations, both from the perspective of the employer and the employee, through modern labour laws and modern work organisations;
- effective active Labour Market Policies (ALMPs) which effectively help people to cope with rapid change, unemployment spells, re-integration and, importantly, transitions to new jobs — ie the element of transition security;
- reliable and responsive lifelong learning (LLL) systems to ensure the continuous adaptability and employability of all workers, and to enable firms to keep up productivity levels; and
- modern social security systems which provide adequate income support and facilitate labour market mobility. They will include provisions to help people combine work with private and family responsibilities, such as childcare.

The flexicurity concept moves away from a job security mentality to an employment or employability security mentality. It is a policy approach geared less towards the protection of jobs, and more towards the protection of people. Encouraging flexible labour markets and ensuring high levels of security will only be effective if workers are given the means to adapt to change, to stay on the job market and make progress in their working life. For this reason, the flexicurity model also includes a strong emphasis on active labour market policies, and motivating lifelong learning and training, improving customised support to jobseekers, supporting equal opportunities for all and equity between women and men.

### 2.3.1: FLEXICURITY IN THE CRISIS

The past 18 months have proved to be extremely challenging for the EU, and the financial crisis and ensuing recession experienced by most EU Member States has had an inevitable impact on labour markets and employment.

The European Council adopted a set of Conclusions on the issue of flexicurity in times of crisis at a sitting of the employment, social policy, health and consumer affairs council in June 2009. These Conclusions contained a set of policy measures based on flexicurity

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<sup>139</sup> Towards Common Principles of Flexicurity: More and better jobs through flexibility and security (COM(2007) 359 final), <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0359:FIN:EN:PDF>.

<sup>140</sup> Flexicurity Pathways. Turning hurdles into stepping stones. Report by the European Expert Group on Flexicurity, June 2007. <http://ec.europa.eu/social/BlobServlet?docId=1519&langId=en>.



principles, aimed at helping Member States and social partners to manage the impact of the crisis. These include:

- maintaining employment, where at all possible, for example through helping companies operate alternatives to redundancy such as flexible working patterns and the temporary adjustment of working time, where applicable, and other forms of internal flexibility measures within the companies;
- creation of a better entrepreneurial environment through a labour market which ensures at the same time the necessary flexibility and security, benefits systems which provide work incentives, appropriate levels of non-wage labour costs, especially for the low-skilled and other vulnerable groups, as well as through better regulation and the reduction of the administrative burden for businesses;
- enhancing and improving activation measures and providing adequate income support and access to quality services to people who are hit by the impacts of the crisis, through full utilisation of modern social protection systems in line with the principle of flexicurity, subsidiarity and sustainability of public finances;
- increased investment in human capital, especially retraining, skills upgrading and labour market needs-matching, including for persons working part-time or other flexible forms of employment and low-skilled workers. Here in particular, the Council notes that further support should be provided for reducing youth unemployment and other groups which encounter difficulties in (re)entering the labour market. In this context, those young people who are entering the labour market for the first time require particular attention and targeted measures;
- improving the effectiveness of the Public Employment Services in order to be able to tackle the increased levels of unemployment;
- adhering to the principle of gender mainstreaming in all responses to implementing flexicurity principles in order to tackle the crisis. It is important that the responses support both women and men in their labour market participation;
- facilitating the free movement of workers, in accordance with the Treaties and the Community *acquis*, and promoting mobility within the EU single market can contribute to tackling the persisting mismatch between existing skills and labour market needs, also during the economic downturn;
- implementing adequate responses with a view to adapting, if relevant, employment and labour market provisions in the framework of the flexicurity approach in order to promote flexible but secure transitions from unemployment to employment as well as from one job to another, while supporting reliable contractual arrangements for those in work;
- integrating all flexicurity elements and pillars should focus on reducing segmentation and improving the functioning of the labour market; and

- further attention needs to be paid to enhancing the quality of working life and to increasing productivity.

Within this European framework, many of the EU Member States have been trying to implement flexicurity principles in order to try to weather the crisis, in varying ways and to varying degrees, depending on a range of factors, including national social security and industrial relations systems, culture, traditions of social dialogue and economic governance systems.

A recent study on flexicurity and the crisis, focusing on short-time working, was published by the European Foundation for the Improvement of Living and Working Conditions in November 2010.<sup>141</sup> The study examined 15 short-time working schemes across Europe, which cut working time from between 10% and 100% and compensated workers for between 55% and 80% of the pay lost as a consequence.

One key finding was that short-time working schemes provide numerical flexibility for the employer, together with job and income security for the employee and so can as such be considered as a flexicurity measure. During the period of short-time working, all parties involved agree that training should be provided and in some schemes, training is mandatory. Despite this, however, the study found that the uptake is limited and there are quality concerns. Workers are not always motivated to take part; firms may have limited experience of providing training to workers and the capacity for training, particularly in small and medium-sized enterprises (SMEs) is very problematic, as is the fragmented nature of training systems in some countries.

The study's overarching policy conclusion is that 'the consensual nature of these short-time working schemes provides a promising basis for further tripartite cooperation. Just as the last two decades saw a re-orientation from passive to active labour market policy, so should a flexicurity-aligned system of short-time working adopt a more active stance. This facilitates the internal restructuring of the firm during the downturn and is a useful means of inducing a more counter-cyclical emphasis to training. It also improves employability on the external labour market, should dismissals eventually become necessary.'

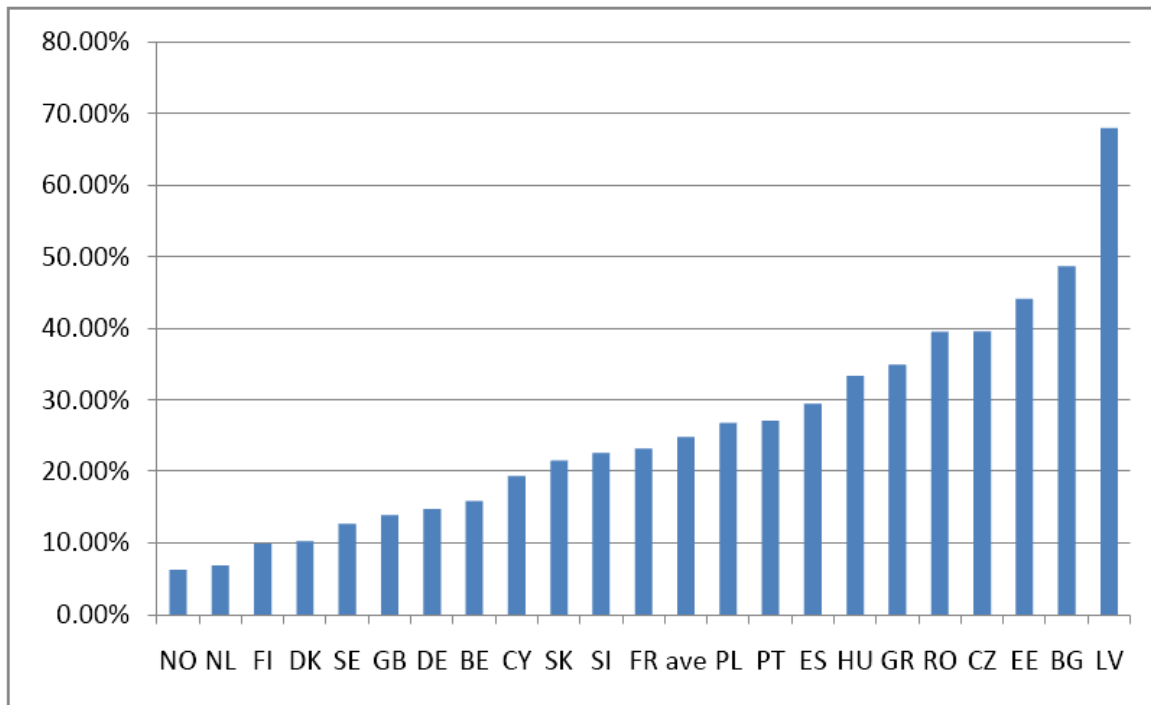
**BOX 5.6: Feelings of employment insecurity of european individuals during the financial crisis**

In the aftermath of the financial crisis, researchers in the EC funded network of excellence on '**Reconciling Work and Welfare in Europe**' (RecWoWe) have analysed how European

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<sup>141</sup> Extending flexicurity: the importance of short-time working schemes. ERM report 2010. <http://www.eurofound.europa.eu/publications/htmlfiles/ef1071.htm>.

individuals subjectively perceived their employment security within different countries in the crisis years 2008/2009.<sup>142</sup>



**Figure 5.2: Cross-national variance in the percentage of individuals subjectively perceiving employment insecurity (%) across Europe for 2008/2009**

At the country level, people in Central, Eastern and Southern Europe appear to experience much higher feelings of insecurity than those living in Nordic or Western European countries. 18% of the total variance in individuals' employment insecurity can be attributed to the country level, which is quite a large variance.

Institutional factors (employment protection legislation, active & passive labour market policies) are important for the economic performance of a country, correspond positively with employment rates and impact on individuals' human capital. These institutional factors, however, seem to have little (statistical) significance for individuals' feelings for employment (in)security, which are much more driven by the overall economic and labour market situation.

<sup>142</sup> '*Employment insecurity of European individuals during the financial crisis. A multi-level approach*' (Heejung Chung — Wim van Oorschot, Tilburg University, The Netherlands), undertaken in the framework of [www.RecWoWe.eu](http://www.RecWoWe.eu) research project (FP6 project 2006-2011) on the basis of the 4th wave of the European Social Survey for 22 countries for the year 2008/2009 [ESS question D47: 'How likely is it that during the next 12 months you will be unemployed and looking for work for at least four consecutive weeks?'].— see also European Data Centre on Work and Welfare [www.EdacWoWe.eu](http://www.EdacWoWe.eu).

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At the individual level, various demographic, human and social capital characteristics have been considered, as well as attitude variables help to explain why an individual feels employment insecure:

- Education and training are important, since those with tertiary education seem to be more employment secure, as well as those who have taken some sort of courses or training in the past 12 months.
- Employees with permanent contracts and with a high degree of job control are more likely to feel employment security. Surprisingly, perceived employment insecurity by part-time workers is quite limited.
- People from a minority or discriminated group feel less secure, but these correlate with other individual characteristics, and appear to be an individual rather than group characteristic.
- Company size and type (private/public) do not impact insecurity perception, but there appears to be a sectoral edge: unsurprisingly, workers in public administration feel most secure, followed by the electricity and mining sectors. Employment insecurity is most acutely felt in manufacturing and construction sectors, followed by transport and real estate sectors. Employees in the financial sector, which was so crucial to the financial and economic crisis, do not feel more insecure than the 'average employee' (but may feel more insecure than before the crisis erupted).

## CHAPTER 6: ISSUES AND CHALLENGES

The future holds a great many issues and challenges for the European Union, which come from a wide range of areas. One major aspect of restructuring, and particularly of the levels of restructuring that the EU has experienced over the past two years, is its psychosocial effects. These effects can be severe, with significant consequences not only for the individual, but also for the organisations in which they work or have worked, unless this issue is recognised, anticipated and managed effectively. There is a legislative framework at EU level in the area of managing occupational health and safety, and ensuring that workers are adequately informed and consulted about restructuring plans. There is also an EU-level social partners' agreement on the management of stress and on violence and harassment at work. In recognition of the importance of this topic, there have also been a range of initiatives and actions taken at EU level, such as seminars and conferences, culminating in a high-level conference in November 2010 and a planned conference for March 2011. This issue remains a challenge and therefore is likely to remain in the spotlight for some time.

One of the most pressing challenges for the EU and for the rest of the world is climate change. This is likely to have a major impact on employment in the EU in terms of its impact on specific sectors and its implications for skills policies. Moving to a green and low-carbon economy is therefore likely to be one of the most significant challenges that the EU will face in the medium and long term. There are potentially positive benefits of moving to a low-carbon economy, but these can only be harnessed if the labour force is equipped with the right skills to take advantage of the opportunities. Skills shortages in areas such as renewable energy, energy and resource efficiency, building renovation, construction, environmental services and manufacturing are likely to be a problem unless there is a coordinated policy response.

In particular, renewable energy sources are a potential source of job creation, as there is a target to achieve 20% of energy from renewable sources by 2020. The employment potential of this could be significant and this should be fully exploited.

Another key sector in the future low-carbon economy is the transport sector. This sector is one of the EU sectors that is most exposed to changes relating to climate change and changes in energy sourcing and use, and is likely to restructure along two dimensions: globalisation and decarbonisation. The move towards greener vehicles, for example, will have significant implications for the sector's workforce and for the skills that this workforce will need in the future. It is thought that labour and skills shortages are a real possibility for this sector in the future. Therefore, significant efforts need to be made in the field of training, in collaboration with the social partners and the Member States, with the objectives of increasing the labour supply and adapting skills to emerging needs.

The overarching framework for many of the issues faced by specific sectors is the EU's industrial policy, which provides a backdrop to virtually all the issues discussed in this report. There is a real link between industrial policy and employment and skills policies, and this is explored in the Commission's 2010 Communication on industrial policy and

globalisation. This focuses on issues such as how to improve the conditions in which industry operates, how to encourage innovation and how to improve the skills base. The role of management and worker representatives is highlighted as being of prime importance in the anticipation and management of restructuring and there will be a continued focus on this theme through the publication of a Green Paper on ‘ **Restructuring and anticipation of change: what lessons from the economic crisis?** ’ in 2011.

## **1: PSYCHOSOCIAL EFFECTS OF RESTRUCTURING AND MENTAL HEALTH IN THE WORKPLACE**

This part looks at the issue of psychosocial risks of restructuring, with a focus on stress-related problems as well as mental health related to the workforce. It examines the European legislative framework, the psychosocial risks of restructuring and change, and a range of issues relating to mental health and well-being at work. It also gives a number of policy recommendations.

### **1.1: THE EU FRAMEWORK, STRATEGIES AND ACTIONS**

Improving working conditions and occupational health and safety is a key concern for the EU. The Union complements through its action the activities of Member States and of the social partners. It provides a legal framework and a number of support activities that can help to address these issues.

#### **1.1.1: THE EUROPEAN LEGISLATIVE FRAMEWORK**

From a safety and health at work perspective, it is important to note, firstly, that the issue of mental health in the workplace and restructuring should be seen within the wider context of the EU role concerning the protection of workers’ health from risks that may have an impact on their mental health.

The legal framework dealing with restructuring, organisational change, and health and well-being at EU level consists of three areas of legislation:

- **occupational health and safety.** Framework Directive (89/391/EC)<sup>143</sup> states that ‘employers have a duty to ensure the safety and health of workers in every aspect related to the work’, as well as the Community Strategy 2007-2012 on health and safety at work.<sup>144</sup> The framework directive on the introduction of measures to encourage improvements in the safety and health of employees at the workplace lays down

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<sup>143</sup> Council Directive 89/391/EC on the introduction of measures to encourage improvements in the safety and health of workers at work: [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=31989L0391&model=guichett](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=31989L0391&model=guichett).

<sup>144</sup> Community Strategy 2007-2012 on health and safety at work: [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexplus!prod!DocNumber&lg=en&type\\_doc=C-OMfinal&an\\_doc=2007&nu\\_doc=62](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&lg=en&type_doc=C-OMfinal&an_doc=2007&nu_doc=62).

prevention principles. It contains a wide definition of occupational health, in particular in Article 5: ‘... a duty to ensure the safety and health of workers in every aspect related to the work’. One of the most significant new developments of European Union health and safety legislation was the introduction of risk assessment and the systematic documentation of the results as a foundation for the establishment of a prevention programme of technical and/or organisational measures to combat these risks. These tasks also include the information and consultation of workers in order to allow them to take part in discussions on all questions relating to safety and health at work, the regular supervision of the efficiency of the measures put into place and the continuous improvement of the situation according to the provisions of the framework Directive. Prevention programmes must be continuously updated as long as the risk situations persist. Change may have multiple positive aspects, but it may also entail numerous negative facets, which are all the more important if the person is not adequately prepared for that change. Therefore, organisational change can be seen as a relevant risk for the health of the individual;

- **restructuring.** There are a number of Directives that are relevant in this area. For example, the collective redundancies Directive (98/59/EC),<sup>145</sup> which aims to regulate redundancies, introduce special obligations for employers (information, consultation and encouragement to set up social measures covering issues ranging from prevention to compensation) and provide information to national public authorities. Further, the Directive safeguarding employees’ rights in the case of transfers of undertakings (2001/23/EC)<sup>146</sup> introduces obligations upon employers to respect labour contracts and their related rights, giving specific rights to workers affected by such operations. The Directive governing cross-border mergers of limited liability companies also contains a range of rights for workers affected by cross-border mergers (2005/56/EC<sup>147</sup>); and
- **information and consultation.** Two main Directives are relevant here. The first relates to European Works Councils (EWCs) (2009/38),<sup>148</sup> the main aim of which is to make sure that management informs and consults with members of EWCs in exceptional situations affecting the interests of workers, especially in terms of relocation, closure or mass lay-offs. The second is the Directive providing a general framework for informing and

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<sup>145</sup> Council Directive 98/59/EC on the approximation of the laws of the Member States relating to collective redundancies: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31998L0059:EN:HTML>.

<sup>146</sup> Council Directive 2001/23/EC on the approximation of the laws of the Member States relating to the safeguarding of employees’ rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32001L0023:EN:HTML>.

<sup>147</sup> Directive 2005/56/EC of the European Parliament and of the Council on cross-border mergers of limited liability companies: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:310:0001:01:EN:HTML>.

<sup>148</sup> Directive 2009/38/EC of the European Parliament and of the Council of 6 May 2009 on the establishment of a European Works Council or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees.

consulting employees in the European Community (2002/14)<sup>149</sup> with the aim of encouraging social dialogue on issues that affect employees.

### 1.1.2: SOCIAL PARTNER AGREEMENTS

Since the early 2000s, the EU social partners have been involved in a range of negotiations related to occupational health in response to Commission consultations based on Article 154 of the EU Treaty, launched in the framework of the EU Health and Safety Strategy 2002-2006. Most specifically, the EU social partners have signed and implemented two framework agreements:

- *the framework agreement on work-related stress*,<sup>150</sup> signed on 8 October 2004, which marks a significant step towards action to tackle work-related stress. This is a topic that was first discussed as an occupational health risk in some Member States 20 years ago, and the Commission placed psychosocial risks centre stage in the EU Health and Safety Strategy 2002-2006, following this up with consultations of the EU social partners. The social partners have made a decisive step in concluding this framework agreement and making the commitment to implement it at national level. To a greater extent than with other occupational safety and health risks, tackling psychosocial risks requires not only rules but also awareness and a shared understanding. This implies dialogue and worker involvement; and
- *the framework agreement on harassment and violence at work*,<sup>151</sup> signed on 26 April 2007, and which came into effect in April 2010. This agreement provides a method to prevent, identify and manage problems of harassment and violence at work.

These agreements were to be implemented by the constituent member organisations of the signatory parties within three years.

These two framework agreements do not deal explicitly with restructuring and organisational changes but are nevertheless useful in helping to tackle these issues. Among the potential risk factors for work-related stress, the 2004 agreement refers to communication, including uncertainty about employment prospects or forthcoming change. However, the national implementation measures for these agreements rarely address these issues specifically. Other forms of social dialogue activities may be helpful in this regard, starting with the common social dialogue which should take place at company level when collective dismissals or major changes are taking place.

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<sup>149</sup> Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community — Joint declaration of the European Parliament, the Council and the Commission on employee representation.

<sup>150</sup> Framework agreement on work-related stress:  
[http://ec.europa.eu/employment\\_social/dsw/public/actRetrieveText.do?id=10402](http://ec.europa.eu/employment_social/dsw/public/actRetrieveText.do?id=10402).

<sup>151</sup> Framework agreement on harassment and violence at work:  
[http://ec.europa.eu/employment\\_social/dsw/public/actRetrieveText.do?id=8446](http://ec.europa.eu/employment_social/dsw/public/actRetrieveText.do?id=8446).



It is also important to highlight the tripartite mechanism characterising the workings of the EU advisory Committee on Safety and Health at Work, in which workers, employers and Member States are represented. This advisory body may play a role in the future with regard to psychosocial risks in the workplace aiming at a balanced occupational health and safety perspective of psychosocial risks.

### 1.1.3: EU STRATEGIES AND ACTIONS

The principal relevant strategy in relation to the mental health of workers is the ***EU Strategy on Safety and Health at Work 2007-2012***. This Strategy states that:

- the Commission will ensure that initiatives concerning health and safety at work are developed in a manner consistent with public health policies which aim to prevent ill health and prolong a healthy working life. In particular, the implementation of the present strategy will take account of the results of the consultation which was completed in May 2006 on *Promoting the Mental Health of the Population. Towards a strategy for mental health for the EU*<sup>152</sup> under the responsibility of the Commission Directorate General for Health and Consumers, DG SANCO;
- at the present time, problems associated with poor mental health constitute the fourth most frequent cause of incapacity for work. The World Health Organisation (WHO) estimates that depression will be the main cause of incapacity by 2020. The workplace can be an appropriate place in which to prevent psychological problems and promote better mental health;
- the Commission encourages Member States to incorporate into their national strategies specific initiatives aimed at preventing mental health problems and promoting mental health more effectively, in combination with Community initiatives on the subject, including the employment of persons with a mental disability; and
- the Commission stresses the importance of negotiations between the social partners on preventing violence and harassment at the workplace and encourages them to draw conclusions from the assessment of the implementation of the European framework agreement on work-related stress (see below).

***The Charter of Fundamental Rights of the European Union***<sup>153</sup> also makes reference to the health of workers. In Article 31, paragraph 1, it states that: ‘every worker has the right to working conditions which respect his or her health, safety and dignity.’ This section of the Charter is based on the Framework Directive 89/391/EC on health and safety at work (see

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<sup>152</sup> *Promoting the Mental Health of the Population. Towards a strategy for mental health for the EU*. European Commission Green Paper issued in 2005: [http://ec.europa.eu/health/ph\\_determinants/life\\_style/mental/green\\_paper/mental\\_gp\\_en.pdf](http://ec.europa.eu/health/ph_determinants/life_style/mental/green_paper/mental_gp_en.pdf).

<sup>153</sup> Charter of Fundamental Rights of the European Union: [http://www.europarl.europa.eu/charter/pdf/text\\_en.pdf](http://www.europarl.europa.eu/charter/pdf/text_en.pdf).

above), which places on the employer the explicit obligation to assess risks to the health and safety of workers. The provisions of the 1989 Framework Directive imply that this risk assessment should cover any risks to health and safety of workers, including psychosocial risks. Following this assessment, the employer must take adequate preventive and protection measures, including with regard to the risks that could cause psychological harm to workers.

Most recently, *the European Commission's 2020 Strategy* states that:

- a major effort will be needed to combat poverty and social exclusion and reduce health inequalities to ensure that everybody can benefit from growth. Equally important will be [the ability of the EU] to meet the challenge of promoting a healthy and active ageing population to allow for social cohesion and higher productivity; and
- efforts will be made to adapt the legislative framework, in line with 'smart' regulation principles, to evolving work patterns, such as working time and the posting of workers, and new risks for health and safety at work.

However, within the context of this EU-level framework, it should be remembered that it is the responsibility of national authorities to control and monitor the implementation of legislation transposing EU Directives. It is therefore the national labour inspectorates which have the responsibility for ensuring that these provisions are fully effective.

It follows from the above that the existing European legislation on health and safety at work contains provisions designed to protect workers effectively against occupational hazards of all kinds, including psychosocial risks. If these provisions are effectively and comprehensively implemented at national level, they will help to prevent psychological problems among workers.

The Committee of Senior Labour Inspectors has decided to organise an information and awareness campaign on psychosocial risks at work at European level in 2012.

A European campaign on the protection of workers against stress at work was also conducted by the *European Agency for Safety and Health at Work* in 2002.<sup>154</sup> This campaign provided practical and useful information about stress and other psychosocial risks at work, including tips and strategies to address this issue.

Finally, the Commission has developed guidelines on stress at work addressed to national governments, trade unions and employers.<sup>155</sup> The guidelines contain a range of

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<sup>154</sup> Information is publicly available on the website of the Bilbao Agency: <http://osha.europa.eu/fr/topics/stress>.

<sup>155</sup> European Commission Guidance on work-related stress — Spice of life or kiss of death?, Office for Official Publications of the European Communities, Luxembourg, 2002. Available at: [http://www.isma.org.uk/pdf/publications/ke4502361\\_en.pdf](http://www.isma.org.uk/pdf/publications/ke4502361_en.pdf).

recommendations designed to help reduce the incidence of stress at work. For example, on an organisational level, they maintain that stress can be reduced by changes such as:

- allowing adequate time for the worker to perform their work satisfactorily;
- providing the worker with a clear job description;
- rewarding the worker for good job performance;
- providing ways for the worker to voice complaints and have them considered seriously and swiftly;
- harmonising the worker's responsibility and authority;
- clarifying the work organisation's goals and values and adapting them to the worker's own goals and values, whenever possible;
- promoting the worker's control, and pride, over the end product of their work;
- promoting tolerance, security and justice at the workplace;
- eliminating harmful physical exposures;
- identifying failures, successes, and their causes and consequences in previous and future health action at the workplace; and
- learning how to avoid the failures and how to promote the successes, for a step-by-step improvement of occupational environment and health.

## **1.2. THE PSYCHOSOCIAL RISKS OF RESTRUCTURING AND CHANGE**

Restructuring is becoming a part of normal business life, but the sheer pace of organisational change is resulting in increasing pressure, in both the private and public sectors. Beyond major restructuring, whether or not it is related to the crisis, many so-called silent restructurings affect SMEs, fixed-term contract workers, temporary workers and small businesses, which can experience severe problems in coping with restructuring and change.

In the context of change, psychosocial problems may take place and in some cases lead to incapacity for work. This is first and foremost a problem for public health authorities, but its economic consequences should not be underestimated. Uncertainty and job insecurity also represent an important link between restructuring programmes and effects on employees' health. Depression, absence, sleep difficulties, and even suicides have been identified as major symptoms of psychosocial difficulties. However, there is a risk that health issues related to restructuring may be treated in the same way as the risks related to asbestos, where the health effects were known but appropriate measures were only taken after a considerable delay. A concerted effort to tackle health and restructuring is therefore needed, not just because restructuring can have a negative impact on health, but also as a useful investment in the future of the European workforce and a way of ensuring that the European model is sustainable and competitive. It should be noted that the World Health

Organisation (WHO) defines health as ‘a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity’.

### **1.2.1: EMPIRICAL RESULTS OF THE HEALTH DIMENSION OF RESTRUCTURING**

#### **Direct victims of downsizing: workers facing redundancy**

A long tradition of unemployment research has highlighted the detrimental effects that job loss and persistent unemployment can have on the individuals affected. In addition, it is generally acknowledged that being in work, as opposed to being out of work, is beneficial to an individual’s physical and mental health and well-being.<sup>156</sup> Redundant individuals often experience this as a trauma and shock, depending on the availability of offers of help, and sometimes face great difficulties in coping with their situation. The main effects of this are psychosocial distress, depression and anxiety, and psychosomatic diseases, such as cardiovascular illness. These types of outcomes can even trigger suicidal behaviour. The impact on the morbidity and even mortality of those who have faced job loss is well proven. A deterioration of health behaviours (increased drug use, bad diet, physical inactivity and poorer standard of sleep) can have an impact on workers’ long-term health. Social withdrawal caused by lack of self-esteem and feelings of stigmatisation can further aggravate the health situation of individuals and lead to a downward spiral into long-term unemployment. Even those who have managed to find alternative employment but are under-employed (for example, if they are in a job that does not match their expectations or qualifications) display a lower level of health even after re-employment.

#### **Workers who remain in the organisation: the ‘survivors’ of restructuring**

Those who were in the past considered to be the lucky ones — ie those who have kept their jobs — are now the object of empirical research that has led to the term ‘layoff survivor sickness’ (Noer, 1997). This is defined as feelings of guilt and continued uncertainty over individuals’ health situation, leading to strain or fatigue which can be related to an increase in long-term sickness absence, the use of psychotropic drugs (sleeping pills and drugs to manage anxiety), increased nicotine and alcohol consumption, impaired self-rated health and emotional exhaustion. Lower levels of self-efficacy and lack of social support, together with increases in perceived job insecurity, can contribute further to these problems. Further, increased work pressure and intensification can be responsible for the increase in occupational accidents and diseases observed in several cases of reorganisation.

#### **Issues facing line managers in charge of the execution of restructuring**

Those responsible for implementing restructuring decisions — the middle or line managers as executors of change — face a certain amount of distress and extra workload that can

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<sup>156</sup> See, for example: ‘Is work good for your health and wellbeing?’ Waddell and Burton, 2006: <http://www.dwp.gov.uk/docs/hwwb-is-work-good-for-you.pdf>.

negatively affect their well-being. They are caught between the decisions of senior management and the concerns and often negative responses of the workforce. As a response to this, increased levels of stress and burnout, physical and psychological health complaints, emotional instability, sleep disturbances and increased alcohol consumption as coping mechanisms are most common among line managers.

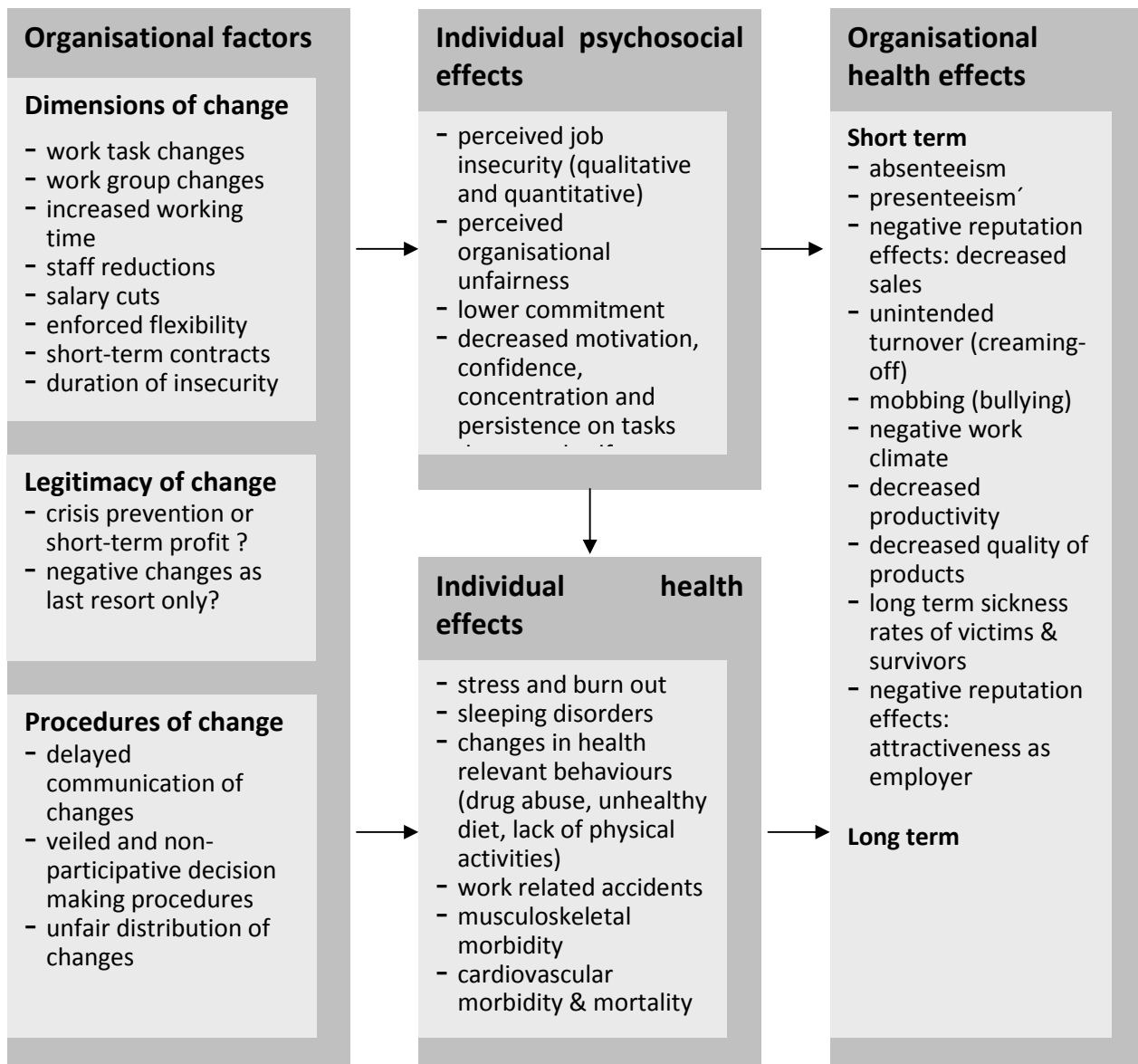
### **1.2.2: INTEGRATING HEALTH: THE BUSINESS CASE FOR HEALTHIER RESTRUCTURING**

To make the business case for a health-friendly restructuring the HIRES project<sup>157</sup> collected and combined all aspects of the health impact of restructuring into one template. This provides a consistent message to many audiences and helps the leadership team of a company to prioritise health in restructuring against the many other initiatives in the business that may require capital investment. It is a perspective on the entire restructuring process and enables all organisational bodies affected to be knowledgeable about the changes that result from restructuring. Figure 6.1 shows the main restructuring risks for individual and organisational health.

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<sup>157</sup> Health in Restructuring (HIRES), funded by DG Employment. <http://hesa.etui-rehs.org/uk/newsevents/files/restructuring.pdf>.

Figure 6.1: Restructuring risks for individual and organisational health



Source: HIREs

### 1.2.3: HIGH-LEVEL CONFERENCE ON WELL-BEING AT WORK

The Belgian EU Presidency organised in November 2010, together with the European Commission, an EU Restructuring Forum 'Investing in well-being at work — Addressing psychosocial risks in times of change'.<sup>158</sup>

<sup>158</sup> For more information: <http://ec.europa.eu/social/main.jsp?catId=88&langId=en&eventId=290&furtherEvents=yes>.

The objective of the Forum was to hear and discuss latest research findings on the health impact of restructuring, on stress at work, and on the reality of risk assessments in Europe's workplaces, as well as the tools available to different stakeholders in the management of the psychosocial health risks related to work and restructuring. New information on the implementation of the European social partners' framework agreement on work-related stress, including the Commission's report, was presented at the Forum.

This Forum was part of the EU Presidency's week dedicated to health and safety at work and provided practitioners, policy makers, social partners and experts with the opportunity to hear and discuss latest research findings as well as the tools available for managing psychosocial health risks related to work and restructuring. A total of 10 policy recommendations were outlined during this conference. For details, see box 6.1.

### **Box 6.1: Policy recommendations**

#### **1. Health and restructuring: a key issue for structural change?**

Tackling health in restructuring is needed not just because restructuring can have a detrimental impact on health but also because it is a useful investment in the future of the European workforce and can help to defend the European model as sustainable and competitive. However, the right combination of legislative instruments, social dialogue, training, investments, commitments and operational tools needs to be determined.

#### **2. Groups at risk: trust and justice as a critical issue?**

Scientific and empirical evidence show that the main groups at risk of the health consequences of restructuring are: the redundant workers, the survivors, contingent workers, middle managers and small businesses threatened by bankruptcies. The issue of justice is a major concern during significant organisational change. The extent to which transparent communication, cooperation and trust between employers and employees occurs in company restructuring needs to be examined.

#### **3. Data and studies: how to improve data, awareness and monitoring?**

Data related to health and restructuring are widely lacking and fragmented at both national and European levels. In order to better assess the real situation and to plan future activities, thought needs to be given to how consistent collection and evaluation of data connected with employee health in restructuring processes can be achieved, and this is a particular difficulty in the case of SMEs.

#### **4. What are the responsibilities of companies and managers?**

The protection of health is an employer's obligation in all aspects related to work including organisational change. In case the employment relationship comes to an end, what is the shared responsibility in transitions? There do not seem to be distinct

borders between corporate responsibility for promoting health in the workplace and the responsibility of public actors to ensure the health of the workforce. The appropriate level of managerial, professional and financial responsibilities for promoting health in the anticipation, preparation and management of change, including its impact on the value chain and on outsourcing, needs to be determined.

#### **5. Social dialogue: next steps?**

Social dialogue is central for tackling restructuring and occupational health and safety, and used as such. Further steps for the social partners in terms of joint actions, collective bargaining on changes in all dimensions and increasing awareness among employers, unions and employees' representatives now need to be determined.

#### **6. Legislation: to be reconsidered?**

EU Legislation does not explicitly mention the link between health and restructuring but such a cause and effect relationship seems to be clear. Thought needs to be given to whether it is necessary to act at EU level and review existing legislation and frameworks, or whether it is necessary to issue additional instructions or recommendations at EU and/or national level. It may be necessary to develop a new role for labour inspections by including restructuring and organisational change in their emerging approach to psychosocial risks, and it may also be necessary to consider including restructuring-related forms of ill-health under the scope of any future EU instruments on occupational diseases.

#### **7. Restructuring in the public sector: can approaches from the private sector be transferred?**

Public authorities are not only responsible for policies and legislation but also for managing public bodies and organisations. As the public sector in Europe is now undergoing major changes, thought needs to be given to the responsibilities and actions that need to be taken by public authorities at central as well as at regional or local level regarding organisational changes in maintaining the health of their workforce.

#### **8. The role of occupational health services and partnering with the health sector: can this be improved?**

A 'healthy' restructuring might benefit from targeted health measures, although it should rely more on better anticipation, preparation, management and follow-up. Some consideration should be given to how the role of occupational health services in times of change can be developed in terms of training and expertise to face the specific health dimensions that are related to change and restructuring. Further, the role of social security and healthcare providers in supporting the prevention of the negative health impacts of restructuring should be examined.



### **9. Employment, health approaches and flexicurity: new bridges?**

The health consequences of restructuring may be mitigated by actions such as modern employment approaches, including those based on better employability and flexicurity. One question is whether flexicurity approaches should be extended towards better adaptation of organisations and individuals to change, and whether employment services have a role to play in managing the impact of change on employees' health.

### **10. Operational tools, networks and education: how can they be developed?**

Operational tools will be efficient only if they are congruent with other aspects of restructuring, such as legislation, social dialogue, commitment, training, exchange of good practices, investment and a clear Occupational Safety and Health (OSH) role. Thought should be given to the approach to be taken in terms of developing operational guidelines for companies and organisations, taking into account the specificities of SMEs, and the way in which risk assessment tools can be reviewed, with a view to including the impact of restructuring and changes in work organisation.

## **1.3: MENTAL HEALTH AND WELL-BEING AT WORK**

Earlier economic crises have shown the profound and lasting impact that crises have on people's health. Job insecurity is associated with a higher risk of mental disorders, such as depression and anxiety, and recent data from Germany shows that mental disorders are three to four times more prevalent in unemployed people than in people who work. Unemployed people spent 7.5 times more days in hospital care than others because of depression and alcohol addiction. In such difficult circumstances, people are also more likely to abuse alcohol or smoke or even take up drugs. Workers who may have to cope with high levels of stress at work are at a greater risk of developing cardiovascular diseases. The WHO estimates that depression will be the main cause of incapacity by 2020.

All this materialises into poor health, diseases and suffering for the EU's citizens. It also materialises into higher demand for healthcare and social care at a time when budgets are particularly stretched.

To build a sustainable economy, Europe needs a healthy workforce. People in good health work better, longer and are more likely to continue working as they grow older. Bad health, in the contrary, translates into higher levels of absence from work; lower productivity; early retirement; and high social and healthcare costs.

Problems associated with poor mental health constitute a major and increasing share of absence from work and work incapacity. The workplace can be an appropriate place in which to prevent psychological problems and promote better mental health. This is why it is important to invest in people's health at work.

There have been a range of actions at EU level on the issue of mental health and psychosocial risks over the past few years. The European Pact for Mental Health and Well-Being,<sup>159</sup> launched in June 2008 by a high-level conference hosted by the European Commission, provides an EU-framework enabling exchange and cooperation between stakeholders in different sectors including health, employment and education on the challenges and opportunities in promoting better mental health.

The Parliament expressed its support for the Pact through the Tzampazi report on mental health.<sup>160</sup> In February 2009, the European Parliament issued a Resolution on mental health,<sup>161</sup> welcoming the Pact as ‘as a basic priority for action’. In the area of mental health in the workplace, the Resolution states that the workplace plays a central role in the social integration of people with mental health problems and calls for support for their recruitment, retention, rehabilitation and return to work.

For details of the Pact, see box 6.2 below.

### **Box 6.2: Main points of the European Pact for Mental Health and Well-Being**

The Pact calls for action in five priority areas:

- prevention of depression and suicide;
- mental health in youth and education;
- mental health in workplace settings;
- mental health of older people; and
- combating stigma and social exclusion.

In the area of mental health in the workplace, the Pact states that employment is beneficial to physical and mental health and that the mental health and well-being of the workforce is a key resource for productivity and innovation in the EU. However, it notes that the pace and nature of work is changing, leading to pressures on mental health and well-being. Action is therefore needed to tackle the steady increase in absence from work and incapacity, and to utilise the unused potential for improving productivity that is linked to stress and mental disorders. It states that the workplace

<sup>159</sup> The European Pact for Mental Health and Well-Being: [http://ec.europa.eu/health/ph\\_determinants/life\\_style/mental/docs/pact\\_en.pdf](http://ec.europa.eu/health/ph_determinants/life_style/mental/docs/pact_en.pdf).

<sup>160</sup> Tzampazi report on mental health — 2008/2209 (INI): <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A6-2009-0034+0+DOC+XML+V0//EN>.

<sup>161</sup> European Parliament Resolution on mental health: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2009-0063+0+DOC+XML+V0//EN>.

plays a central role in the social inclusion of people with mental health problems. It therefore invites policy makers, social partners and further stakeholders to take action on mental health at the workplace, including the following:

- improve work organisation, organisational cultures and leadership practices to promote mental well-being at work, including the reconciliation of work and family life;
- implement mental health and well-being programmes with risk assessment and prevention programmes for situations that can cause adverse effects on the mental health of workers (stress, abusive behaviour such as violence or harassment at work, alcohol, drugs) and early intervention schemes at workplaces; and
- provide measures to support the recruitment, retention or rehabilitation and return to work of people with mental health problems or disorders.

The Pact was launched at a high-level conference held on 12/13 June 2008, at which participants called on the Member States, together with further relevant actors across sectors and civil society in the EU and international organisations, to join this Pact and to contribute to its implementation.

They also called on the European Commission and Member States, together with the relevant international organisations and stakeholders:

- to establish a mechanism for the exchange of information;
- to work together to identify good practices and success factors in policy and stakeholder action for addressing the priority themes of the Pact, and to develop appropriate recommendations and action plans; and
- to communicate the results of such work through a series of conferences on the Pact's priority themes over the coming years.

### **1.3.1: CONFERENCE ON MENTAL HEALTH IN 2011**

As part of the above-mentioned European Pact for Mental Health and Well-Being, a high-level conference on the promotion of mental health and well-being at work took place in Berlin on 3-4 March 2011.<sup>162</sup> The conference was the last of a series of five events organised around different themes in the Pact. It was being organised by the European Commission, together with the German Federal Ministry of Health and the Ministry of Labour and Social Affairs.

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<sup>162</sup> More information is available under the following link: [http://ec.europa.eu/health/mental\\_health/policy/conferences/index\\_en.htm](http://ec.europa.eu/health/mental_health/policy/conferences/index_en.htm).

It will create an opportunity to raise awareness about the prevalence of mental health and well-being for workplaces, as well as exchange and improve cooperation on the challenges and opportunities in workplace mental health and well-being.

## 2: THE IMPACT OF CLIMATE CHANGE ON EMPLOYMENT

This section examines the impact of climate change on employment, looking at its overall impact, impact on specific sectors, and changes that will need to be made to skills levels. With the issue of climate change becoming ever more prominent, companies will have to adapt to evolving regulatory frameworks, such as constraints on CO<sub>2</sub> emissions for car manufacturers and the EU's CO<sub>2</sub> Emissions Trading Scheme (ETS). These policies are likely to lead to restructuring, at least in some sectors and for some businesses.

The adjustments needed to respond to climate-change policies aimed at cutting CO<sub>2</sub> emissions provide a clear example of a restructuring process. There are many opportunities — for example through the early adoption of innovative new technology — to place European firms ahead of global competitors that are slower to anticipate change. Conversely, a failure to anticipate by European firms may lead to hasty, reactive and forced later adjustment, which could damage companies and leave their employees inadequately prepared, or trained, for alternative employment. Companies will need to adapt their current products, processes and technology to develop new innovative solutions and workers will also need to acquire new skills. These issues are also dealt with in chapter 3 of the European Commission's Employment in Europe 2009 Report, which focuses on green jobs.<sup>163</sup>

To support workers, companies and their representatives in their efforts to anticipate and cope with climate-change implications, the European Commission organised a Restructuring Forum on the impact of climate change on employment on 22-23 June 2009. It was attended by around 300 stakeholders, including representatives of Member States, social partners and academic experts. In preparation for the Forum, a study analysing the Impact of climate change on employment was carried out by GHK Consulting on behalf of the Commission's Directorate-General for Employment, Social Affairs and Inclusion.<sup>164</sup> Below, the main findings of the report and Forum are summarised.

### 2.1: OVERALL IMPACT OF CLIMATE CHANGE ON EMPLOYMENT

Climate change can have two kinds of impact on employment. First, there are the direct physical effects, caused by factors such as changes in temperatures and precipitation levels, rising sea levels and changes to the frequency of extreme climatic events. Due to the gradual warming process over many decades, most of these impacts will be felt in the medium to long term. In April 2009, the European Commission presented a policy White

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<sup>163</sup> Employment in Europe 2009: <http://ec.europa.eu/social/BlobServlet?docId=4196&langId=en>.

<sup>164</sup> GHK (2009), 'The Impacts of Climate Change on European Employment and Skills in the Short to Medium-Term: A Review of the Literature. Final Report (Volume 2): <http://ec.europa.eu/social/main.jsp?catId=103&langId=en&eventId=172&furtherEvents=yes>.

Paper, *Adapting to climate change: Towards a European framework for action*,<sup>165</sup> which presents the framework for adaptation measures and policies to reduce the EU's vulnerability to the impacts of climate change.

Second, in the short to medium term, most of the impact will come from the effects of climate-change-related policies. Climate-change policies will lead to restructuring by affecting both the supply side and the demand side of businesses.

Climate-change mitigation and adaptation policies will lead to higher compliance costs (especially in the form of higher energy prices ADD "in the mid-term"), which may lead to competitive disadvantages, especially for businesses subject to strong international competition with countries where climate-change policies differ significantly from those in the EU

Companies will have to respond to changing customer demands that reflect climate-change policies, taking measures to reduce barriers and promote innovation in response to market threats and opportunities. Climate-change policies are therefore likely to have an impact on all businesses in some way. On the macroeconomic level, there have been a few estimates of what the impact might be of meeting carbon reduction targets, in terms of the net effect on GDP levels (global, European or national) and the potential level of investment required to attain these levels of reduction. These suggest that in aggregate the overall impact is modest and that costs will largely be compensated by the opportunity to take competitive advantage from the structural changes triggered by climate-change policies.

## 2.2: SECTORAL IMPACT OF CLIMATE-CHANGE POLICIES

Although climate-change policies seem likely to have only a small net effect on employment overall, there are likely to be significant gross impacts, in terms of both job creation and job destruction. Managing these processes will pose a major challenge to labour markets and stakeholders, and this was the main focus of the Commission's Restructuring Forum in June 2009.<sup>166</sup>

The different employment impacts of climate-change policy and the transition to a low-carbon economy are illustrated by a 2008 analysis from the United Nations Environment Programme (UNEP), which found that the 'greening' of the economy will affect employment in four ways:

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<sup>165</sup> *Adapting to climate change: Towards a European framework for action* COM(2009) 147 final: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0147:FIN:EN:PDF>.

<sup>166</sup> Commission Restructuring Forum: Impact of climate change on employment. For more information, see: <http://ec.europa.eu/social/main.jsp?catId=88&langId=en&eventsId=172>.

Employment effect of greening of the economy	Example
Additional employment created	Additional insulation fitters for retrofitting homes
Employment substituted	Manufacturing hybrid cars instead of inefficient cars
Eliminated jobs	Reduction in packaging of products
Transformation of existing jobs	Gas-fitters installing gas combined heat and power instead of traditional systems

Source: Adapted from UNEP/ILO (2009) 'Green Jobs: Towards decent work in a sustainable, low-carbon world'.<sup>167</sup>

At the same time, climate-change policies will affect every sector differently. Some may simply absorb the impacts (such as higher energy prices) in their normal business model. However, some sectors are more susceptible to these policies. There are four main sector-specific economic impacts of climate-change policy:

- *comparative advantage for some industries* — marginal reallocation of resources from those sectors financing a policy (paying its costs) to sectors that benefit from the intervention. More bluntly, the main impact is to just shift resources from polluting sectors to more environmentally friendly sectors;
- *increase in value added* — a transfer of demand to higher-value 'green' industries, which could finance an expansion in net employment;
- *increase in investment* — this could come from government or from the private sector (eg clean-technology venture capital); and
- *first mover or fast follower advantage* — a firm or sector may gain a first mover advantage under certain market conditions, for example where significant barriers to entry exist, such as strong intellectual property rights or large economies of scale; in other situations, it may be more efficient to be a fast follower, taking advantage of the work done by the first mover. This may be the case where there are much lower R&D costs for followers, and where there are high initial marketing costs for the first mover in order to educate the public.

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<sup>167</sup> UNEP/ILO (2009) Green Jobs: Towards decent work in a sustainable, low-carbon world: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---webdev/documents/publication/wcms\\_098487.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---webdev/documents/publication/wcms_098487.pdf).

A 2008 analysis by the consultancy KPMG, entitled *Climate changes your business*,<sup>168</sup> used this approach to come up with four main groups of sectors where the employment impact can be expected to be largest:

- the energy (carbon) generating sectors, which are likely to be the direct subject of climate-change policies;
- the employment-intensive sectors, where changes in policies might trigger significant employment change;
- the competition-intensive sectors, where small changes in energy costs or products translate into significant market impacts; and
- the vulnerable sectors, where the scope for major revisions to the cost base or service offers in response to climate-change policies is limited.

Case studies were carried out by the consultancy GHK for the European Commission in sectors thus identified as exposed to the impact of climate change — electricity generation, air transport, cement, retail, consumer goods, construction and haulage.<sup>169</sup> The results of the case studies were presented and discussed at the June 2009 Restructuring Forum. The most common actions already taken by companies include:

- researching their carbon impacts in detail, using carbon accounting, carbon footprinting and life-cycle methodologies to establish where the main impacts are within the company and its supply chains;
- increasing their energy efficiency (that is, the ratio of output to energy input); and
- engaging with the policy process (through lobbying).

In terms of employment, companies have tended to adapt the skills of their existing workforce, rather than increasing or decreasing the number of jobs.

### 2.3: CLIMATE-CHANGE POLICIES AND SKILLS

The developments described above can bring positive results only if the labour force is equipped with the right skills to take advantage of the opportunities. Indeed, the greening of the European economy will lead to a redefinition of many jobs across almost all sectors. Identifying the skills required to adapt to climate change and to reduce greenhouse gas emissions therefore has an important role to play in policy development. Moreover, this is

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<sup>168</sup> KPMG (2008) 'Risk Preparedness Framework: Climate Changes Your Business': <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/Climate-changes-your-business.pdf>.

<sup>169</sup> GHK (2009), 'The Impacts of Climate Change on European Employment and Skills in the Short to Medium-Term: A Review of the Literature. Company Case Studies (Volume 1)': <http://ec.europa.eu/social/main.jsp?catId=103&langId=en&eventId=172&furtherEvents=yes>.



not only a medium- to long-term issue. Already, climate-change policies have led to certain skill shortages in a number of sectors, such as renewable energy, energy and resource efficiency, building renovation, construction, environmental services and manufacturing. Clean technologies require skills in the application, adaptation and maintenance of technology.

The requirements for green skills will change progressively as climate-change-related jobs change. This will happen in three ways (which link to the quantitative impacts identified by UNEP — see above):

- *some skills will become obsolete* due to structural changes in the labour market and employment shifts both within and across sectors owing to demands for a greener economy (for example, as utility meter reading services are rendered obsolete by the introduction of ‘smart’ household meters that automatically relay data to utility companies);
- *demand for some new skills will be created* as new ‘green-collar’ occupations emerge to support adaptation to and mitigation of climate change (for example, support and servicing of solar, wind and other renewable energy technologies); and
- *the skills required for existing jobs will have a stronger green element* as existing occupational profiles change (for example, bottle manufacturers learning new technical skills to reduce carbon emissions from production).

New jobs in ‘green’ sectors can lead to increased investment in the skills of the workers concerned. There are examples where demand for employees with environmental skills has involved (re)training schemes for workers. Moreover, some sources suggest that there will be a shift towards integrated technology and away from ‘end-of-pipe’ through natural market changes but also through policies. As a consequence, high-skill jobs would be promoted at the expense of low-quality jobs.<sup>170</sup>

## 2.4: THE TRANSITION TO A LOW-CARBON ECONOMY

The transition from high-carbon to low-carbon employment is not without its difficulties. Even if all of the above analysis is correct — that is, the most affected sectors are correctly identified, the kind of job changes (destruction, creation and modification) is correctly analysed and the needs for skills development are appropriately addressed by adequate training offers — there will still be a significant amount of friction on the labour market. For example: there is a potential cost of the transition for employees in ‘losing’ sectors; some categories of workers may have difficulties in seizing the opportunities for reskilling; new jobs may not be located in the same areas where the old jobs were lost; training will take

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<sup>170</sup> European Commission (2005) ‘Commission Staff Working Document on the links between employment policies and environment policies’: [http://ec.europa.eu/environment/integration/pdf/sec\\_2005\\_1530\\_en.pdf](http://ec.europa.eu/environment/integration/pdf/sec_2005_1530_en.pdf).

time; and there may be potential obstacles to the development of new jobs in the 'winning' activities (access to raw materials, high barriers to entry, low salaries etc.). As a result, there is a danger that unemployment of displaced workers could become structural.

It is therefore paramount that the social partners engage in a permanent analysis of ongoing climate-change-related industrial restructuring within the existing framework of social dialogue, trying to anticipate potential problems and jointly developing solutions that take account of both businesses' needs for flexibility and workers' needs for security.

Renewable energy stands at the heart of a low-carbon economy. The next section therefore discusses the implications of the growing renewable energy sector for employment and the labour market as a whole.

### 3: THE IMPACT OF RENEWABLE ENERGY POLICY ON EMPLOYMENT

Policies that support renewable energy sources (RES) give a significant boost to the economy and the number of jobs in the EU. Improving current policies so that the target of 20% of RES in final energy consumption in 2020 can be achieved will, it is estimated, provide a net effect of about 410000 additional jobs and a 0.24% increase in gross domestic product (GDP) in the EU. This is therefore an important policy issue and this section looks more closely at the impact that RES policy is likely to have on the EU's labour markets, in terms of the volume of the workforce and the skills that are likely to be necessary in the future.

The Commission Communication *An energy policy for Europe*<sup>171</sup> identifies the points of departure for a European energy policy as:

- combating climate change;
- limiting the EU's external vulnerability to imported hydrocarbons; and
- promoting growth and jobs.

The likely positive effect of the increased use of renewable energy sources on efforts to combat climate change and to limit the EU's external vulnerability to imported hydrocarbons is largely undisputed. It has been clearly shown that renewable energy makes an indispensable contribution to greenhouse gas reductions and to the increased security of energy supply in Europe.

There is, however, still uncertainty about the exact contribution of renewables to the promotion of growth and jobs in terms of the objectives of the EU's Lisbon Strategy. As stated in the Commission's RES roadmap:<sup>172</sup> 'Studies vary in their estimates of the GDP impact of increasing the use of renewables, some suggesting a small increase (of the order of 0.5%), and others a small decrease'. While most policy makers believe that increased use of RES and job creation can go hand in hand, others assume that the distribution and the budget effects might result in turning a large gross employment effect into a small or even a negative net employment effect.

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<sup>171</sup> An energy policy for Europe. COM/2007/0001 final: [http://www.ipex.eu/LexUriServipex/webdav/site/myjahiasite/groups/CentralSupport/public/2007/COM\\_2007\\_0001/COM\\_COM\(2007\)\\_0001\\_EN.pdf](http://www.ipex.eu/LexUriServipex/webdav/site/myjahiasite/groups/CentralSupport/public/2007/COM_2007_0001/COM_COM(2007)_0001_EN.pdf).

<sup>172</sup> Communication from the Commission to the European Council and the European Parliament — Renewable Energy Road Map Renewable energies in the 21st century: building a more sustainable future, COM(2006) 848 final: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0848:FIN:EN:PDF>.

The Renewable Energy Directive for 2020 was adopted by the European Parliament and the European Council in December 2008.<sup>173</sup> This Directive sets ambitious targets for each EU Member State with the aim of achieving a 20% share of renewable energy in Europe's final energy consumption by 2020.

The European Environment Council of March 2008 issued a number of conclusions regarding energy efficiency, climate change and renewable energy, urging the Member States and the Commission to ensure a better coordination between the Lisbon and the EU Sustainable Development Strategies and to pay increased attention to environmental technologies, resource efficiency and biodiversity. It stated further that the EU should foster an 'ambitious global and comprehensive post-2012 agreement' containing goals such as global emission reductions to at least 50% by 2050 compared to 1990 levels and in line with the European Council's reaffirmation that developed countries should continue to take the lead also with a view to collectively reducing their emissions by 60% to 80% by 2050 compared to 1990. It also stated that the EU should step up to the more ambitious 30% reduction as part of a global and comprehensive agreement, as set out in the European Council conclusions of March 2007.

The Council also stressed the importance of environmental technologies as one of the fastest growing markets and of eco-design and a life-cycle approach in supporting eco-innovation. It also recognised the importance of small and medium-sized enterprises for the EU economy as well as their significant impact on the environment and particular challenges related to increasing energy and resource efficiency. In terms of regulation, it called on the Commission and the Member States to increase efforts to consider implementation measures in their impact assessment of new legislation, and to share best practice on implementation and enforcement.

The Commission's main thinking in the area of renewable energy was set out in its January 2009 Communication, *Towards a comprehensive climate change agreement in Copenhagen*,<sup>174</sup> which was issued ahead of the United Nations Copenhagen climate conference. The Commission sets out ways in which to limit global warming to less than two degrees above the pre-industrial temperature, stating that developed countries must take the lead and cut their collective emissions by 30% of 1990 levels by 2020 and that developing countries, except the poorest ones, should limit growth in their collective emissions to 15-30% below business as usual levels by 2020. In particular, the Commission states that the EU should seek to build, by 2015, an OECD-wide carbon market in order to mitigate and to raise funds to fight climate change. The market should be expanded to include major emerging economies by 2020 with a view to building a global carbon market.

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<sup>173</sup> Directive 2009/28/EC on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0016:0062:en:PDF>.

<sup>174</sup> *Towards a comprehensive climate change agreement in Copenhagen*, COM(2009) 39: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0039:FIN:EN:PDF>.

The Copenhagen Summit on climate change, which took place in December 2009 resulted in a non-binding accord that limits temperature rises, but does not include any emissions targets, which was seen as a poor outcome by those advocating the introduction of controls on emissions.

### 3.1: THE BENEFITS OF THE RES SECTOR

In order to reach the target of achieving a 20% share of renewable energy by 2020, it is important to gain further understanding and awareness of the economic and employment benefits of renewables. A recent study entitled *The impact of renewable energy policy on economic growth and employment in the European Union 2009*<sup>175</sup> provides a first detailed analysis of the full macroeconomic effects of renewable energy deployment at EU level. The study analyses the past, present and future impacts of renewable-energy policies in the EU on employment and the economy, looking at the gross and net effects (including both conventional replacement and budget effects). It was conducted on behalf of the European Commission's Directorate-General Energy and Transport.

This study finds that the renewable energy sector is already very important in terms of employment and value added. New industries with strong lead market potential have been created, which contribute about 0.6% to total GDP and employment in Europe. This development is likely to accelerate if current policies are improved in order to reach the agreed target of 20% renewable energies in Europe by 2020 (see above).

However, despite large gross figures in terms of employment and value added, net figures are significantly smaller, due to replaced investments in conventional energy technologies as well as the dampening effect of the higher cost of renewable energies compared with conventional alternatives. Currently, strong investment impulses — based on installations in Europe and exports to the rest of the world — dominate the economic impact of renewable energy policies and therefore lead to positive overall effects. In order to maintain this positive balance in the future, it will be necessary to uphold and improve the competitive position of European manufacturers of RES technology and to reduce the costs of renewable energies by exploiting their full learning potentials. Therefore, policies which promote technological innovation in RES technologies and lead to a continuous and sufficiently fast reduction of the costs will be of major importance. Besides the implementation of strong

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<sup>175</sup> The impact of renewable energy policy on economic growth and employment in the European Union. 2009: [http://ec.europa.eu/energy/renewables/studies/doc/renewables/2009\\_employ\\_res\\_report.pdf](http://ec.europa.eu/energy/renewables/studies/doc/renewables/2009_employ_res_report.pdf).

The study is based on an analysis of the historic situation, based on an input-output model (MULTIREG) that was used to assess the effect of developments in the RES sector on other economic sectors. With regard to future developments, the analysis employs a RES-sector bottom-up model (GREEN-X) that was designed to simulate the effect of RES support policies to 2030. In order to calculate future economic effects, two well-established, independent macroeconomic models (NEMESIS and ASTRA) were used in parallel and their results were compared for maximum reliability. Both the approach and the results have been peer-reviewed.

policies in the EU, it will be of key relevance to improve the international framework conditions for renewable energies in order to create large markets, exploit economies of scale and accelerate research and development.

Three projections for the RES deployment in the EU are:

- no-policy — the no-policy scenario serves as a hypothetical reference by modelling the situation in which all existing policies are abandoned;
- business as usual (BAU) — the BAU scenario extrapolates on current policies in all Member States, which are inadequate to achieve the agreed target of 20% RES in the EU-27 by 2020; and
- accelerated deployment policy (ADP) — the ADP scenario includes strengthened national policies and is consistent with reaching the 2020 target.

Three projections of European companies' global market share in RES are made:

- pessimistic (PE);
- moderate (ME); and
- optimistic (OE).

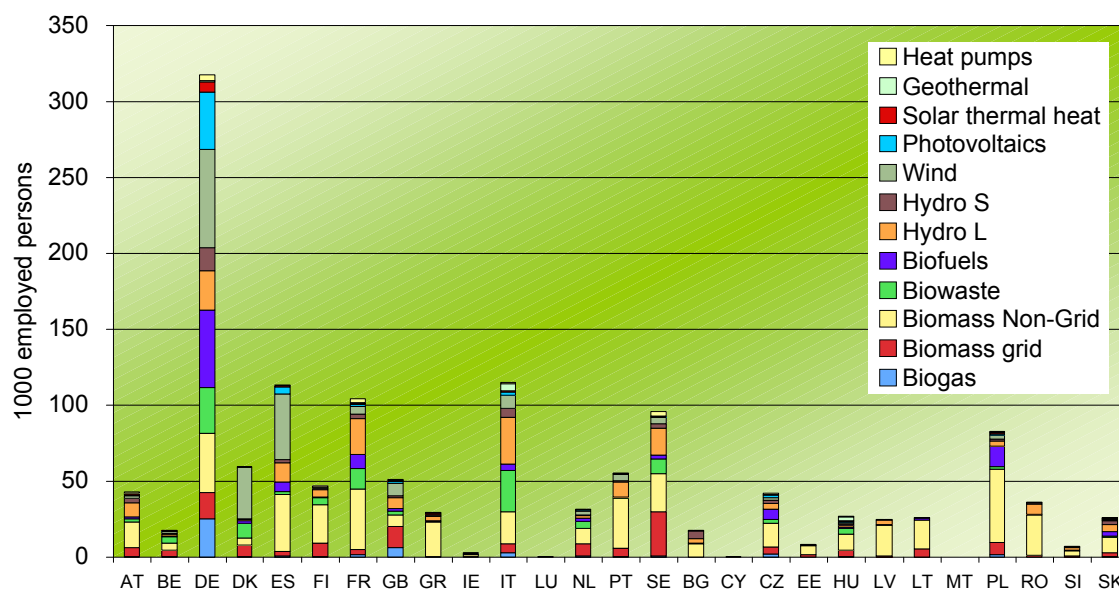
### **3.1.1: THE EMPLOYMENT BENEFITS OF RES**

Since 1990, the RES industry has seen substantial growth, mainly due to public promotion policies. The fivefold increase in investment expenditures for new RES plants to almost €30 billion in 2005 was the main driver for this expansion. However, operational and maintenance expenditures also increased continuously, due to the growing number of plants in operation. Furthermore, European suppliers gained considerable global market shares in booming RES technology fields such as wind and photovoltaics. Total value added generated by RES deployment has roughly doubled since 1990.

Due to increasing labour productivity, total employment has grown by approximately 40%. This development has led to the establishment of a strong cross-sectoral RES industry in Europe. It comprises all the activities needed for planning, manufacturing and installing facilities that use RES, for operating and maintaining them and for supplying them with biomass (direct economic impact). It is furthermore connected with several industries that form its upstream supply chain (indirect economic impact). In 2005, building and operating RES facilities contributed about 0.6% to total GDP and employment in Europe. About 55% of this impact is directly related to the RES industry, with 45% related to the supply chain industries. In absolute numbers, RES deployment leads to a gross value added of €58 billion and 1.4 million people employed. With 0.9 million people employed, small and medium-sized enterprises have a significant share of two-thirds of this employment impact. As important suppliers of biomass, agriculture and forestry roughly employ 200 000 people. Other important economic sectors involved are the investment goods manufacturing industry, construction and trade.

The contribution of the respective RES technologies to employment in the EU Member States is shown in figure 6.2 below. In most countries, biomass use has a high relevance for employment. Wind technology is an important contributor to employment in Germany, Denmark and Spain and photovoltaics is relevant in Germany.

**Figure 6.2: Total employment induced by RES deployment in 2005, by country and RES technology**



Source: European Commission.

### 3.1.2: THE FUTURE IMPACT OF RES ON EMPLOYMENT

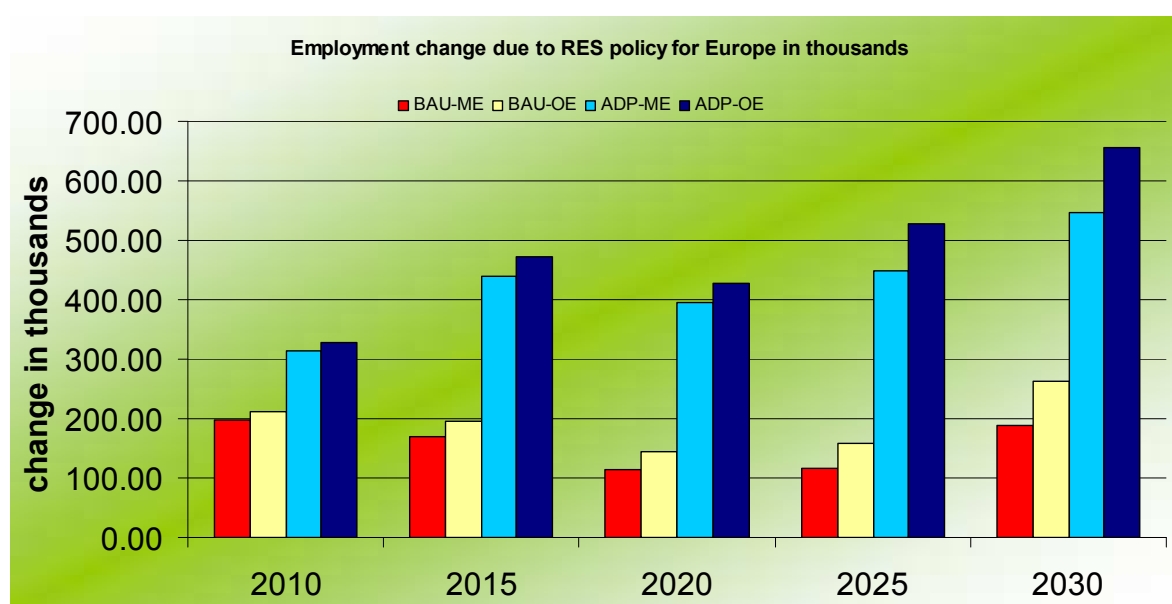
The above-mentioned study indicates that employment levels would be slightly stimulated by RES policies, but the effects would be moderate compared to the effects on GDP. The main results can be summarised as follows:

- 'business as usual' (BAU) RES policies in EU Member States combined with moderate export expectations result into a roughly constant positive employment effect of 115 000-201 000 employees in 2020 and 188 000-300 000 employees in 2030;
- an accelerated deployment policy (ADP) scenario combined with moderate export expectations leads to a slightly higher increase of averaged employment by 396 000-417 000 employees by 2020 and by 59 000-545 000 employees in the last years before 2030. In general, the models generate comparable results, apart from those for 2030;
- the shifts of demand between different economic sectors as well as the moderate energy cost increase in the ADP scenario result in additional employment caused by RES policies not growing compared to GDP growth;

- the effect on employment strongly depends on the energy cost increase. If there are significant cost increases, these may dampen the employment increase; and
- at the sectoral level, the areas in which employment increases most due to RES policy would be the agriculture and the energy sector, the former due to increased demand for biomass, the latter due to the higher labour intensity of RES and increased expenditures on electricity. Sectors losing employment would suffer from the higher energy expenditures of households, the higher sectoral elasticities in response to higher goods prices driven by energy cost increases and the prevailing budget constraint of households. Examples would be the trade and retail sector as well as the hotels and restaurant sector.

Figure 6.3 below presents the results on employment of different policy scenarios. It is apparent that employment increases in all the scenarios, but to a smaller extent than GDP. In BAU scenarios, employment increases by 0.08% in the moderate (ME) scenario and 0.12% in the optimistic (OE) one; this represents 187 000 and 262 000 new jobs created, respectively. In the ADP scenarios, the additional investments and demands bring about a 0.24% increase in employment (545 000 jobs) in the ME scenario and a 0.29% (656 000 jobs) in the OE scenario.

**Figure 6.3: Employment change for Europe in thousands**



Source: European Commission.

In terms of the distribution of total employment by technology, there is a significant role for biomass technologies in terms of employment generation and especially decentralised non-grid use. Over 60% of the total impact is due to biomass technologies. The major share of employment is triggered by the supply of biomass for fuel use. This share is subject to considerable uncertainty, since significant amounts of biomass for non-grid use appear not to be purchased at market prices, but may be obtained from own resources or informal



channels, especially by private households. This study assumes that 50% of biomass obtained by private households is purchased at market prices.

Regarding the employment effects per technology, it becomes clear that current 'business as usual' RES policies do not provide sufficient impulses to push future development of and employment in research and knowledge-intensive technology while a strong RES promoting policy, such as in the accelerated deployment policy scenario, triggers development and employment in knowledge-intensive and competitive technologies in the future. A strong increase in RES technologies such as wind power, photovoltaics and solar thermal electricity is responsible for roughly 50% of the gross employment increase in 2030 compared to a no-policy situation. The technology pattern of RES deployment under this accelerated deployment policy scenario reflects (and justifies) the high promotion and hence the additional generation costs for these knowledge-intensive technologies which are being established successfully in the market, contributing to export and technological competitiveness and thus also to employment.

### **3.1.3: LOOKING TO THE FUTURE**

The RES sector is already very important in terms of employment and value added in the EU. This sector's contribution to GDP and employment in Europe is likely to be accelerated if current policies are improved in order to reach the agreed target of 20% RES in Europe by 2020.

Two objectives for increasing the share of RES are the reduction of CO<sub>2</sub> emissions and other environmental impacts and the increased security of supply due to reduced dependency on imported fossil fuels. It is often stressed that these two key energy policy objectives — security of supply and environmental sustainability — should be targeted without sacrificing the third — economic sustainability. It is therefore of immense value that increasing the share of RES not only does not harm the economy, but actually benefits it by creating jobs and increasing GDP.

After considering the renewable energy sector, this report now turns to the transport sector, which is one of the key sectors that will be affected by climate change and the pressure to change energy production and consumption.

#### 4: CHALLENGES FOR THE TRANSPORT SECTOR

This section examines the main challenges, in terms of restructuring, faced by the transport sector in the coming years. This sector is one of the EU sectors that is most exposed to changes relating to climate change and changes in energy sourcing and use. Overall, the economic integration of Europe is set to continue over the next years and this, coupled with accelerated globalisation, will lead to increased momentum in transport activity. The transport sector is likely to restructure along two dimensions: integration at European and global level and decarbonisation. Failure to combine progress along these two dimensions will result in the European transport sector losing the technological leadership that it enjoys today, and failing to support the competitiveness of European businesses, with European logistics companies, which heavily rely on the excellent connections to world transport networks, likely to being affected in first place.

Led by strong economic forces and policies, the EU is beginning to look, in terms of transport, like a continental, interconnected market, even if much remains to be done. While the integration of air and road transport systems is well advanced, rail and waterborne modes still suffer from numerous persisting regulatory, administrative and technical barriers which jeopardise their efficiency for cross-border transport.

The transport sector is still very far from becoming a low-carbon system as it relies up to 95% on oil. The Commission's objective of decarbonisation of the transport system<sup>176</sup> requires a substantial transformation of the sector although this is a long-term objective. A roadmap to achieve this objective has been proposed by the Commission in the Transport White Paper 'Roadmap to a Single European Transport Area- Towards a competitive and resource efficient transport system'. The three basic elements of this strategy are the creation of a Single Transport Area, the promotion of new technologies and the completion and upgrading of European network infrastructure. Given the surrounding technological and economic uncertainty, it is likely that this path will have to be regularly readjusted in the future, in accordance with technological and economic realities.

The decarbonisation objective implies that a gradual but significant restructuring of the sector is needed. Within this context, it is important to ensure that social cohesion is respected or enhanced during the process of restructuring. The White Paper expresses the willingness of the Commission 'to align the competitiveness and the social agenda, building on social dialogue'. It is to be expected that the forecast growth in activity in the transport sector will help to make restructuring and social cohesion compatible. During the process of restructuring, it is crucial to raise the right expectations among entrepreneurs and investors

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<sup>176</sup> The Transport White Paper 'Roadmap to a Single European Transport Area- Towards a competitive and resource efficient transport system' sets as an objective to reduce the GHG emissions of transport by 60% in 2050.

about the future of European transport policies which shape the transport system of tomorrow, given that expectations can attract or deter investments.

The WP will build over many steps taken by the EU transport policy, thus the internal market is well advanced in the EU, with decisive steps having been taken recently. Railway freight market was opened to competition in 2007, international passenger rail market in 2010 and new rules for public transport procurement under Public Service Obligations (PSO) apply from December 2009. However, technical and regulatory barriers still effectively reduce competition on the Single Market and constitute obstacles to the provision of cross-border services. In aviation, Open Skies agreements with the USA and other countries are being concluded, increasing competition on the market for intercontinental travel. International road transport is also liberalised within the EU, while cabotage rules have been recently clarified. Maritime transport is open to competition according to international rules. Nevertheless, administrative barriers remain for intra-EU maritime transport, affecting the competitiveness of short sea shipping compared to land-based modes. Market integration is backed by the growing trans-European network and by a substantial regulatory '*acquis*' both of which are far from being completed. All these measures take time to percolate into market realities, but the process is ongoing, not least because strong economic forces and actors are pushing in the direction of a low carbon, integrated and high quality mobility system by 2050.

The main economic actors in a market economy are the firms. The current structure of the transport services sector includes a large volume of SMEs and individual operators, notably in road transport and inland waterways<sup>177</sup>. They share the market with a number of global giants and large European firms, whose activities cover different modes of transport and different countries. First among them are AP Moller-Maersk and Deutsche Post (DHL) which appear in the 2011 list of the FT global 500 largest companies by market capitalisation (ranking 194 and 424).

A step that was to prove decisive concerning the integration of the European transport sector and its global projection has been taken over the past 20 years in the form of the process of liberalisation of national postal services. This triggered the creation of global transport and logistics giants such as DHL or TNT, which were acquired by the public mail services of Germany and the Netherlands, respectively. In this way, two pre-internet era communications firms positioned themselves as 'just in time' global delivery experts.

This mention of the enterprise structure of the sector is necessary as neither consolidation nor restructuring takes place in a vacuum — both are first of all the responsibility of firms. The success of the co-modality concept (meaning the most efficient use of all transport modes on their own or in combination), the efficiency of multi-modal chains and the

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<sup>177</sup> Out of the 1 064 696 enterprises which existed in the transport sector in 2008, a large majority belonged to the atomised road transport sector (600 000 to road freight transport and 325 728 to road passenger transport).

development and adoption of new technologies also depend on the decisions of companies reacting to market and policy incentives.

Consolidation is needed to reap the economies of scale and scope that are made possible by a very large market. If the European transport market appears at first sight to be highly fragmented along national lines, this is mostly due to the railways sector, the problems of which, concerning lack of interoperability and difficult access to some markets, are well-known.

**Table 6.1: Employment and number of companies operating in the transport sector, 2008, EU27 (1000 persons)**

Year	TRANSPORT	I60 - Land transport; transport via pipelines	I61 - Water transport	I62 - Air transport	I63 - Supporting and auxiliary transport activities; activities of travel agencies
2008	10301.4	6393.8	226.4	381.0	3300.2
2009	10097.0	6313.6	222.7	370.7	3190.0

In addition the well-established regulated market opening, other integration drivers are at play. The enlargement of the EU has provided a relatively low-cost workforce, of which firms from the older Member States take advantage by establishing subsidiaries in the newer Member States, or by buying their transport services. In addition, globalisation has created a high level of activity, notably in seaports, where container terminals are largely internationalised. Further consolidation in all modes seems inevitable as a single European transport market continues to emerge in line with the Transport 2050 White Paper objective of full modal integration.

#### 4.1: OVERVIEW OF THE EU TRANSPORT SECTOR

In 2009, the transport sector directly employed 10.1 million people,<sup>178</sup> which accounted for 4.5% of the total employment in the EU. This employment level fell by 2% between 2008 and 2009, however once the crisis is overcome, employment growth in the sector is expected to resume, together with transport activity, especially if the recovery is export-led. It is likely, therefore, that restructuring in all transport sub-sectors and modes will be facilitated by the expected sustained growth in activity.

Projections for transport activity estimate that, based on current transport policies, most modes of transport will considerably increase their activity up to 2030 (in this case 34% for passengers and 38% for freight — see table 6.2).<sup>179</sup> However, growth in activity will require either increases in productivity of the existing labour force, which is already highly productive,<sup>180</sup> or increases in employment.

Further, an active policy of decarbonisation may imply higher employment needs in low-carbon transport modes such as railways, inland waterways, short sea shipping and public transport, as well as in intermodal logistics. It should be highlighted, moreover, that a modal shift from the car to public transport will produce net increases in jobs as the transport services which private drivers produce are not accounted for in general employment and GDP statistics.

The introduction of the White Paper Transport 2050 policies will boost the rates of growth of the more energy efficient modes. Road transport will still grow, but at a slightly

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<sup>178</sup> Source: Eurostat - National Accounts (table 6.1). This figure does not include own account transport which corresponds to the transport services that firms in all sectors provide for themselves (16% of total activity in tkm). The construction and to a large extent maintenance of transport infrastructure and of transport means (i.e. road vehicles, ships, trains) is not included either.

<sup>179</sup> European Commission (2010), EU energy trends to 2030 — Update 2009: [http://ec.europa.eu/energy/observatory/trends\\_2030/doc/trends\\_to\\_2030\\_update\\_2009.pdf](http://ec.europa.eu/energy/observatory/trends_2030/doc/trends_to_2030_update_2009.pdf).

<sup>180</sup> The transport sector is a dynamic sector from an economic point of view, which has managed to attain rapid productivity growth. Annual labour productivity in the transport services sector has grown more than in the rest of the economy. The COMPETE study shows that the sectors that have recorded the highest levels of productivity growth are maritime and air transport. COMPETE. 'Analysis of the contribution of transport policies to the competitiveness of the EU economy and comparison with the USA': [http://ec.europa.eu/transport/wcm/infrastructure/studies/2006\\_10\\_compete.zip](http://ec.europa.eu/transport/wcm/infrastructure/studies/2006_10_compete.zip).

lower rate than in a 'no policy change scenario' The development of a dense and extensive HST network favoured by the White Paper will help to bring the very high growth of aviation (100%) to more manageable proportions.

**Table 6.2: Projections in passenger and freight growth, 2005-2030, by transport sub-sector without policy changes**

<u>Transport activity projections (% growth)</u>	<u>2005-2030</u>
<u>Passenger transport activity</u>	34 %
Public road transport	22 %
Passenger cars	28 %
Powered two-wheelers	31 %
Rail	39 %
Aviation	100 %
Inland navigation	17 %
<u>Freight transport activity</u>	38 %
Trucks	40 %
Rail	40 %
Inland navigation	22 %

#### 4.2: DECARBONISATION AND GREEN JOBS

The decarbonisation of transport will be led in the short to medium term (up to 2020) by the search for energy efficiency in all vehicles and modes, and by setting a level-playing field between the different modes. Energy efficiency increases will largely result from improving current conventional technologies, making wider use of information technologies and setting stringent vehicle energy efficiency standards. The level playing field between different modes will notably require the removal of unjustified subsidies and moving towards the wide application of the user-pays and polluter-pays principles. The latter move is expected to provoke a shift towards more energy-efficient forms of transport.

In the shorter term, two ways of job creation or job loss can be distinguished:

- autonomous growth within the different transport modes; and
- employment changes from the modal shift between them.

The extent of the modal shift will also depend on the ability of the providers of energy-efficient transport (railways in particular) to improve their attractiveness.

Rather than being due to the early effects of the decarbonisation process, in the shorter term, restructuring will most likely be mainly caused by the establishment of a European Transport Area, global competition and the enhanced use of information technologies.<sup>181</sup>

The market penetration of alternative fuels will be gradual, giving rise to the need to synchronise investments in infrastructure and vehicles. Its effects on the labour force are not expected to be significant before 2020, although critical bottlenecks could appear and should be identified and eliminated (see box 6.3 on green jobs).

In the meantime, the main focus of this low-carbon technology strand should be on ensuring the availability of appropriate human and economic resources for R&D, not least through coordination of the actions of the private sector and of the Member States and the Union. At the same time, an effort should be made to ensure that the education system, which will educate the generations that will carry out the greater part of transition in the transport sector, allows students to improve their STEM (Science, Technology, Engineering and Mathematics) skills, which will be much in need in the future.

It is likely that the system will become knowledge-intensive before becoming low-carbon, just because the IT revolution is already taking place and many transport sub-sectors have embraced the adoption of IT. While the European satellite navigation system Galileo is in the process of becoming operational, GPS use is already pervasive and its use, combined with that of mobile phones, has greatly improved the efficiency of road and other modes of transport. While mode specific smart mobility systems have been or are being developed (SESAR for air, ITS for road, ERTMS for rail, SafeSeaNet and eMaritime for maritime, RIS for inland navigation), their deployment is often delayed or fragmented.

**Box 6.3: The green and smart transport jobs of the future: purely green jobs and the greening of conventional jobs**

Purely green jobs could be those that are needed to deploy electric, fuel cell or other non conventional vehicles and to adapt infrastructures to the needs of a vehicle fleet that uses a wide variety of fuels. Petrol stations would offer a variety of refuelling possibilities, including electricity, biofuels, hydrogen, methane and conventional diesel and petrol fuels. Other types of green jobs include those in the information and communications technology sector providing services to transport and those jobs in the manufacturing sectors that will build green transport means. Critical bottlenecks could appear in the supply of these green jobs.

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<sup>181</sup> Such as the introduction of the European Railway Traffic Management System (ERTMS) in railways or the Single European Sky Air Traffic Management Research (SESAR) programme in aviation, which replace more labour intensive means of traffic control and management. Modern communication tools may reduce the need or the desire for travelling as well.



Previous experience of large-scale demonstration of electric vehicles has highlighted a major problem of skills shortages, throughout the value chain of design, production, distribution, sales, maintenance, disposal, and emergency first response. In addition, there are a number of concerns, including the following:

- the demonstration of innovative vehicles has proved very costly, either due to the need to have representatives from original equipment manufacturers (OEMs) available on site or available to travel to sites at short notice, the need to send vehicles back to regional centres for repair, or to send staff to OEMs for specialised training. At least one dealership in every large city would need to have specially trained staff;
- there are serious shortages of staff skilled in the research, design, and development of electric drive-trains, power electronics, batteries, fuel cells and hydrogen storage and system integration;
- dealerships are not trained to sell and maintain vehicles with non-conventional drive-trains using non-conventional fuels;
- insurance companies do not have staff who are qualified to assess risks;
- emergency first response staff are not trained to handle the different issues raised by high voltage systems, risks of fire and explosion; and
- planning authorities and certification bodies are not all equipped to provide permission and approvals for new fuelling/re-charging infrastructures.

Beyond – and even before – the initial pilot scale demonstrations, mature networks of qualified and certified staff will need to be in place for all the above functions. A serious effort of resource planning is therefore required. Considerable work was carried out by the ‘International Partnership of the Hydrogen Economy’ to identify training needs and draft training curricula. Similarly, the ‘Californian Air Resource Board’ has studied training requirements.

During the first phase of commercialisation of electric vehicles and hydrogen fuel cell vehicles (EVs/HFCVs), skills for the current internal combustion engine (ICE) technology and additional new skills for the electric power train, batteries and control systems will be required. This phase will also coincide with an internalisation of electric drive-train technology development within the automotive manufacturers which will therefore also need these new skills.

In terms of anticipating and managing restructuring, the skills and qualification levels needed for electric vehicles and hydrogen fuel cell vehicles will be essential. As announced in the European Commission’s Communication ‘European strategy on

clean and energy efficient vehicles',<sup>182</sup> the Commission will support the creation of a European Sectoral Skills Council, aiming at creating a network of Member States' national observatories. The Commission will also target the use of the European Social Fund, starting in 2011 to encourage retraining and upskilling.

Other modes of transport present similar problems. For instance, the use of alternative energy in maritime transport where emerging new propulsion technology such as the use of gas-fuelled ships or wind energy propulsion will require safety standards and new skills which could be of benefit to the revalorisation of the European workforce. As regards gas-fuelled ships, interim guidelines on safety have been developed in the framework of the International Maritime Organisation (IMO), which will be complemented by the development and finalisation of the International Code of Safety for Gas-fuelled Ships by 2014. The use of wind energy in maritime transport is still at the research stage and will require new skills also, but in a longer timeframe.

Alongside 'green jobs' there are what could be called 'conventional transport greening jobs'. The greening of the transport sector can be seen as making more commercially attractive and increasing the use of the greener modes of transport while 'greening' their more competitive rivals and making a more efficient and 'greener' use of all modes of transport. To compete with road and aviation, the low-carbon modes of transport have to provide better services, which often require specific skills:

- there is an increasing technological complexity in railways (e.g. in the case of high-speed trains), shipping and civil engineering as well as in aviation. Workers employed here, as well as those working in possibly less technically demanding sectors such as road transport, inland waterways and logistics, need also to be well acquainted with information technology, and in particular with Intelligent Transport Systems;
- civil engineering is becoming more capital-intensive, but also more human capital-intensive, as public works take on larger and more complex challenges. Pieces of infrastructure such as bridges and tunnels (including those in urban locations) aim to make distances shorter and less costly in CO<sub>2</sub> terms;
- public passenger transport requires personal attention to the user to ensure a high level of quality, in particular concerning its security, and to ensure a highly reliable service. This may require more customer attention qualifications from the staff, for example to ensure accessibility for disabled passengers, or to uphold passenger rights or guarantee security;
- the development of a knowledge-intensive transport sector, highly efficient and adapted to the needs of customers, involves demanding central service

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<sup>182</sup> European strategy on clean and energy efficient vehicles (COM(2010) 186):

requirements. Central tasks such as regulation, monitoring, modelling, statistic collection, or, at a more microeconomic level, network management, managing tolls and internalisation systems, as well as Intelligent Transport Systems, require highly skilled jobs to ensure rationality, feedback and resilience of the transport system;

- logistic activities will grow over the coming years. Logistics professions are to some extent common to different transport modes. By increasing the efficiency of trans-shipment and supply chain management, they increase the energy efficiency of the supply chain. With automation, containerisation and electronic tracking of goods, logistic professions are becoming more demanding in terms of skills.

Finally, there is the more controversial ‘greening of brown jobs’, which could include the development of longer road freight vehicles involving the implementation of special training for the drivers, notably on energy efficiency and safety aspects. In the air transport sector, training linked to the use of the Airbus A-380 is a case in point, where the use of larger aircraft produces environmental benefits.

#### **4.3: DEMOGRAPHY: HEADING FOR SKILL AND LABOUR SHORTAGES**

In spite of current relatively high levels of unemployment, there is a consensus that the main problem facing the transport sector will be labour and skill shortages, even in the absence of decarbonisation of the sector. This is due to the accelerated ageing of the transport labour force which creates a scarcity problem which the low female participation rate in the sector will not help to resolve. Strong demand growth will exacerbate this problem. The sector has already suffered in normal conditions from skill shortages and a tight labour supply. For the moment, skill shortages focus on conventional rather than green jobs. It is therefore imperative that redeployment and renewal of the labour force is facilitated.

Green jobs within the transport sector appear to require a blend of existing skills rather than adoption of totally new skills. Moreover, in the first stages of decarbonisation, efforts will be focused on research and development, followed by demonstration projects, the strategic impact of which will be large but which are likely to go mostly statistically unnoticed in the larger labour transport labour markets.

In the short term, from a restructuring point of view, of greater importance than the emergence of new green jobs will be the upgrading of traditional green jobs in railways or public transport and the greening of conventional jobs in carbon intensive modes such as road freight transport and aviation. These transformations are due to take place against a background dominated by the ageing of the population. In a society where the labour force will soon start shrinking, the transport sector workforce is ageing more rapidly than

the economy as a whole (26% of employees aged over 50 compared with 22% on average in the economy). In most sectors, female participation is expected to fill the gap left by ageing male workers, but in transport the labour market share of female workers is much lower than the average (21% compared with 35%, while in land transport the share is only 13%). For details of the age and gender profile of the sector, see box 6.4 below.

Before the crisis, it was said that there were shortages of skilled workers in the following transport professions: locomotive drivers; road drivers; merchant navy officers; and skilled sailors or entrepreneurial staff in inland waterways. Moreover, in some sectors, such as railways or logistics, there was an ageing workforce, possibly due in part to the civil servant status of many employees, which meant that employee turnover was very low. The crisis has aggravated this situation.

Shortages in some precise skills can sit aside the relative overstaffing of some modes of transport, as it has been the case in the rail sector in some countries. Other modes can become overstaffed in the future as a result of restructuring (for example air traffic management support staff as a consequence of the creation of functional blocks, although traffic growth should counteract this tendency) or consolidation between firms (for example between aviation companies). Finally, increases in productivity or changes in technology could make some jobs redundant (for example, train ticket collectors). Dealing with these shortages and easing the restructuring of the transport sector will require that labour mobility is able to overcome the implicit barriers to gender, age, mode and nationality, and migration outside Europe.

#### **Box 6.4: The age and gender handicaps of the transport sector**

The proportion of the EU27 transport services workforce aged 15 to 29 was 17.7% in 2007, some 6.7 percentage points below the average for the non-financial business economy. This was reflected in an above-average share of older workers (aged 50 or more), representing more than one quarter (25.7%) of the workforce, compared with just over one fifth (21%) for the non-financial business economy as a whole. All of the transport services NACE divisions recorded a relatively low proportion of younger workers, but this was most notable for land transport and transport via pipelines, where the proportion was as low as 14.1%, one of the lowest among the non-financial business economy NACE divisions, higher only than in some mining and quarrying (NACE Section C) divisions. Air transport was the only transport services NACE division where the proportion of older workers (20.0%) was below the non-financial business economy average, while the highest proportion of older workers was recorded for land transport and transport via pipelines and for water transport services (both 27.8%).

Only 20.9% of those persons employed in this sector in 2007 in the EU27 were women, around three fifths of the average for the non-financial business economy, where women accounted for 35.1% of those employed. In land transport and transport via pipelines (NACE Division 60) the share of women in the workforce was just 13.5%, among the lowest shares across the non-financial business economy

NACE divisions, higher only than in construction and two mining and quarrying (NACE Section C) divisions. The share of women in the workforce was also particularly low in water transport, 19.9%, and just below the non-financial business economy average in warehousing, transport support activities and the activities of travel agencies (32.4%). The only one of the four transport services NACE divisions where the share of women in the workforce was above the non-financial business economy was air transport where 40.7% of the workforce was female.

*Source: European business – Facts and figures, 2009 edition*

[http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-BW-09-001/EN/KS-BW-09-001-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-BW-09-001/EN/KS-BW-09-001-EN.PDF)

#### 4.4: INTEGRATION IN THE TRANSPORT SECTOR

Restructuring is the result of decisions taken by enterprises, even if they are sometimes triggered by changes in the regulatory environment, such as the opening of markets or by external facts such as the emergence of the new Asian trading powers. The high and accelerating degree of integration of the European transport services sector at enterprise level and over different modes should be highlighted, as the success of decarbonisation and of the overall integration in a Single Transport Area depends on what is taking place at the level of the firm.

The freight transport sector is relatively integrated at enterprise level, with companies such as Deutsche Post-DHL, DB Schenker, TNT, Kuhne and Nagel and SNCF-Geodis taking many of the strategic decisions that will shape the sector. In spite of repeated pronouncements in favour of rail freight, some of these companies have developed road freight transport branches which now constitute the main focus of their activity: this is the case with SNCF and Geodis or the takeover of Schenker by DB.<sup>183</sup>

In medium-distance passenger transport sub-sector, DB and/or SNCF/Keolis are leading the market, while in public transport there are firms that are highly diversified, such as Veolia or First Group UK, which are both active in railways and buses.<sup>184</sup> The increased use of tendering in urban and regional transport gives these companies significant opportunities for expansion.

The internal market has led so far to some degree of consolidation in aviation, where after the takeover of Swiss, Brussels Airlines, and more recently of Austrian Airlines and

<sup>183</sup> 'The 2006 turnover for DB Schenker totalled 17 billion euro, 3.8 of which stemmed from rail freight and combined transport. The 2006 turnover from the freight and logistics branch of SNCF group totalled 6.6 billion euro, roughly 2 billion of which stemmed from rail freight and combined transport.' *Freight Business Restructuring and its Impact on Employment*. Joint European Group CER-ETF with the support of DG EMPL.

<sup>184</sup> Public transport firms may also participate in the deployment of electric vehicle pick and drive cars such as those of the Paris 'Autolib' system expected to be available from 2011. *Le Monde* 12.6.2010, page 2.

British Midlands by Lufthansa<sup>185</sup>, other groups have emerged such as Air France-KLM or British Airways-Iberia. Integration is hindered by the existing agreements with the USA<sup>186</sup> which constitute a barrier to fully-fledged mergers within Europe and to capital movements across the Atlantic.

The actors driving integration can, however, come from other fields as is the case with the seven BAA airports in the UK, which were taken over by the Spanish construction firm Ferrovial. Construction firms have had access to new activities thanks to the adoption of public-private partnership schemes. Airports themselves, such as Frankfurt airport (operated by Fraport) may have a wide-ranging portfolio of shares and management contracts in different airports worldwide.

Global interests have also established beachheads in Europe, most notably in seaports. The case of an international tender to build and operate a container terminal at the port of Piraeus, near Athens, which was won by Cosco-Pacific, made the headlines due to trade union industrial action against it. However, other Chinese or Asian companies run terminals in many other ports in the EU.<sup>187</sup>

#### 4.5: FROM NATIONAL PUBLIC MONOPOLIES TO EUROPEAN PRIVATE MONOPOLIES?

Globalisation and decarbonisation may favour concentration, as only large firms may be able to carry out large research and investment programmes. It is often feared that the opening of markets and subsequent restructuring may result in old national monopolies being replaced by the predominance of a short number of European firms.<sup>188</sup> This perception could slow progress towards the creation of a European system that is able to carry out decarbonisation. EU and national policies should ensure that well regulated competition prevails in EU transport markets.

Over time, economies of scale and scope as well as historical advantages could lead to an excessive market concentration in a few large firms. In railways and aviation, the ex-incumbents derive their strength from the size of their former exclusive markets, from which they can make inroads into other markets. Moreover, public firms benefit from the financial strength of the Member States to which they belong. However, cross-border penetration is not easy as other ex-incumbents use, as a means of resistance regulatory

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<sup>185</sup> A recent agreement between Lufthansa and British-Airways/Iberia foresees the transfer of British Midland to the latter.

<sup>186</sup> Or more exactly by the impossibility so far of reaching an agreement over the restrictive US national ownership clauses.

<sup>187</sup> See 'The corporate geography of global container terminal operators'. *Theo Notteboom and Jean-Paul Rodrigue*.

<sup>188</sup> For example 'The ETF wants as a first step a moratorium on the liberalisation of transport modes since it only replaces public monopolies by private monopolies or leads to fragmentation and destructive competition to the detriment of workers'. Selected resolutions adopted at the ETF (European Transport Workers Federation) 2009 Congress — Ponta Delgada, 27-29 May 2009.

or de facto barriers (e.g. provision of rail safety certifications to new entrants), which are only slowly being dismantled. Within passenger transport, public service obligations provide a channel for the subsidising of firms and advantageous attribution of rail contracts to incumbents, but this is seldom the case for freight transport. However, it is clear that regulatory barriers cannot protect inefficient firms for ever and that the need for public budget consolidation will drastically reduce the subsidies available for both the passenger and freight markets.

It is one of the roles of the EU and the national competition authorities to avoid abuses of dominant positions.<sup>189</sup> Market forces have also their own resilience. In this respect, it is to be hoped that challenges to the dominant firms could come from outsiders from other transport markets, and also from coalitions of consumers favouring small suppliers that are responsive to their needs.<sup>190</sup> Newcomers to the sector may be able to start from niche positions or by better responding to customers' needs.

#### 4.6: THE EFFECTS OF THE ECONOMIC CRISIS

Europe is recovering from the crisis in an uneven way with some Member States still being immersed in it. The economic crisis is, in the short term, a force for the consolidation of the transport sector, as the weakest actors merge, disappear or are taken over. Swift job transitions will help minimising the high social costs of this process. In the longer term, decarbonisation threatens the less energy-efficient firms, many of which may not be able to finance large investments in low-carbon equipment.

The crisis and its budgetary consolidation aftermath have resulted in high numbers of bankruptcies and restructurings. Comprehensive information on this topic is limited, although according to the International Road Transport Union (IRU), the number of bankruptcies in the road transport sector doubled during the crisis.<sup>191</sup> Further, the International Air Transport Association (IATA) recorded losses in 2009 and after escaping from them in 2010 and 2011 expected to fall in the red again in 2012.<sup>192</sup> The European Restructuring Monitor, published by the European Monitoring Centre on Change (EMCC), illustrates well the severity of the crisis by listing a large number of cases of restructuring which were announced between 2009 and 2011. It is impossible to mention them all, not least because as attention concentrates on large firms SME sectors like road or IWW are seldom mentioned. Restructuring cases include those of: Olympic Airways, Aer Lingus, Alitalia, Meridiana Eurofly, Air France, Czech Airlines CSA, Lufthansa Technik Airmotive Ireland, Finnair Tekniikka, PKP Intercity and cargo, Cargo Slovakia, the ZSSK passenger rail

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<sup>189</sup> In aviation, loss of competition will be fought typically through the compulsory transfer of slots free of charge, to be distributed among new entrants or existing competitors.

<sup>190</sup> The opportunities that the internet provides to identify and consolidate demand for public transport and to provide tailored solutions, such as taxis, minibuses and coaches, are just starting to be explored.

<sup>191</sup> IRU press release: [http://www.iru.org/index/en\\_media\\_press\\_pr/code.973/lang.en](http://www.iru.org/index/en_media_press_pr/code.973/lang.en).

<sup>192</sup> IATA financial forecast December 2011 [www.iata.org/economics](http://www.iata.org/economics)

services of Slovakia, and ZSR the rail infrastructure company of the same country, SZDC the Czech railways, the Medcenter Container Terminal in the Gioia Tauro port, LOT ground services, Tirrenia, Sea France Channel, Schiphol airport, the Mory logistics and courier express group in France, the London Underground, and the Campania region public transport sector.

Some of these restructuring events have been solved through agreements, involving natural departures, voluntary redundancies, restructuring fund subsidies or a gradual implementation, while others gave rise to strikes.<sup>193</sup>

The severe budgetary and financial crisis in some Member States has greatly increased the need for restructuring within their transport sectors as the room for national budgetary support to the sector has been drastically reduced. The Union is assisting these countries to implement their National Reform Programmes or the EU/IMF/ECB programmes which generally include transport reforms. Examples of the latter are the intended restructurings of the Hellenic railways organisation, the Romanian railways reform (infrastructure, passenger and freight services) and of the Portuguese rail passenger services (Comboios de Portugal) or those of the Lisbon underground and the Lisbon public transport company.

In recent times some good news concerning job-creating expansion restructurings are becoming more common, notably for the aviation sector: Lufthansa, TNT Airways, Virgin Atlantic, Southend airport Essex or the Frankfurt-airport operator Fraport. Geodis and Keolis, two subsidiaries of SNCF are also planning important recruitment operations.

Due to the preceding economic euphoria, many transport firms entered the crisis with plenty of cash resources, even taking into account record oil prices in 2008, and many aviation low-cost carriers and ports and airports even benefited during the crisis. On the other hand, many SMEs in the road transport and inland waterways sectors have felt squeezed by the 2008 credit crunch and its repercussions.

In the aftermath of the crisis, the credit crunch and the weak market demand are in many cases followed by a public subsidy scarcity affecting transport companies which relied on them for their daily operations. Public infrastructure expenditure will also be cut down as a result of deficit avoiding recovery plans while some pieces of infrastructure such as some regional airports are partially or totally shut down as their subsidised operation cannot be afforded.

In general, the crisis has had a larger impact on freight transport than on passenger transport, which always remains more constant within the business cycle. Within the transport sector, the cheaper alternatives, such as the low-cost airlines and coaches, have experienced an increase in demand, to the detriment of more expensive suppliers. Within freight transport, the transport of fuels has also resisted the crisis well.

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<sup>193</sup> ERM Quarterly, issue 1, Spring 2010.



Conversely, however, the crisis has aggravated the situation in long-distance ocean transport, where even before the crisis there were indications of serious future overcapacity. This structural overcapacity (estimated to be as much as 20%) is likely to materialise as the recovery starts and could ensure years of fierce competition and low maritime transport prices, which would further push the process of globalisation.

#### **4.7: EXISTING PRACTICES IN RESTRUCTURING**

It is often difficult to identify good practices in restructuring from a social point of view and even more within the transport sector. This is in part due to the fact that the initial effects of a restructuring event are often detrimental to those involved.

In both the rail and aviation sectors, new entrants to the sectors are a source of jobs. In aviation, the strong growth in activity, which is resuming after the 2008-2009 downturn has allowed firms to redeploy workers into other jobs or companies, although working conditions may have deteriorated for some. In road transport and in seaports, firms keep a core of workers, which preserves corporate knowledge. However, a general trend in the entire transport sector, except aviation, is that this knowledge is ageing with the workforce.

Substantial restructuring has already taken place in aviation, with the emergence of the low-cost carriers, which now control 30% of scheduled flights. As air transport has grown, redundancies from the companies that have gone bankrupt have, to some extent, been absorbed by other companies.

Within railways, restructuring has often taken place through early retirement, by not replacing staff taking retirement or by redeployment to different jobs in the group. There have also been voluntary departures, sometimes to other railway companies. Compulsory redundancy has been used only rarely normally with fairly large severance payments.<sup>194</sup> In many instances, the civil-servant status of railway workers has meant that forced redundancies have been avoided. This has increased the average age of the staff and threatens the transfer of knowledge within the firm.

Further, road and maritime transport firms have recourse to contracting forms that are relatively flexible. Road transport companies use subcontractors while maritime transport companies employ workers from non-EU countries,<sup>195</sup> which can be dismissed relatively easily, compared with workers from EU Member States. In seaports there is a wide variety of solutions, often based around a public or private 'pool' of permanent dockers supported by temporary or casual workers or by transport company employees. The

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<sup>194</sup> See the report of the Joint European Group CER—ETF 'Freight business restructuring and its impact on employment' of February 2009, funded with the support of DG EMPL/F/1, Page 65.

<sup>195</sup> About 50% of foreign seafarers on EU-flagged ships come from the Philippines; other important labour supplier countries are the Ukraine and Russia (EMSA).

adjustment resulting from the crisis has been borne by temporary workers, particularly as most 'pool' workers cannot be dismissed.

Within freight transport, road is also a 'dual' sector, consisting of some large and medium-sized enterprises on the one side and a thinly atomised sector on the other, from which fluidity derives the whole road sector its strength. Logistics operators subcontract large numbers of individual drivers, with which they can dispense if the business climate worsens, while they retain their core fleet. The enlargement of the EU has allowed drivers from new Member States, often working for delocalised old Member State firms, to provide services to large shares of the international road transport market.

#### **4.8: EU ACTIONS TO SOFTEN THE SOCIAL EFFECTS OF RESTRUCTURING**

Restructuring results in labour mobility and job transitions. Even though restructuring is dealt with by individual Member States and the social partners, the EU should nevertheless ensure that restructuring does not involve a drop in the quality of the service and in working conditions. The EU can facilitate restructuring and reduce its negative consequences in different ways:

- by increasing the employability of workers;
- by making sure there is no race to the bottom in working and safety conditions;
- by making sure that an acceptable level of competition is upheld; and
- by providing a gradual phase-in of measures that may have a social impact, so that firms can prepare themselves for these changes.

One important element that ensures the employability of workers is providing them with certificates that acknowledge their qualifications and facilitate their labour mobility. The EU has legislation covering the issuing of licences and/or certificates for the different modes of transport. In the case of maritime transport, EU inspectors assess whether training and certification by EU and non-EU countries is carried out at the appropriate levels. An effort to provide training has to be made to compensate for the ageing of the population and the need to keep up with rapid technological change. However, in a number of cases, training is controlled by ex-incumbents which creates difficulties relating to the entry of new firms into the transport markets. Moreover, existing training centres have a national orientation: greater weight should be given to the ability to operate in international environments.<sup>196</sup>

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<sup>196</sup> A 2007 study, 'Rail training 2020. Training needs and offers in the European railway area. The next 10 - 15 years', on the evolution of skills and training in the railway field provides insights that can also be relevant for training in other modes of transport. [http://ec.europa.eu/transport/rail/studies/doc/2007\\_rail\\_training\\_2020.pdf](http://ec.europa.eu/transport/rail/studies/doc/2007_rail_training_2020.pdf).

Measures that contribute to creating a level playing field in the social area within and between the different modes of transport include the following:

- in road transport, which has a large turnover of firms due to low entry barriers, the EU has raised the requirements for the access to the profession. It has also harmonised training requirements, working times, rest periods and driving hours. Market opening towards the new Member States has been gradual and the freedom to provide cabotage services has been subject to some restrictions;
- for rail transport, there is also legislation on driving and rest periods for engine drivers;
- in maritime transport, the 2006 ILO Maritime Labour Convention laying down rules on recruitment and the working conditions of seafarers has been transposed into EU legislation following an EU social partners' agreement;<sup>197</sup> and
- in aviation, safety rules define working and rest periods as well as the health and professional conditions of pilots and crew members.

EU social policy measures are generally introduced gradually with phasing-in periods and derogations for special cases. Moreover, studies and reports are requested after the introduction of the measures, to ensure that they are functioning in a socially acceptable way. Ex-post evaluation of past measures is now being added to existing ex-ante impact assessments, which in their turn will pay much more attention to the social dimension.

The need of restructuring a firm or of closing it is not always derived from the effects of competition in the market and is not always unexpected. In the context of public procurement of services, or similarly regulated situations between private firms, the restructuring or even the closure of contractor firms takes place on a regular basis when the contract expires and a new service supplier is sought through competition 'for the market'. The situation for the workers involved does not differ much from that of workers subject to other kinds of restructuring. In some cases EU legislation opens clearly the way for a transfer of staff between the old and the new supplier, this is the case of Regulation 1370/07 on public passenger transport services. In other cases this may remain subject to the more general provisions of Directive 2001/23/EC on the transfer of undertakings to the extent that they apply. Public authorities – often at local and regional level – are directly or indirectly responsible through public enterprises or the granting of concessions for a sizeable share of employment in the service sectors. Further to their general responsibility for the economy, they should ensure the conditions for the smooth transmission of knowledge and the best use of the existing workforce of the sectors of which they are in charge. This is particularly important at the moment of the renewal of concessions or when any divestment is foreseen.

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<sup>197</sup> Council Directive 2009/13/EC as shown in:  
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32009L0013:EN:NOT>  
following the agreement between ETF and ECSA.

#### 4.9: OBJECTIVES FOR THE FUTURE

The objective for restructuring within the transport sector could be to develop a large and competitive and socially inclusive European market, in which a substantial number of firms are robust enough to finance the IT, energy and logistic improvements needed to become competitive low-carbon firms and in which a significant number are large enough to invest in research.

From a social point of view, transport employees should enjoy the degree of job stability needed to achieve an acceptable reconciliation of work and private life and to ensure their commitment to the job, which is crucial, to increase their productivity and innovative capacities. Their skills and competences will need to be regularly upgraded to keep up with innovation and facilitate their mobility. Given the intensive competition expected between firms in the years to come, job stability in the transport sector should include a 'flexicurity' approach, where changes in job content could be introduced, including in conjunction with other firms, preferably within the same profession and within the wider transport, logistics and travel sector.

If the completion of the internal market in transport is to be achieved, further cases of restructuring look likely in the future. As announced in the White Paper 'Transport 2050' these include restructurings resulting from the expected opening of domestic passenger railways and road cabotage, the current gradual obligation to tender out public service contracts for rail, and the possible development of improved access to port services. In all of these cases, the essential element is to deliver good-quality services, in particular for those measures that improve the commercial attractiveness of rail and navigation as low-carbon transport modes. The right consideration of the human dimension (e.g. quality of jobs and work) will be crucial to deliver those high quality services, even more so in a context of increasing skill shortages.

From a horizontal point of view, the issue of training should be a priority in terms of meeting the challenges of climate change, ageing and globalisation. Frequent restructurings and high labour mobility makes on-the-job training both more necessary and less likely. It makes it more necessary because adaptability of workers has to be enhanced to cope with new technologies and organisational changes. However, it makes it less likely because firms have little incentive to finance the training of workers who may soon leave them. Therefore, significant efforts have to be made in the field of training, in collaboration with the social partners and the Member States, with the objectives of increasing the supply of skilled labour (by means of lifelong learning and gender balance-oriented training) and by adapting skills to emerging needs, such as green energies, IT, logistics, ability to deal with elderly or reduced mobility passengers, and languages.

With a view to the decarbonisation of transport while enhancing the competitiveness of the sector, the transport sector seems to have significant opportunities to increase its productivity, not least to make up for a shrinking labour force. These will stem from an

accelerated dissemination of information and communication technologies and from a combination of policies allowing better access to markets, better provision of infrastructure and a more efficient use of it. A sector that is able to generate healthy growth will also be able to finance the technological improvement needed for a change towards a low-carbon economy. For these developments to take place smoothly and effectively, the cooperation of the social partners is essential, notably in respect of the provision of human capital and its swift reallocation where it is most needed at the lowest social cost.

All sectors operate within the framework of European industrial policy and this is therefore an important area of consideration, and one that is inextricably linked to employment policy. The next section of this chapter therefore looks at the future of industrial policy and what this might mean for EU labour markets, based on a recent European Commission Communication.

## **5: THE FUTURE OF INDUSTRIAL POLICY**

### **5.1: AN INTEGRATED INDUSTRIAL POLICY FOR THE GLOBALISATION ERA**

Ensuring that the EU economy is capable of facing the challenges that the future is likely to bring is a key concern, particularly in the light of the economic crisis that is still ongoing in many EU countries. Strengthening the competitiveness of the EU economy and enabling it to provide growth and jobs therefore needs to be at the centre of EU industrial policy, along with the goal of enabling a transition to a low-carbon and resource-efficient economy.

To this end, the European Commission issued in October 2010 its Communication entitled *An integrated industrial policy for the globalisation era. Putting competitiveness and sustainability at centre stage*.<sup>198</sup>

In this document, the Commission outlines its approach to industrial policy, stating that it will put the competitiveness and sustainability of European industry at centre stage. The overall approach is characterised by the following strands:

- bringing together a horizontal basis and sectoral application. All sectors are important and it will continue to apply a tailor-made approach to all sectors. However, there will also be coordinated European policy responses;
- the whole value and supply chain will be considered, from access to energy and raw materials to after-sale services and the recycling of materials, some parts of which will be outside Europe; and

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<sup>198</sup> An integrated industrial policy for the globalisation era. Putting competitiveness and sustainability at centre stage. COM(2010) 614:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0614:FIN:EN:PDF>.

- regular reporting by the Commission on the EU's and Member States' competitiveness and industrial policies and performance.

## **5.2: IMPROVING THE FRAMEWORK CONDITIONS FOR INDUSTRY**

There is still significant scope for better regulation at the EU and national level, despite the existence of a well-developed body of EU legislation and regulation. In particular, it is essential to move towards smart regulation, which comprises the following elements:

- competitiveness proofing of policy proposals as part of the Commission's integrated Impact Assessment process; and
- ex-post evaluation of the effects of legislation on competitiveness.

Further, Member States need to make increased and more systematic efforts to reduce the administrative burden, pursue better regulation and e-government policies and to simplify support schemes in order to help smaller businesses. Although much progress towards creating a better business environment for SMEs has been made through initiatives such as the Small Business Act and certain components of the EU's Lisbon Strategy, it is necessary to continue to improve the business environment for SMEs.

Access to finance has been identified by the majority of EU Member States as a significant barrier to growth, particularly in the case of SMEs. Credit availability is still not back to normal following the crisis, and financial markets remain risk averse. The Commission has established an SME Finance Forum in order to try to find new solutions to ensure access to finance for businesses, and in particular SMEs.

## **5.3: INDUSTRIAL INNOVATION**

Innovation is a key driver for productivity, increased energy and material efficiency, the improved performance of goods and services and the generation of new markets. However, Europe needs to be better at turning its excellence in ideas into marketable goods and services and therefore industrial innovation policy should encourage faster development and commercialisation of goods and services and ensure that EU firms are first into the market. In particular, there is an urgent need for better coordination of education, research and development and innovation efforts, more coherence in science, technology and innovation cooperation with the rest of the world, a global approach to societal challenges, the establishment of a level playing field for research and development and innovation, an enhanced access to finance and risk capital, and an appropriate focus on both competitiveness and societal challenges.

There is also a need to improve skills and strengthen the share of technology and skill-intensive activities. Further, an improved use of ICT will be essential for future competitiveness.

In order to encourage industrial innovation, the Commission intends to put into place a range of activities to promote the use of technology, to encourage industrial research, development and innovation, to bring together higher education and businesses in order

to improve the skills of Europe's workforce, to promote new business concepts, and to develop greater cross-fertilisation between sectors.

#### **5.4: IMPROVING THE EU'S SKILLS BASE**

Modernising the skills base of Europe's workforce — including making sure that employees have the skills and knowledge to cope with technological and information technology change — is one of the Commission's key policy objectives. This can be achieved in a number of ways: upskilling of the workforce, improving the employment rates of certain groups such as young people, older workers, refugees, women and migrants already legally present in the Member State, increasing retirement age, as well as improving free movement of EU citizens.

Although there is high unemployment, European industry is still struggling to find employees who have the necessary skills to fill their vacancies, and the EU therefore needs to address this skills mismatch. This is even more urgent, given the fact that modernising industrial structures will mean that in the future, new skills will be needed and career shifts will be more frequent. Workers therefore need support in managing these processes successfully, and there needs to be closer coordination between national, regional and local governments, with a strong involvement of the social partners. There also needs to be close coordination between the public sector and industrial partners in the area of education and training policies, with a focus in particular on increasing the number and quality of science, technology, engineering and maths (STEM) graduates.

In order to promote the skills development of the EU workforce, the Commission intends to encourage the networking of Member States' industry, education and employment authorities, with a view to the sharing of information and best practice on labour markets and skills strategies. It will also propose guidance principles on framework conditions for job creation, looking in particular at the development of graduates in science, technology, engineering and maths.

For a comprehensive discussion of skills and competences, see chapter 2.

#### **5.5: TACKLING STRUCTURAL EXCESS CAPACITIES**

An important priority of the EU's new industrial policy must be to help EU industry to recover swiftly and to make the necessary adjustments after the economic crisis. In particular, the Commission believes that the emergence of what it terms structural excess capacities in some industries requires tailor-made responses at company level, ranging from engaging in new business models and products to definite market exit.

Companies and social partners have the primary responsibility for restructuring to ensure their future competitiveness and viability, since experience has shown that competitive-driven structural adaptation is quickest and most efficient. Member States also need to support reallocation of labour, within the framework of a flexicurity system. In particular, better anticipating and managing restructuring would help employees and companies to

adapt to transitions imposed by excess capacities as well as by modernisation and structural adjustment. Existing State aid rules offer Member States ample possibilities to use state aid to accompany change, eg through training. In addition to this, at the European level, the Regional and Cohesion Funds can stimulate investment and innovation to strengthen the resilience of local economies.

Further, an expanded European Globalisation Adjustment Fund will also help to improve the ability of Member States and regions to manage the consequences of the crisis and help to provide retraining and other active labour market measures aimed at helping redundant workers to find alternative employment. See also chapter 3.

### 5.6: THE ROLE OF MANAGEMENT AND WORKER REPRESENTATIVES

The role of management and worker representatives when anticipating and managing restructuring is particularly important, as is their interaction with each other. Most specifically, management and workers' representatives are the key players to agree on restructuring strategies at the company level. Policy interventions should accompany such restructuring to avoid social hardship and promote new skills and jobs, thus avoiding mass lay-offs and the decline of entire regions or the delocalisation of entire industries, and facilitating economic reconversion and professional transitions.

The ETUC, Business Europe, CEEP and UEAPME have worked on a draft joint text, entitled *Orientations for reference in managing change and its social consequences* in 2003 without having reached a formal agreement on it (see chapter 7 for more details). However, the Commission believes that these orientations need to be revisited to integrate knowledge subsequently accumulated on the best ways to anticipate and manage restructuring and to take into account the experience of the economic and financial crisis. Updated orientations on restructuring could be very useful in reinforcing the capacity of businesses and the workforce to adapt to a fast-changing economic environment.

#### **Box 6.5: Commission commitments on the anticipation and management of restructuring**

The Commission makes a number of commitments in the framework of a strategy to develop the anticipation and management of restructuring. These are to:

- review Community support for re-integrating redundant workers into new jobs including through the review of the European Globalisation Adjustment Fund (EGAF) regulation (2011);
- launch a consultation on restructuring;
- review the Rescue and Restructuring Guidelines for State Aid (2012);



- support Member States and regions through Cohesion Policy in the diversification of existing industries, upgrading industrial capacity, stimulating investment and innovation to re-develop and strengthen the resilience of local economies;
- present proposals to accelerate the implementation and improve the focus of European Structural Funds through the Fifth Cohesion Report (2010) and in the new Cohesion policy regulatory framework (2011).

### 5.7: TOWARDS A NEW EU GOVERNANCE FOR INDUSTRIAL POLICY

Although the crisis has shifted the focus of industrial competitiveness policies towards short-term rescue and recovery actions, it is clear that the future attention of policy makers must focus on long-term structural challenges, largely on maintaining global competitiveness, climate change, energy, the ageing of the population, skills and knowledge. Delivering this strategy calls for more effective European governance and in particular for coordinated European policy responses, focused in particular on:

- a holistic and better-coordinated vision of policy-making at EU level, including competitiveness proofing of new policy proposals; and
- closer cooperation with Member States and more monitoring of the success and competitiveness performance of policies at EU and Member State level.

The exchange of best practice will be an important part of this process. The types of areas that are particularly suitable for this are the reduction of the administrative burden and assessment of impacts of competitiveness, 'fitness checks' and 'think small first' in national legislation, policies to facilitate access to finance, key strategies in connection with industrial needs and in the design of national industrial policies, particularly in the case of individual sectors and the involvement of stakeholders.

It is hoped that this new approach to industrial policy will help businesses and investors to engage in profitable, sustainable and job-creating industrial production in the EU and improve international competitiveness. This would help Europe's industry to benefit from the fast-growing world market provided by globalisation. It is also important that industrial policy is sustainable and the next section of this chapter therefore examines the principle of a sustainable industrial policy.

### 5.8: SUSTAINABLE INDUSTRIAL POLICY

The Commission's Directorate General for Enterprise and Industry (DG ENTR) is actively engaged in helping to develop and deliver policies and instruments to facilitate economic and social adaptation, through its Sustainable Industrial Policy.<sup>199</sup> DG ENTR is concerned with restructuring and adaptation to change from two perspectives.

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<sup>199</sup> Commission Communication on Sustainable Consumption and Production and Sustainable Industrial Policy Action Plan, COM(2008) 397/3: [http://ec.europa.eu/environment/eussd/pdf/com\\_2008\\_397.pdf](http://ec.europa.eu/environment/eussd/pdf/com_2008_397.pdf).

First, DG ENTR is working to ensure fair treatment for Europe's energy-intensive industries in the context of the Emissions Trading system (ETS). One of the main priorities is to find an equitable solution that helps the EU meet both its climate and competitiveness imperatives. This is compatible with DG EMPL's ambition to secure smart restructuring for the future, within the framework of smart growth, which is one of the focuses of the EU's 2020 strategy. Second, DG ENTR is also charged with ensuring optimal framework conditions for Europe's environmental goods and services industries. These industries are expanding rapidly and will provide much of the future employment and economic growth that EU economies and citizens need. However, these industries face stiff competition from abroad.

The Commission and Member States therefore need to ensure that the right policies are developed and implemented to help them thrive. Europe needs to ensure that it responds positively to change in this context by ensuring that EU workers have new skills for new jobs and encouraging greater movement of more of the EU's economic resources (notably workers and capital) to these fast-growing sectors.

The Commission recognises that the two most pressing challenges facing industry and policy makers today are how to grow Europe's economies and create jobs while making the transition to a more resource-efficient economy, as noted in the Commission's October 2010 Communication on industrial policy (see above). European industry is already responding to this challenge and shifting to more sustainable ways of production in many sectors. The challenge for policy makers is to facilitate the necessary transition with consistent policies. These policies must not overburden industry while creating the legal certainty required to help companies deliver innovative products and technological solutions to environmental challenges.

### **Main principles guiding Commission policy in restructuring and industrial change**

The guiding principles of the Commission's work in relation to restructuring and industrial change should be: Confidence, Certainty and Coherence:

- first, in view of the fragility of the economic recovery, it is important that Europe develops and articulates a more 'can do' attitude. Businesses and consumers thrive on confidence and suffer from doubt and uncertainty. It is therefore imperative that the EU sets out a positive, proactive change agenda to secure the recovery, build on its strengths and successfully marry competitiveness and climate imperatives;
- second, industry needs to plan ahead and requires as much legal certainty and clarity as possible. It needs to have clear, consistent and well-signalled policies and is entitled to expect fair treatment from policy makers in this respect and to be given reasonable timeframes to adjust to new targets or objectives. This is particularly important in the context of the green economy, where much capital-intensive investment is required to seize emerging opportunities. In view of the difficulties companies currently face in accessing appropriate finance and the speed with which competitors in the US and Asia are moving in markets such as solar energy, it is crucial that the EU commits to

long-term visions (such as the 20% renewable energy target by 2020<sup>200</sup>) and delivers realistic roadmaps outlining the steps to be taken to achieve them. That is why a clear and reasoned restructuring agenda supported by realistic targets and accompanying actions is important; and

- third, the EU needs joined-up, holistic, coherent policies that facilitate the transition to a more sustainable economy and avoids setting contradictory objectives in different policy spheres. This is of course easier said than done, as has been seen with, for example, the phasing-out of environmentally harmful subsidies for the coal industry and the difficulty of explaining to fishermen why they have to sacrifice their livelihoods to protect a resource. But to be credible and successful, the EU does need to avoid silo/compartmentalised thinking in different policy spheres and ensure that its policies complement rather than contradict each other in the restructuring context as elsewhere.

In terms of specific policy domains that offer the greatest potential to improve competitiveness, facilitate a more sustainable economy and proactively anticipate change and restructuring, the EU needs to focus particularly on developing talent in order to foster innovation. For example, environmental skills need to be developed and promoted. Europe needs to equip its labour force with new skills for new green jobs and deliver structural reforms and a better-integrated internal labour market in the green economy. Initiatives also need to be taken at national level, particularly in the field of education. Further, as the adverse effects of restructuring and globalisation make some skills obsolete, workers must be retrained to exploit opportunities in the environmental sector. Specific actions aimed at promoting green jobs and providing society with the necessary green skills could be progressively integrated into EU employment policies. These could include mapping current training needs and identifying gaps and possible solutions for dealing with them. Eco-innovation is a process which encompasses change to business practices, technologies, products and processes<sup>201</sup> which move towards cleaner and more energy and resource-efficient products and processes. And it is a key instrument to improve competitiveness in a way that does not jeopardise living standards in a resource-constrained environment.

However, eco-innovation faces specific barriers, such as a constantly evolving regulatory framework, inconsistent incentives and subsidies and a lack of adequate structures, networks, and sources of funding. This calls for the development of an integrated and comprehensive EU eco-innovation strategy as an important complement to the

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<sup>200</sup> The EU climate and energy package: [http://ec.europa.eu/environment/climat/climate\\_action.htm](http://ec.europa.eu/environment/climat/climate_action.htm).

<sup>201</sup> One official definition is available in the Community Guidelines on State Aid for Environmental Protection, (2008/C 82/01).

Innovation Union flagship initiative.<sup>202</sup> Box 6.6 below gives an overview of the programmes available in the EU that aim to promote environmental skills.

### **Box 6.6: Programmes to promote environmental skills**

A study issued in 2010<sup>203</sup> looked at environmental skills programmes in six European countries: the UK, the Netherlands, Italy, Germany, Bulgaria and Poland. It found considerable variety among Member States in terms of the existence of environmental skills programmes. Usually, however, firms are at the frontline of developing green skills – often through in-house training to their staff in response to a business need.

There is an even mix of courses that cater for the high-, medium- or low-skilled. The most common method of financing environmental skills programmes is usually a mix of public and private finance as there is considerable public funding of skills programmes conducted in partnership with companies.

This report offered the following conclusions:

#### **There is a mix of skills being targeted by environmental skills programmes**

Environmental programmes target the full range from low-skilled through medium- to high-skilled audiences. These programmes tend to be driven by employment demand and by the implementation of environmental legislation that requires sectors to train staff to meet new or stricter regulation. The actual content of trainings and programmes varies across industries and is often tailored to specific companies. A common thread is the ‘soft’ skills programmes, aiming to raise environmental awareness, and provide training which improves environmental skills for every day use.

#### **Green skills provision is relatively less mature than other skills provision areas**

In countries across Europe, skills provisions programmes have been mainly targeted at traditional jobs and traditional skills over the past years. Indeed, even green skills programmes often target such traditional jobs, but placing an emphasis on the extra green elements of a job that must be learned to be able to contribute to a low-carbon economy. Given that the emphasis on green skills as a specialisation has been recently coming to the fore, and is especially focused on the ecological industries such as waste management, renewable energies etc., the maturity of the specialist

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<sup>202</sup> Part of the Europe 2020 strategy, the Innovation Union will attempt to improve framework conditions and access to finance for research and innovation so as to strengthen the innovation chain and boost levels of investment throughout the Union.

<sup>203</sup> Programmes to promote environmental skills. Final report. Ecorys Research and Consulting. For the European Commission, DG Environment. June 2010.

green skills programmes is increasing but remains behind those programmes targeting traditional skills.

### **Recognised need for green skills training across Member States**

Based on the case studies presented in this report, it is clear that the majority of people recognise the need for green skills training and its importance in facilitating green growth. The importance that stakeholders attach to green skills development differs between Member States; however the conclusion that can be drawn is that environmental skills programmes are found in every country studied in this research with both public and private sector involvement. Nevertheless, financing of environmental skills programmes varies between countries.

### **Firms are large investors in green skills, supported by national and European funding**

Firms are at the frontline of developing green skills – as they provide in-house training to staff throughout different sectors of the economy. Large companies in ecological industries in particular have ongoing learning opportunities for their staff that are linked to sustainability in a number of different formats.

### **Some countries are further advanced than others**

The UK is a country where the needs of a green economy have been analysed more than elsewhere: for example, there has been much research on what skills gaps exist and how they can be filled. In the short term it is recognised that some of the gaps will have to be filled in with migrant workers who have such skills and more investment is needed to develop technical and other green skills in the long term. Other countries have less well-established green politics, and therefore also lag in terms of the supply of environmental skills programmes.

### **Qualifications from programmes are usually not universally recognised**

Many environmental programmes do not have universal recognition for the qualifications participants receive. Accreditation and other similar initiatives may help increase the mobility of green-skilled workers. Especially at the sectoral level, accreditation is something that could be approached more consistently, which would take away a barrier to allowing the labour market to flow to where demand for certain skills exist.

## **5.9: ENERGY-INTENSIVE INDUSTRIES AND INTERNATIONAL ASPECTS**

The EU must also be ever mindful of the external competitiveness implications of its actions, as European industries have to thrive or strive in the global arena. That is why the EU needs an ambitious, fair and balanced international agreement on climate change and progress towards a truly global carbon market. Indeed, without global carbon pricing in some form there will be imbalances in cost-sharing that will distort competitiveness,

leading to political difficulties and a slowdown of progress towards an eco-efficient economy<sup>204</sup>.

The EU has to strike a fine balance between leading from the front in terms of its climate, energy and industrial policies and not putting its industries at a competitive disadvantage. There are benefits to be gained from continuing to move first and quickly, in order to grow EU environmental industries. Competitive advantage will belong to those economies that adapt earliest to the challenges of the changing fundamentals. And it is the relative pace of green growth that will determine competitiveness, not only the setting of green growth as an objective.

However, Europe also needs an industrial and climate policy that promotes environmentally friendly innovation without leading to industrial outsourcing and the loss of jobs and prosperity. And just as there is no place in the 21st century for an industrial policy which is pursued at the expense of the environment, there is also no place in the competitive global economy for an environmental policy that unnecessarily drives industry and jobs out of Europe to pollute the environment elsewhere. That does not make any sense from an economic or environmental perspective.

That is why the revised Emissions Trading System (ETS) Directive includes a number of implementing provisions that will reduce the risk of carbon leakage. The EU ETS Directive (2003/87/EC) was amended in 2009 by Directive 2009/29/EC. The design changes will apply as of the third trading period, which will begin in 2013 and run until 2020. The amended Directive contains a range of measures to be adopted by the Commission after agreement by the Member States. The EU ETS intends to drive investment into low-carbon technologies by putting a price on each tonne of greenhouse gases emitted and introducing the principle of auctioning of emission allowances.

In a broader context, European industry is a major user of energy and raw materials and thus an important part of their cost structure is related to these inputs. If industry is to be competitive, it should attain a sustainable use of these resources as they will remain part of their core business factors. Sustainable growth<sup>205</sup> is not the exclusive domain of certain sectors. It rather represents a re-orientation of the entire economic landscape. However, for some industries, sustainable growth will need to be focused on how the use of energy and raw materials is managed. Scarcity and climate-change objectives will increase the cost of these inputs for industry in the long run, thus an industrial policy that wants to address competitiveness cannot forget the efficient use of these resources. This will lead to a *'double dividend'* as other policy developments also require a more efficient industry with regards to input use. For example, minimising the risk of climate change requires that the European economy be fully decarbonised by 2050. However, sustainability requires considering the wider picture of efficiency in the use of all materials. European

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<sup>204</sup> COM(2011) 21 A resource-efficient Europe – Flagship initiative under the Europe 2020 Strategy

<sup>205</sup> See Europe 2020: A European strategy for smart, sustainable and inclusive growth, Communication for the Commission COM(2010) 2020.

industry is facing a dramatic challenge under which its current business model will be turned inside out in the coming decades, and this new environment calls for an industrial policy that promotes this change if European industry is to remain competitive. The greening of the economy should not mean that European industry disappears; rather, it should mean that European industry develops competitive products and processes for a sustainable future.

To that effect, EU policies should:

- **support industrial transition:** the EU should provide a regulatory framework that facilitates a sustainable future by exploiting the benefits of existing technologies and promoting the development of new technologies;
- **deepen product policy:** industrial policy must incorporate a life cycle analysis perspective of products. This is carried out in the Community context mainly via eco-design, energy efficiency labelling and eco-label Directives; and
- **develop market and financial incentives:** the EU should also play a leading role in providing incentives for sustainable industries. Appropriate pricing systems should be introduced and perverse incentives removed.

#### 5.10: DEVELOPING A SUSTAINABLE INDUSTRIAL POLICY

In line with the ever-changing industrial landscape, both in the European Union and further afield, and more specifically the growth of environmental concerns and a focus on the green economy, the EU is trying to develop an industrial policy that is sustainable. The objective of this sustainable industrial policy is to set the appropriate framework conditions for industry to achieve the 20-20-20 targets<sup>206</sup> while reinforcing its competitiveness and seizing the resulting opportunities.

Green growth is economic growth in the high-growth sectors<sup>207</sup> that meet increasing global demand for improved resource, energy and carbon efficiency and growth that improves the EU's production efficiency. It provides for new employment opportunities since it increases economic activity in sectors that are relatively job intensive within the EU (such as waste management). Green growth would reduce the EU's bill for imports of energy and other raw materials. The EU currently sends €350 billion (or €700 per person) a year out of the EU economy to pay for energy imports.<sup>208</sup> Europe already produces some

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<sup>206</sup> A reduction in EU greenhouse gas emissions of at least 20% below 1990 levels; 20% of EU energy consumption to come from renewable resources; and a 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency.

<sup>207</sup> Such as clean-tech, recycling, renewable energy, building energy systems, energy efficiency.

<sup>208</sup> Second strategic energy review. An EU energy security and solidarity action plan. COM(2008) 781 final:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF>.

world-leading green technologies and has world-leading environmental industries<sup>209</sup> with a combined turnover of more than €300 billion, providing nearly 3.5 million jobs. These eco-industries are growing fast and have large global market shares of more than 30-40% for recycling, waste management and renewable energy. Meanwhile, the global markets for eco-technologies and services are estimated to more than double to €3 trillion by 2020.<sup>210</sup> But this first-mover advantage is being challenged and the Commission is working to ensure optimal framework conditions for these industries in the context of its Sustainable Industrial Policy Action Plan.<sup>211</sup>

The core of this action is a new Sustainable Product Policy that aims to improve the environmental performance of products, reward eco-friendly behaviour, and foster the demand for better products, through energy labelling, green public procurement and incentives. The Eco-design framework Directive<sup>212</sup> is the cornerstone of this initiative. Implementing measures that have already been adopted are set to deliver total energy savings by 2020 equivalent to more than 12% of the EU's electricity consumption in 2007. And with many more implementing measures currently in the pipeline, this initiative is making a major contribution to helping Europe reduce its energy consumption.

### 5.11: THE FUTURE

To stimulate investments and prepare the ground for future economic success, the EU, and its national governments must set out a clear and reasoned roadmap for the future direction of their economies. This will allow business and entrepreneurs to better target their investments and ensure that they are made in Europe rather than elsewhere. This vision is set out in the Commission's Europe 2020 strategy (ADD and in follow-up roadmaps such as the Low-Carbon Economy Roadmap (COM(2011)112) and the Energy Roadmap 2050 (COM(2011)885)). Future Communications and actions from the Commission need to translate this vision into practical actions that free business to adapt to change and deliver our future prosperity.

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<sup>209</sup> DG ENTR study on eco-industries: [http://ec.europa.eu/enterprise/policies/sustainable-business/eco-industries/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sustainable-business/eco-industries/index_en.htm).

<sup>210</sup> Roland Berger Strategy Consultants, 2009; The same source states that more people could be employed in this sector in Germany by 2020 than in the automobile and mechanical engineering sectors. Global investment in renewable energies rose by 85% in 2007, year on year (IEA).

<sup>211</sup> Sustainable Industrial Policy Action Plan:  
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52008DC0397:EN:NOT>.

<sup>212</sup> Eco-design framework Directive 2005/32/EC:  
[http://www.energy.eu/directives/l\\_19120050722en00290058.pdf](http://www.energy.eu/directives/l_19120050722en00290058.pdf).



### Box 6.7: Towards sustainable industrial competitiveness policy

Ideas setting out a general framework for a sustainable industrial competitiveness policy are contained in a paper to EU industry ministers in 2010.<sup>213</sup> This paper concludes that, until recently, by implementing extensive restructuring, the EU's resource-intensive industries have been largely able to respond to the various pressures they faced. They have implemented extensive restructuring measures and positioned themselves as reliable suppliers of high-quality and specialised products to the most demanding client sectors. However, the crisis has resulted in a fall in demand and industry faces increased competition from non-EU countries, higher energy costs and challenges relating to access to energy and resources. It sets out three possible transformation strategies:

- *transformation strategy 1: Process innovation and reducing resource-intensity.* Investing in technologies and production methods that reduce resources and energy-intensity are a key transformation strategy. In the energy-intensive basic material industries such as chemicals and steel, the potential for increasing energy productivity typically relates closely to core process technologies;
- *transformation strategy 2: Moving to 'up-market' segments.* EU industries have responded to globalisation pressures by specialising and differentiating their products, by moving into niche markets and by moving to 'up-market' segments. Increased differentiation and moving to higher value-added segments can however be difficult for parts of the resource-intensive industries, if they are unable to differentiate their products or compete on technological intensity. However, investment and development in 'up-market' segments will reduce the industry's exposure to consequences of supply-side sensitivity; and
- *transformation strategy 3: Increase presence in growth markets and relocate to low-cost countries.* This strategy presumes both the capacity of EU firms to undertake such investments and the absence of foreign investments restrictions. It would also allow these EU companies to take advantage of the lower cost base in these markets. Despite clear advantages for industry, this strategy can hardly be called favourable from a European or global perspective.

Trying to ensure that the EU labour markets are fully equipped to face up to the challenges outlined in this chapter has significant implications for skills and competence development. It is vital to ensure that the EU labour force has the right kinds of skills and competences that will enable it to work in the types of jobs that will be available in the future. Chapter 2 looks in detail at the main issues related to skills and competence development.

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<sup>213</sup> *Towards Sustainable Industrial Competitiveness Policy.* Issues paper to EU Ministers of Industry. Part II B. Transformation and Resource-intensive Industries. ECORYS Brussels NV in partnership with IDEA Consult NV. June 2010.

## CHAPTER 7: MAIN ECONOMIC AND SOCIAL CHALLENGES: THE RESPONSE OF THE EU

The past two years have seen the most severe economic and financial downturn probably in living memory. This has had a substantial effect on the economy of the European Union and has been the cause of a high level of restructuring activity, as organisations attempt to adapt to the new climate and keep pace with change in a globalised economy.

Within this context, the EU is facing a wide range of challenges, both in economic and social terms. The successful management of transition will therefore be key to ensuring the social and economic future of the EU. The European Commission has set out its broad vision for the next 10 years in its 2020 Strategy, which follows on from the Lisbon Strategy that ran from 2000 to 2010. Alongside this, the Commission has also been focusing, over the past few decades, on how to manage change within the context of enterprise restructuring. The involvement of the social partners in this process is key, and in accordance with this, the Commission issued a first consultation to the EU-level cross-sector social partners in 2002, asking for views on the establishment of principles at Community level that aim to help support businesses undergoing restructuring. This consultation triggered joint work from the social partners in 2003 on a draft text entitled *Orientations for reference in managing change and its social consequences*, which addresses the anticipation and management of restructuring and the roles of the main stakeholders. However, the text has never been formally agreed by the social partners. This first consultation was followed, in 2005, by a second consultation that focused on mitigating the negative consequences of restructuring. Although the social partners responded by organising a series of seminars to debate the issues surrounding restructuring, the 2003 text remains the main EU-level social partner text dedicated to the anticipation and management of change.

Over the past two years, due to the economic crisis, the issue of how to anticipate and manage restructuring has gained centre stage in EU social policy. The EU has funded a wide range of projects aimed at finding, highlighting and disseminating good practice in this field, and stimulating debate on the issues to be taken into account when anticipating and managing restructuring. In its most recent Communication on industrial policy and globalisation, the Commission states that 'updated orientations on restructuring can be very useful in reinforcing the capacity of businesses and workforce to adapt to a fast-changing economic environment'.<sup>214</sup> Drawing on the wide range of experience gained from initiatives already undertaken, the Commission will issue in 2011 a Green Paper on '**Restructuring and anticipation of change: what lessons from the economic crisis?**'.

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<sup>214</sup> The same view is expressed by the Commission in the Single Market Act of November 2010 — see Proposal No 32 under point 2.2 ([http://ec.europa.eu/internal\\_market/smact/index\\_en.htm](http://ec.europa.eu/internal_market/smact/index_en.htm)) and the Commission Communication on An Agenda for New Skills and Jobs — see point 1.2. (<http://ec.europa.eu/social/main.jsp?langId=en&catId=958>).

The Commission's main objective with this planned Green Paper is to help reinforce and disseminate a practical culture of anticipation in the implementation of restructuring programmes, with the emphasis on moving from a purely corrective strategy, based on passive anticipation, towards preventive action that will stave off conflict and in some cases prevent the emergence of a crisis situation through the proactive and negotiated management of restructuring.

## **1: PRINCIPLES EXPRESSED IN AND RESULTING FROM THE COMMISSION'S CONSULTATIONS OF EUROPEAN SOCIAL PARTNERS**

### **1.1: THE 2002 CONSULTATION OF THE EUROPEAN SOCIAL PARTNERS ON ANTICIPATING AND MANAGING CHANGE**

The European Commission issued a first phase of consultation of the Community cross-industry and sectoral social partners on anticipating and managing change on 16 January 2002.<sup>215</sup> In the economic and social environment of that time, it was considered to be important to debate the need to develop throughout the EU good practices that should be followed by companies undergoing restructuring. The consultation paper suggested a number of areas relevant in this context and asked the views of the social partners on:

- the usefulness of establishing at Community level a number of principles for action which would support business good practice in restructuring situations;
- the method of drawing up and developing these main principles and, in this context, whether they consider that agreements between the social partners at cross-industry or sectoral level represent the appropriate way of proceeding; and
- any other appropriate initiative that should be further considered.

The European Commission's view when launching this consultation was that enterprise restructuring, which has a growing transnational dimension, was an important element of change and that the European Union should focus positively on this issue. This requires the right balance to be struck between flexibility for businesses — which is more important than ever in times of ongoing restructuring — and security for workers, which is necessary to maintain human capital and employability (for a exploration of flexicurity in the crisis, see chapter 5). Forward-planning of human resources and enhancement of skills were seen as core issues in this context and the development of mechanisms favouring them requires an active partnership between the social partners, including at EU level. The initiative aimed to stimulate dialogue between the social partners in order to identify and develop best practices on anticipating and managing restructuring.

The Commission stated at that time that one of the key factors for the success of restructuring, in terms of strengthening the competitiveness of business and from the

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<sup>215</sup> 'Anticipating and managing change: a dynamic approach to the social aspects of corporate restructuring': <http://ec.europa.eu/social/BlobServlet?docId=101&langId=en>.

workers' point of view, is good practice in terms of involving worker representatives. This entails involvement on an ongoing basis in the general running of the business, but also effective and therefore anticipatory involvement in relation to the possible emergence of changes likely to have an impact on employment.

In addition to this important worker involvement dimension, the Commission stressed the fact that most Member States have developed their own responses to the economic and social challenges associated with restructuring. This has been achieved through sets of rules, either statutory or agreement-based, with which businesses engaged in restructuring should comply, as well as good practices that they can follow. These rules and practices usually address, amongst others, the following issues:

- anticipating and assessing the social consequences of restructuring, including taking into consideration the fact that delaying limited restructuring may lead to more wide-ranging restructuring in the future;
- the principle whereby job losses and redundancies should be a last resort (*ultima ratio*), to be used in the absence of other, less drastic solutions;
- an effective search (by providing the necessary resources or by achieving certain set targets) for alternative solutions, such as redeployment, training or retraining of the workers concerned. Planned measures should be phased in over time, and efforts should be made to reorganise work, including working time, as a precondition for the use of more radical measures. Help should be provided in relation to jobseeking, occupational guidance, supporting the development of self-employment or the creation of SMEs by the workers affected, and support should be given to workers taking over certain activities of the business;
- examination of the feasibility of finding individuals to take over the business activities that have been affected by the restructuring; and
- the rehabilitation and reallocation of abandoned industrial sites, both as an environmental measure and the absorption of a proportion of the jobs lost as a result of restructuring.

Within this context, the Commission believed that a debate on the principles that can help to support business good practice in restructuring situations could relate, amongst others, to the following areas:

### **Employability and adaptability**

- Managing careers. Good management of human capital makes for a successful changeover to the knowledge-based economy and strengthens the competitiveness of businesses. For this reason, without prejudice to the powers of the public authorities in this field, companies have an interest in helping to maintain their workers' capacity to adapt to developments in the techniques and knowledge required for work. This could be achieved, for example, through ongoing training and regular and independent skills assessments or other such measures applied in certain countries. More generally,

it is important that businesses try to anticipate the competences and skills that will be needed, taking into account as far as possible the rapid obsolescence of knowledge and skills. This responsibility also concerns workers who must avail of the training opportunities offered to them and thus contribute actively to the ongoing adaptation of skills. In this context, the acquisition of entrepreneurial competences plays an important role in improving employability.

- Support for employability and adaptability. When designing and implementing restructuring, faced with the need for workforce adjustment, it is good practice to ensure that employees can continue to work in their chosen occupations. Achieving this involves an active partnership between companies, the public employment service, training bodies and other players concerned. Several types of measures applied in many Member States are relevant in this context: for example, redeployment, help in finding a new job, vocational guidance, support for the development of self-employment or the creation of SMEs by the workers affected by restructuring, and support for workers who take over some of the activities of the business.
- Considering all options. The fact that there must be immediate, real and serious economic grounds to justify job losses, which are only considered after other, less damaging, options have been examined, is widely acknowledged and observed in the EU Member States. This concern for the lowest social cost, which encompasses the idea that any decision leading to job losses should be proportionate to the objective of ensuring the survival or maintaining the competitiveness of the company, needs to guide the practical implementation of restructuring plans. This may result, for example, in the phasing of the planned measures over time or prior reorganisation of work, including working time, before any recourse to job cuts. A clear explanation of the serious nature of the economic grounds underlying the need for job losses is essential.

### **External responsibility**

- Territorial responsibility. Aspects to take into consideration at territorial level include measuring local effects, cooperation with local players, local training, and the rehabilitation of industrial sites.
- Downstream responsibility. Aspects to take into consideration here include the impact of the proposed restructuring on subcontractors by, for instance, concern for the security of orders, participation of the subcontractor's workforce in training and adopting a global perspective, including subcontractors, when agreeing, adopting and implementing measures relating to the points set out above.

### **Implementation of restructuring**

- Involvement of workers. Social dialogue is essential for the successful management and acceptance of change. It can reinforce the effectiveness of the process and minimise its cost. Therefore, all restructuring processes need to involve effective cooperation with workers' representatives in order to anticipate and successfully

manage its social and economic consequences. Both parties need to engage in dialogue on the basis of full and wide-ranging information, while ensuring compliance with the principle of confidentiality.

- Fair compensation. In accordance with well-established practice in all Member States, the provision of fair compensation in the form of, for example, payments or notice periods is an essential element that can smooth the adjustment process where job losses cannot be avoided.
- Prevention and resolution of disputes. There are no measures at Community level for preventing or for helping to resolve collective industrial disputes that have a transnational dimension. Such measures exist at national level only, for disputes restricted to a single country. However, given the usefulness of such national systems for preventing and resolving collective industrial disputes, their potential for application at Community level needs to be explored.
- SMEs. Particular attention should be paid to the way in which restructuring practices are developed by SMEs, taking into account their specific situation and needs and their more limited capacity to act, on one hand, and the need to preserve social cohesion and equity amongst the European workforce, on the other.

The result of this consultation was that the EU-level social partners held a series of meetings and seminars, which finally resulted in agreement on a joint text on the management of change, which is discussed below.

## **1.2: THE 2003 EUROPEAN SOCIAL PARTNERS' WORK ON MANAGING CHANGE**

In response to the above first consultation of the social partners, and following a series of seminars and case studies, European social partners' representatives worked on a joint text entitled *Orientations for reference in managing change and its social consequences*.<sup>216</sup> However, the text has never been formally agreed by the social partners.

This text comprises six sections which broadly follow the list of themes proposed by the Commission in its consultation. For a broad outline of the content of this text, see box 7.1 below.

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<sup>216</sup> *Orientations for reference in managing change and its social consequences*  
<http://ec.europa.eu/social/BlobServlet?docId=2750&langId=en>.

**Box 7.1: Overview of the main provisions of the (never formally agreed) draft EU-level cross-sector social partners' text, *Orientations for reference in managing change and its social consequences* of 16 October 2003**

- Introduction. The main challenges of the current economic and social situation are listed, among others, as globalisation, new technologies, competition, and modernisation of work organisation. The text stresses the importance of a positive attitude to change, and the existence of good-quality social dialogue, and explains the background to this joint text. It also mentions the European Monitoring Centre on Change (EMCC, based at the European Foundation for the Improvement of Living and Working Conditions, Dublin) as an important instrument of support.
- Explaining and justifying change. This section stresses the importance of explaining and justifying the need for changes to employees, their representatives and managers, in good time, and respecting the obligations of information and consultation throughout the change process, in order to create a climate of confidence and trust. In this regard, several possible instruments for ensuring that this is done effectively are suggested, such as specific annual reports on developments, or documentation prepared for shareholders.
- Developing employability. This section makes an explicit link with the social partners' *Framework of actions for the lifelong development of competencies and qualifications* of March 2002,<sup>217</sup> which emphasises the importance of the ongoing competence development of employees.
- Territorial dimension. This section emphasises the need for partnership at local and regional level between employers, trade unions and public authorities in order to promote the development of new employment-generating activities. It stresses the important role of the European Structural Funds in this regard (for more information on European financial support for restructuring, see chapter 3).
- The specific situation of SMEs. In this section, the important role of SMEs in the local economic and social fabric and their vulnerability in the face of restructuring in regions dominated by one activity are brought to the fore, highlighting the need for a supportive business environment for SMEs, and the importance of involving their employees and/or their representatives in the management of change.
- Managing restructuring. This is the most sensitive section of the text, in which the social partners agree that the management of restructuring must take account both of the needs of enterprises, and of the needs and choices of employees. The

<sup>217</sup> [http://ec.europa.eu/employment\\_social/dsw/public/actRetrieveText.do?id=10421](http://ec.europa.eu/employment_social/dsw/public/actRetrieveText.do?id=10421).

text stresses the need to explore all possible alternatives to dismissals (the 'ultima ratio' principle, ie that dismissals should be a last resort), including a list of possible options which could be considered as an alternative to redundancy in the case of restructuring. Emphasis is placed on the importance of the time factor in the good management of restructuring.

The main shortcoming of the text, however, lies in the lack of any appropriate dissemination and of any mechanism for its concrete application. The Commission therefore felt that it wanted to revisit this issue and subsequently issued a second consultation of the EU-level social partners, set out below.

### **1.3: THE 2005 CONSULTATION OF THE EUROPEAN SOCIAL PARTNERS ON RESTRUCTURING AND EMPLOYMENT**

Following this first stage of consultation and the conclusion of the social partners' joint text as set out above, a second phase of consultation of the European social partners was launched on 31 March 2005 as part of the Commission's Communication on Restructuring and Employment.<sup>218</sup> In addition to the issue of restructuring, this Communication also focused on European Works Councils (EWCs), following a first consultation of the social partners on revising the EWCs Directive in April 2004. This consultation process ultimately led to a Commission proposal for a revised EWCs Directive in July 2008 and the adoption of the revised EWCs Directive in 2009 (Directive 2009/38/EC).

In setting the scene for this second consultation, the Commission stated, in the consultation document, that, in the context of anticipating and managing restructuring, 'the preservation of social cohesion, which is a distinctive characteristic of the European social model, requires the introduction of accompanying policies designed to reduce the social costs to a minimum and to promote the search for alternative sources of jobs and income.' It noted further that although restructuring is generally seen as a negative phenomenon, it is essential to the survival and development of enterprises. The negative impact of restructuring should therefore be managed as carefully as possible.

The Commission stated further that a range of factors contribute to restructuring, as follows:

- the development of the European single market and the opening-up of economies to international competition;
- technological innovation;
- the development of the regulatory framework (the introduction of new regulations or deregulation); and

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<sup>218</sup> Commission Communication on Restructuring and Employment (COM(2005) 120): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0120:FIN:EN:PDF>.



- major changes in consumer demand, which are taking place as a result of, among other things, the new needs of an ageing population, greater sensitivity to environmental issues or changes in the geography of world demand.

The Commission noted that the EU social partners have a 'decisive' role to play in helping to mitigate the negative effects of restructuring, in two key areas:

- within the European sectoral social dialogue committees, it is up to the social partners to develop ways of anticipating structural change, having regard particularly to negotiations at cross-sector level, and to their sectoral and regional monitoring initiatives; and
- given their special knowledge of the sectors, they have a role to play in informing and alerting the authorities at all levels. If the social partners then decide to alert the Commission to a particularly worrying development, the Commission can decide to set in motion an enhanced process of sectoral monitoring.

The Commission then called on the social partners to become more involved in anticipating and managing change, noting in the consultation document that they are 'key players in terms of effective action on the restructuring front'. It noted that this second-stage consultation should primarily consist of inviting the social partners to continue their ongoing work by encouraging the adoption of their best-practice guidelines on restructuring and European Works Councils. Acknowledging the work that the social partners have already undertaken in this area, notably the 2003 draft text, *Orientations for Reference in Managing Change and its Social Consequences*, the Commission felt, however, that there was a need for more European social dialogue input, and therefore encouraged the European social partners to intensify ongoing work and to start negotiations with a view to reaching an agreement on the requisite ways and means for:

- implementing mechanisms for applying and monitoring existing guidelines on restructuring (agreed by the EU social partners in 2003), and a discussion on the way forward;
- encouraging adoption of the best practices set out in the existing guidelines on restructuring; and
- devising a common approach to the other points in the Communication which are of concern to them, more especially training, mobility, the sectoral dimension and the anticipatory aspect.

In the consultation document, the Commission stated its firm belief that 'restructuring must not be synonymous with social decline and a loss of economic substance. On the contrary, restructuring can underpin economic and social progress — but only if such measures are correctly anticipated, and provided firms can manage the necessary change quickly and effectively, and provided public action helps ensure that the change is carried out in sound conditions'. It highlighted the following four dimensions as a focus for the response at Community level:

- A need for consistency between the various policies, if growth and the ensuing restructuring are to avoid destroying human capital.
- A need for a long-term perspective encompassing the various Community policies. If the economic and social players are to act effectively, they need to be able to see the way ahead.
- A need for participation on the part of all the stakeholders, first and foremost the social partners.
- A need to pay heed to the local dimension — it is, after all, at local level that anticipating change is most effective. Looked at from this angle, the European Union's regional and cohesion policy must act as a catalyst.

The EU-level social partners have not concluded a second joint text as a result of this consultation exercise. They have, however, held a series of seminars throughout EU Member States, to discuss ways in which to anticipate and manage restructuring (for more details on this, see chapter 5).

## **2: PRINCIPLES RESULTING FROM ANALYTICAL WORK AND STAKEHOLDERS' VIEWS**

### **2.1: SOURCES: STUDIES, REPORTS, RESTRUCTURING FORA**

Aside from the above-mentioned consultations of the EU-level cross-sector social partners, in recent years, a range of organisations and groups have analysed in depth the issue of restructuring and the best way to deal with this phenomenon in an anticipatory and proactive manner, sometimes with Commission funding. These include:

- The Gyllenhammar Report.<sup>219</sup> In 1997, the European Council invited a high-level expert group to analyse the implications and economic and social effects of industrial change, and to consider ways of anticipating and managing them. The Group's report, *Managing change*, issued in 1998, presented a set of recommendations addressed to political decision-makers, company managers and social partners.
- A 2002 report entitled *Anticipating and Managing Change*. This suggests a dynamic approach to the social aspects of corporate restructuring.<sup>220</sup>
- The Final Report and other materials of the TRACE Project<sup>221</sup> in 2006, which examines industrial and economic restructuring and how trade unions can defend the interests of working men and women facing this challenge.

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<sup>219</sup> High-level group on economic and social implications of industrial change — Final Report: [http://ec.europa.eu/employment\\_social/soc-dial/csr/gyllen\\_en.pdf](http://ec.europa.eu/employment_social/soc-dial/csr/gyllen_en.pdf).

<sup>220</sup> Anticipating and Managing Change. A dynamic approach to the social aspects of corporate restructuring. Alpha Consulting: [http://www.social-law.net/article.php3?id\\_article=417](http://www.social-law.net/article.php3?id_article=417).

- The Final Report of the MIRE Project (2007).<sup>222</sup> This project aimed to examine innovative restructuring processes and looked at how they could be translated into other contexts. More specifically, the aim was to benefit from exchanges between five EU Member States: Belgium; France; Germany; Sweden; and the UK.
- The Final Report of the AgirE Project (2007),<sup>223</sup> entitled *Anticipation of restructuring in the European Union*. This project aimed to examine new approaches integrating the knowledge acquired over 10 years on restructuring. It involved practitioners and researchers, who brought their experience and cross-analyses together to help institutional and social players to deal with the challenges of restructuring.
- The 2008 Impact assessment preceding the launch of the revision of the European Works Councils Directive,<sup>224</sup> as well as its 2007 preparatory study,<sup>225</sup> both of which analysed the way in which EWCs intervened in restructuring processes and the impact of EU rules in this field.
- A number of Restructuring Forums<sup>226</sup> organised by the European Commission from 2005 to the present day, which have dealt with the issue of anticipation, preparation and good management of restructuring in a comprehensive way and covering different dimensions, such as sectoral issues, regional issues, SMEs, the automotive sector, and the defence sector). For details, see box 7.2.
- The 2009 Checklist on Restructuring Processes,<sup>227</sup> which is based on numerous practical examples of good practices in the context of anticipating and managing change and restructuring within different national frameworks, industrial relations systems and economic and social contexts. It is a synthesis of the main actions identified during a workshop organised by DG EMP in Brussels in February 2009 involving over 40 experts on restructuring from around Europe. More than 600 actions to anticipate and manage restructuring were identified at this workshop.

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<sup>221</sup> Project financed by the Commission under Article 6 of the FSE Regulation: <http://www.traceproject.org/>.

<sup>222</sup> Project financed by the Commission under Article 6 of the FSE Regulation: <http://www.mire-restructuration.eu/>.

<sup>223</sup> Project financed by the Commission under Article 6 of the ESF Regulation: <http://www.fse-agire.com/>.

<sup>224</sup> European Works Councils Directive (94/45/EC): <http://ec.europa.eu/social/main.jsp?catId=707&langId=en&intPageId=211>.

<sup>225</sup> For details, see: <http://ec.europa.eu/social/main.jsp?catId=707&langId=en&intPageId=211>.

<sup>226</sup> See background documents, minutes and Final reports on: <http://ec.europa.eu/social/main.jsp?catId=783&langId=en>.

<sup>227</sup> For details, see: <http://ec.europa.eu/social/BlobServlet?docId=28002741&langId=en>.

- The ARENAS project (Anticipating Restructuring in Enterprises: National Seminars),<sup>228</sup> a European Commission-funded project which organised seminars in all of the EU Member States, in order to debate issues relating to restructuring. More information on this project, which ran from 2009 to 2010, can be found in chapter 5.

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<sup>228</sup> The project website is at: <http://arenas.itcilo.org/>.

**Box 7.2: Restructuring Forums organised by the European Commission**

Date	Focus of the Forum	
June 2005	Inaugural Forum	The main conclusions of this Forum included recognition of the need to anticipate and accompany change, with a view to giving workers affected by restructuring the opportunity to swiftly find new jobs, and the importance of planning coherent policies in order to exploit all possible synergies between the actors.
July 2006	Sectoral actions in industry	This Forum had three main objectives: to showcase the experience and potential of sectoral social dialogue and of sectoral social partners' organisations in anticipating change and restructuring; to familiarise them and the other Forum participants with the Commission's Communication of 5 October 2005 on a new integrated industrial policy, which aims at developing tools to predict and anticipate change and at implementing coordinated actions to reinforce certain sectors; and to discuss the European Union's financial mechanisms which support anticipation and management of change and restructuring.
December 2006	How dynamic regions face restructuring, the role of the European Social Fund and the other Structural funds	This Forum was dedicated to the regional dimension of restructuring and the role of the ESF. Although much of the Forum's focus was on what has been done in the recent past, it was also strongly focused on the future, and in particular on the 2007-13 programming period of the Structural Funds.
June 2007	Anticipation of change	This Forum was devoted to anticipation of restructuring at various levels. It also served as an event at which the actors involved in the anticipation of restructuring could share experience and best practice and learn from each other.
October 2007	The challenges of the automotive industry. Towards a European partnership for the anticipation of change.	This Forum was dedicated to the restructuring challenges faced by the automotive industry, in a year when change in the automotive industry was at the top of the industry agenda, following a number of high-profile restructuring cases. One of the main objectives of the event, which was entirely fulfilled, was to promote a 'European Partnership for the anticipation of change in the automotive industry' describing the roles and responsibilities of each actor (European Union, governments, companies, trade unions and regions).

November 2007	Adaptation of SMEs to change	This Forum highlighted the specific challenges that restructuring can pose for SMEs and created a platform for the exchange and discussion of best practices on how to adapt to change. The Forum also addressed questions that are rarely raised from the point of view of entrepreneurs as well as that of the employees.
November 2008	Anticipating change and restructuring in transnational agreements	The aim of this Forum was to analyse the emerging mechanisms for partnership and anticipation of change that are contained in transnational agreements, the approaches adopted by the groups using these instruments, the views of the actors on the added value and the results achieved, the difficulties encountered in the implementation process, and the role that these mechanisms have among all the measures taken at different levels when restructuring processes are planned and assistance is provided to employees.
November 2008	Innovative actions of Article 6 of the European Social Fund	The objectives of this Forum were to show the innovative dimension of a range of ESF-funded projects and their transferability potential, but also of diffusing the experiences of successes of these projects and of helping the actors involved in the management of the restructuring within the framework of the new programming of the ESF 2007-2013.
December 2008	Anticipating change in the defence industry	This Forum brought together the European institutions, governments, social partners, academic experts, regional and local authorities, as well as market development experts, in order to discuss the anticipation of change in the defence industry. The Forum was also an opportunity for the launch of a 'European Partnership for the Anticipation of Change in the Defence Industry' aimed at maintaining and strengthening the competitive position of EU defence industries, creating high levels of high-quality jobs and reinforcing the employability of the workers of the sector, a pre-condition for sustainable growth and social cohesion.
June 2009	The impact of climate change on employment	The purpose of this Forum was to spread awareness of the changes that can be expected as a result of climate change, and the new skills that will be required in the medium term to meet the needs of adjusting to a low-carbon economy. It also provided a platform for employers and trade unions to learn from other organisations that have internalised this challenge and taken positive measures to anticipate change, in addition to disseminating information on practices that have been used to embrace change and come up with innovative solutions, notably using new technology.

November 2009	Restructuring and the crisis – Building Partnerships for anticipating and managing restructuring in a socially responsible way	The main objectives of this Forum were to promote mutual learning on how to manage restructuring in the context of the crisis, on the basis of the experiences developed so far, and to debate what the EU can further do in order to help the actors to cope with the effects of restructuring in a socially responsible way.
December 2009	Sectors' New Skills for New Jobs	The objective of this Forum was to present, promote and discuss the 18 sector-based studies published by the European Commission that look at emerging and future skill needs up to 2020. The Forum also launched a discussion on how to reinforce and promote stronger collaboration at European level in the field of skills anticipation, focusing on the sectoral approach. The Forum served as a platform for the exchange and discussion of good practice and instruments for dealing with skills identification at sector level.
July 2010	The Impact of Financial Investors on Enterprises	The purpose of this Forum was to spread awareness of the challenges that the increasing importance of these unconventional financial actors poses, and to engage a wide audience throughout the European Union (social partners, representatives of public authorities at different levels and experts) to take stock of their prevalent expectations and concerns about unconventional financial actors.
October 2010	Anticipating and managing restructuring in a socially responsible way – New partnerships to preserve employment	The main objective of this Forum was to debate with the social partners, the Member States and the EU institutions the way in which the EU, Member States, social partners, companies and workers should face the challenge of corporate restructuring in the context of an economy in deep and quick transformation and with a view to ensure that restructuring takes place in a socially responsible way and benefits to employment. It also presented the main findings of each of the 27 national seminars organised by the Commission in 2009-2010, which analysed and debated the measures and instruments used for anticipating and managing restructuring in the 27 EU Member States (for further details, see chapter 5).
November 2010	Investing in well-being at work – Addressing psychosocial risks in times of change	The purpose of the Forum was to hear and discuss the latest research findings on the health impact of restructuring, on stress at work, and on the reality of risk assessments at Europe's workplaces. The Forum also presented new information on the implementation of the European social partners' framework agreement on work-related stress, and heard high-level presentations on the political framework in Member States.

Based on these studies and analyses, policy makers have a great deal of evidence on which to base any future actions in the area of anticipating and managing restructuring. The main issues to emerge from these studies are discussed below.

### **3: MAIN ISSUES RELATING TO THE ANTICIPATION AND MANAGEMENT OF CHANGE**

Since the late 1990s, in the context of the changing pace and forms of corporate restructuring, anticipation has become a crucial issue. New practices from different actors both inside and outside companies have emerged, showing that restructuring can be managed more easily and with more success when the social and regional actors are able to anticipate potential negative effects in the short term (operational anticipation) and, above all, when they manage to prepare change in the long term (strategic anticipation).

Operational and strategic anticipation of change and restructuring is not only a necessary requirement for managing those processes in a socially responsible way and for cushioning their social impact: it is also an indispensable pre-condition of economic success and company competitiveness. A focus on the strategic goals of the company and placing change within long-term management frameworks (as opposed to decision-making based on short-term profits) can usefully contribute to the sustainability and competitiveness of companies. This is also the case for economic sectors, regions and economies as a whole.

In recent years, and as has been seen above, the European Commission has launched several initiatives in the field of anticipating and managing change and restructuring. The European Commission has also financed numerous studies on this topic and supported the Joint European Social Partners' Work Programme which includes an integrated project on restructuring in the EU27 Member States.<sup>229</sup>

#### **3.1: THE IMPORTANCE OF TIMELY ACTION**

The more time the actors have to act before the announcement of a restructuring event (or after the announcement but before the implementation of the restructuring), the more space for discussion they will have to anticipate and manage the restructuring in a responsible way. They will also be more likely to have time to be able to find solutions to the resulting economic and occupational problems. The period of time given for restructuring (especially in a context of acceleration of change) has recently become a major factor conditioning the ability of the actors to monitor the situation, to identify particular risks (dependent, for example, on the particular level of qualifications, age, health, and gender of

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<sup>229</sup> Since 2004 the European Social Partners have been carrying out comprehensive national studies on restructuring in the EU Member States. In addition to a series of national dossiers and national seminars with social partners, two comparative reports on restructuring in the new Member States and ten 'old' Member States were carried out. A final evaluation report and a major conference completed the project in January 2010: *Improving the anticipation and management of restructuring ... adding value through social partner engagement*. Aritake-Wild. January 2010. [http://www.spcr.cz/files/cz/eu/esd/IP2\\_-\\_Joint\\_Study\\_on\\_Restructuring\\_in\\_the\\_EU\\_-\\_Final\\_EN.pdf](http://www.spcr.cz/files/cz/eu/esd/IP2_-_Joint_Study_on_Restructuring_in_the_EU_-_Final_EN.pdf).



the workers involved) and to act in a proactive way. This means that the type of anticipatory action of each actor strongly depends on the period of time they have at their disposal before, during or after the announcement.

There are degrees of predictability in the management of change: it depends where the time cursor is situated. A high degree of predictability is possible when anticipation is used as a permanent monitoring process for developing workers' employability and sustainable activities of the company. Such an *ex ante* approach aims at conceiving and implementing in advance strategies, practices and measures that contribute to enabling companies and workers to adapt to all internal and external shocks and transformations. National, regional and sectoral observatories dealing in a prospective way with the evolution of employment, skills and careers belong to this category. Early warning mechanisms, such as observatories that track economic and labour market developments in specific sectors or regions, and which are then able to highlight actual threats or dangers to employment in particular regions, sectors or companies, intervene generally a little later but are still within this early stage of anticipation that gives time to the actors to build a common representation of future economic and social developments. Finland has a relatively well-developed system of early warning mechanisms, including the Government Foresight Network, which is an inter-ministerial forum for cooperation and exchange of information in issues relating to the anticipation of future events. This comprises a systematic and inclusive process involving the collection, assessment and analysis of information. It also includes the drawing up of projections for the future in the medium and long term.

Anticipation can also be designed to manage a restructuring process in the best possible way, to find alternatives and to limit negative social impact, according to a 'curative' or an *ex post* approach. In this context, tools and procedures are conceived and used at an early stage to prepare workers, organisations, work processes and the local labour market for the consequences of a restructuring event that is already underway. The aim here is to mitigate the impact of restructuring on the employment paths of workers and on the economic situation of the region concerned.

In the final stage of restructuring, there are strategies aimed at managing a temporary crisis situation, by implementing a range of different tools (for example during the present crisis, short-time work or reinforcing temporary unemployment schemes or part-time work). The main idea behind this approach is to find ways to maintain the workforce during the crisis and then to be ready to restart pre-crisis activities. However, it is also important to take on board the fact that a crisis can stimulate the need to accelerate structural adaptations.

It is clear that the current economic crisis significantly reduces the time available for anticipatory intervention and the capacity of the social and regional actors to implement anticipatory solutions. However, even in this period of crisis, time remains an essential factor for overcoming a crisis situation.

### 3.2: A MULTI-LEVEL, MULTI-ACTOR ISSUE

Anticipation can be used by the actors concerned at different levels (European, national, regional sectoral and company). However, issues surround questions such as: in what way can the actors be involved in preparing for change in a permanent way (especially before the announcement of restructuring); the capacities of the actors to build a shared diagnosis of a restructuring situation and to manage the situation; and whether there are shared diagnoses and a common perception of the crisis and its causes.

All actors can play an active role in anticipating and managing change, as new and innovative practices show. In a context of multi-actor anticipation, the actors concerned are to be found both inside and outside the company. A multi-actor approach also requires strong interconnections between actions at different levels (such as mobilising corporate strategies, local management, trade unions, public authorities, regional bodies, observatories, universities, and the European level). The multiplicity of these interactions, which conditions the role of the different actors, is a factor of complexity. It also means that some actions and some policies are more difficult to apply to SMEs.

A key element of any successful strategy of anticipation and prevention of the negative social impact of restructuring consists of building a culture and practice of permanent adaptation to change. This can be achieved by creating and pursuing on a permanent basis the instruments that will facilitate smoother adaptation and will help organisations to cope better with crisis situations once they occur. This includes the development of specific knowledge and expertise on change management, the development of strategies of crisis management and the creation of early warning systems. This implies that the strategic dimension should be integrated into corporate management as opposed to short-term profit or asset value objectives. For this purpose, the creation within companies of change managers who could liaise with similar entities at other levels (notably at regional, national and sectoral level) may be particularly useful.

With regard to companies, social responsibility for anticipating and managing change concerns the internal as well as the external responsibility of the companies concerned (at local, national, or European/international level). For example, it concerns the involvement of the company in the economic revitalisation of the area hit by the restructuring, which in turn aims to secure the professional transition of those workers who have been made redundant.

Companies are at the centre of the restructuring process. Any efficient action of anticipation and socially responsible restructuring must start and be conducted mainly within individual companies. Internal action is, however, frequently insufficient, taken on its own, to prevent or alleviate the social impact of restructuring. It must therefore be combined with parallel measures and instruments deployed by other actors (such as social partner organisations, public authorities and individual employees) at other levels of governance (local, regional, national, sectoral and European).

It seems also important to stress the role that the companies can play concerning the employability, or capacity to adapt, of their workforce. The development of workers' competences is crucial for the success of the company and for the capacity of the workers to manage their working life.

SMEs are frequently excluded from most training and support provision and therefore experience particular difficulties in dealing with organisational, as well as wider economic, changes (see chapter 2 on training in SMEs). This is clearly an unfavourable scenario, given the importance of SMEs for jobs and growth in the EU. One way of addressing this problem would be for the sectoral organisations and the regional authorities to offer tools and methodologies (eg pooling resources) to take account of the time, cultural and financial specificities of SMEs (ie the fact that they do not have the resources, access to credit, formal internal systems or the staffing levels of larger firms). These interventions not only help to train and support SME employees, but also give strategic direction to the business, which is a critical step in the positive management of change.

From the employee representatives' perspective, anticipation is very much linked to their capacity to exercise in good time their social and economic prerogatives at different levels (such as the level of the site, company, group of companies, national and European level). This presupposes an effective and constructive mode of implementing information, consultation and negotiation practice at the enterprise and group levels.

Employee representatives at company and group levels are the main management counterparts during restructuring processes. They should therefore be involved and participate actively in all anticipatory measures and permanent mechanisms established by the company, internally and externally (ie those that are part of internal company processes and procedures, and those that have been developed by or with the help of external parties). Representing the entire workforce, they are in a unique position to work with the change manager, if one is present, promote smooth change and restructuring and ensure that employees' interests are safeguarded. If there is no change manager, the company needs to ensure that this role is covered by managers internally.

From the employers' and employer representatives' point of view, anticipation of restructuring can be part of good business planning and a need to anticipate demand for goods and services. Regular meetings with employee representatives can form part of this process, giving the parties an opportunity to discuss likely future trends.

Employers are the actors that usually initiate and consequently manage the process of restructuring. They are bound by national legislation concerning the process, particularly in the area of informing and consulting employee representatives. In particular, consultation should be carried out in good time to allow discussion of the options available to mitigate the impact of any planned redundancies. Where a relationship of trust has been built up with employee representatives, meaningful consultation will be able to take place.

From the individual worker's viewpoint, anticipation relies on their capacity as an individual to choose and to use a training programme in order to improve their employability and to facilitate a transition in their career and working life. The intensity of the difficulties met by workers who have been made redundant varies according to their level of qualification, with the risk being higher, the lower the level of qualification. With regard to employability, it is evident that the individual employee cannot be regarded as an isolated entity: other actors, such as the employer, employee representatives, the social partners and the public authorities have a crucial role to play in supporting, motivating and encouraging individual employees.

Employees are, together with companies, the main actor of the restructuring process — and at the same time, very often, the main victims of restructuring. Without prejudice to the specific responsibilities of the other actors in creating the whole set of conditions that will give employees a real opportunity to find their way through those processes, the success of any effort to minimise the social cost of restructuring depends, as far as employees are concerned, on:

- Their own initiative, dynamism and positive attitude at all times and not only when restructuring or the loss of the job is a concrete possibility.
- Their capacity to collect the information that will help them to understand the situation (if possible in advance of particular restructuring events) and to use adaptation tools such as reskilling and upskilling and redeployment where possible.
- Their proximity to their representatives at all levels.
- Their capacity to be employable and mobile and to make transitions to alternative employment, possibly in different sectors.
- The frameworks and actions that are in place in order to support employees in strengthening their employability, involving actions such as career advice, training, recognition of competences and acquisition of transferable skills.

The opportunities offered to employees in term of training and support may differ significantly according to how an employee is categorised — ie whether they are a temporary agency worker, or a temporary worker within the company — and also the size of the company.

For the social partners, collective bargaining and other forms of bi- and tripartite bargaining and dialogue are among the most important tools for anticipating and managing change at enterprise, sectoral, national and European/international levels. Social partners also play a crucial role with regard to the social perception of a given restructuring situation.

Social partners represent employers and workers at cross-sector and sector level. They play a key role in anticipating and managing change. Their capacity to intervene at all levels through social dialogue and collective bargaining mechanisms places them in a privileged position to coordinate actions aimed at stimulating and developing social tools for

anticipating and managing restructuring. They are important actors in the creation of social innovation, economic and social progress, solidarity, social inclusion and good-quality employment practices at all levels. The creation of guarantee, training and job security funds by collective agreement is a particularly innovative practice that has been developed in recent years.

National and regional authorities can also develop specific actions supporting employees and companies in the field of anticipation of change and restructuring. Regional authorities have a specific role in coordinating all actors and offering rapid solutions to the consequences of a restructuring event. For examples of regional anticipation and management of change, see box 7.3.

Although the main actors involved in restructuring processes are companies, their employees, and social partners; public authorities also have an important role to play. They shape the relevant legal framework, define and pursue employment policy goals, manage important forecasting tools, possess the institutional capacity to help employees (through means such as education and training institutions and job centres) and manage substantial financial resources that can be allocated to meeting the needs of restructuring companies and their employees.

Other government-led tools are mediation, forecasting tools and incentive schemes. A major contribution from governments consists in establishing or supporting the creation of risk mutualisation mechanisms (guarantee, training and job security funds). This should be seen in the context of flexicurity policies — for more information on flexicurity and restructuring, see chapter 5.

Alongside national governments, regional authorities have a major role to play in the coordination of the work of stakeholders who intervene in each region through restructuring operations or are engaged in the processes of anticipation.

Another task that falls under the responsibility of regional authorities relates to the promotion of regional development and economic and social reconversion of regions likely to be, or already affected by, severe restructuring. It seems important in that regard that regions create a regional task force (a body involving all stakeholders interested in employment in the region) and train change managers who will coordinate the economic, social and institutional actors around those two objectives.

The efficiency of anticipation processes developed by all of these actors differs according to the time they have for acting in a strategic and effective way. An early diagnosis contributes to effective anticipation, while a late (or mistaken) diagnosis hinders the possibilities of both strategic and operational anticipation. Time is indeed an essential factor.

**Box 7.3: The regional experience of anticipation and management of change**

At a preparatory workshop for the Restructuring Forum that was held on 23 September 2009, participants presented and discussed a range of experiences of both the anticipation and the management of restructuring and change at regional (or more properly territorial, as the geographical scope is not always that of an administrative region) level. The experiences were those of:

- **Finland's** public Regional Employment and Economic Development (TE) Centres and regional foresight services, which engage in ongoing action such as mapping and planning of employment and skills needs, and are involved in the 'Finnish action model' for responding to abrupt structural change. When a region is classified as undergoing such change, the appropriate ministries and TE Centres, in partnership with the regional council and local municipalities, draw up a plan to tackle the crisis.
- The **Asturias** region of northern Spain, an area traditionally dominated by heavy industry and mining, which has undergone a major process of industrial reconversion since the 1980s. Since 2000, this process of moving from industrial to services employment has increasingly been managed by regional authorities and other actors, with an important role for higher education institutions and public funding.
- The northern region of Portugal (**Norte**), where a multi-actor 'bottom-up' regional competitiveness pact was launched in 2007, covering areas such as innovation, internationalisation, employment, mobility, social inclusion and support for enterprises. The region is highly reliant on industry, especially textiles, and the pact focuses on innovating the industrial base and making it more hi-tech. This includes linking sectors through 'competitiveness poles', retraining and upskilling (eg in ICT skills), and attracting young people into industry.
- **Göteborg** in Sweden, where a public-private collaborative platform, Business Region Göteborg, has since 2000 sought to support growth in the region by providing a good investment climate and developing networks of growing companies. It has aimed to redirect the economy from traditional industries to hi-tech sectors, stimulate company networks and clusters, promote foreign investment and enhance collaboration between universities, business and local authorities. The region is now considered one of the most knowledge-intensive in Europe.
- **Genk** in Flanders, Belgium, which has faced successive waves of industrial change. In the 1980s and 1990s, innovative local development programmes tackled high youth unemployment, and then the closure of local coal mines was addressed, with EU support, through an integrated multi-actor programme of industrial renewal and training/retraining.
- The **Arve** valley, in the Haute-Savoie département of eastern France, where a 'competitiveness pole' has been established to promote excellence, competitiveness and innovation among the area's large number of small-scale

mechanical engineering companies, and anticipate future changes affecting them. The pole (unusually for such schemes in France) includes a human resources programme, aimed at promoting modern HR management, based on the forward-looking management of employment and skills, especially among SMEs.

- **Grenoble** in south-east France, where the MATRI project (funded by the EU) seeks to bring together stakeholders – including large companies, business groups, local authorities, universities and research bodies, and trade unions – to develop ways of anticipating future needs for individual and collective competences in order to strengthen local actors' ability to develop new products and services. This includes foresight studies, a job observatory, action plans overseen by standing groups, rapid design of tailored training/tutoring and 'job roadmaps', local mobility poles involving large and small companies, and local change/competence managers.
- **Veneto** in eastern Italy, where the regional authorities (as in the case across Italy) are responsible for employment and training. For example, they draw up annual regional employment plans, operate a regional labour market observatory and information system, and engage in tripartite dialogue with the social partners. Key themes for the region include demography and globalisation, and the authorities conduct projects in areas such as human capital development in SMEs, lifelong learning to anticipate change, the creation of cluster districts and the operation of a skills stock exchange. In the current crisis, the region has adapted these various instruments and reached a framework agreement with the social partners, involving increased resources and support for companies and workers. A regional taskforce has been established, along with a public-private technical assistance structure.

## CHAPTER 8: CONCLUSIONS

This report has examined a wide range of issues related to restructuring, the impact that it has on sectors, organisations and workers, and the likely impacts of continuing restructuring. Crucial factors include how to best anticipate restructuring, and the best way to manage restructuring once a restructuring course has been decided, including the use of EU funds.

One of the main points of focus of the report this year has, inevitably, been the restructuring that has taken place as a result of the economic crisis of the past two years. There is a significant amount of information concerning the impact that the crisis has had on the EU labour market and the extent to which it has contributed to higher levels of restructuring across the EU. The EU institutions have a range of measures and tools designed to help organisations undergoing restructuring, largely in the form of funds, and these funds have been made use of by organisations that have implemented restructuring programmes over the past two years in the context of the crisis.

Although the recent crisis has thrown the issue of how to manage restructuring into sharp relief, it should not be forgotten that restructuring is a part of everyday business life with which organisations need to engage if they are to remain competitive in an increasingly globalised market. Anticipating and managing restructuring will therefore continue to be issues that need to be addressed at EU level, at the level of EU Member States, at sub-national level and at the level of the individual organisations undergoing restructuring. Once the recession is over and the European economy begins to grow once more, however, the shape and focus of the economy is likely to continue to evolve, due to the future challenges facing the EU in areas such as continuing industrial restructuring and industry rebalancing, the emerging green economy and what this will mean for all sectors, but particularly transport and energy, and demographic challenges such as the ageing population.

More than ever, there is a need to ensure that skills and competences are kept up to date with all of these trends, not just in an environment of restructuring, but throughout the length of individuals' careers. There is therefore a significant focus on skills and competence development in this report, focusing on the issues of lifelong learning and the types of skills development that will be needed to meet the future challenges faced by the European economy. Going forward into the next decade, the European Commission has highlighted skills and competence development as a key feature for its Europe 2020 strategy.

The European Commission has initiated a range of actions over the past 15 years that have had the aim of trying to help organisations and stakeholders to manage restructuring in a way that has the least possible negative impact on workers, their families and the surrounding community. These include two consultations to the EU-level social partners on the issue of managing change. There is now a will at EU level to further and to try to devise some kind of over-arching framework for restructuring at EU level: in its Communication on industrial policy, issued in October 2010, the Commission stated that 'updated orientations



on restructuring can be very useful in reinforcing the capacity of businesses and workforce to adapt to a fast-changing economic environment'.<sup>230</sup>

The European Commission has also, over the past two decades, funded a wide range of research, in the form of studies or analyses concerning the identification of good practices, measures or actions to better anticipate the restructuring and manage it in a responsible way. There is a significant degree of convergence between the good practices and actions highlighted in these studies, enabling the following key messages to be identified, as set out below.

### **1: TEN TENTATIVE LESSONS ON THE ANTICIPATION AND MANAGEMENT OF RESTRUCTURING**

An analysis of the above reports and studies on the subject of restructuring and labour market transitions gives rise to a number of key messages relating to the anticipation and management of restructuring. These tentative conclusions are contained in the table 8.1 below, which shows each lesson learned and the documentary sources for this lesson, based on the numbers given to the studies set out below the table.

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**Table 8.1: Ten key tentative lessons on the anticipation and management of restructuring**

Lesson	Documentary sources
<p>Measures to anticipate and manage restructuring are influenced by factors such as national culture, national industrial relations and employment systems, national welfare and social security systems and national skills and training strategies. Nevertheless, there are distinct and clear possibilities for the translation of initiatives or elements of initiatives across borders, adapting them to different national contexts.</p>	<p>There is a significant variety of country-specific backgrounds and experiences, depending very much on the respective traditions and frameworks of welfare state rationales and industrial relations (1).</p> <p>Many tools and measures have been put into place by Member States in the context of the crisis (2).</p> <p>Career choice and career development are extremely diverse around the EU (4).</p> <p>There are persisting national differences that make translation of good practices from one country to another difficult. Although it is probably not possible to transfer whole tools, there is a case for looking at the functional equivalents of tools in different countries. For example, many mechanisms are composed of basic tools or measures which are often similar across Europe, such as individual profiling, skills assessment, personal action plans, job clubs, training for job search, individual or group coaching during the search process, support for business creation and training offers. It is important to focus on what is done instead of who is doing it and how (7).</p> <p>Member States differ greatly in terms of the types of measures that they adopt to anticipate and manage restructuring. However, there is the potential for the transfer of experiences from Member States with more developed toolboxes for restructuring (8).</p> <p>The exporting of entire systems of system-dependent processes should be discouraged. However, there are micro examples of practice that can be considered for adoption in the context of differing national environments and systems of employee relations (10).</p> <p>The quality and maturity of enterprises' arrangements to support workers are affected by the variable starting points for different countries (12).</p>

**Lesson****Documentary sources**

Active social partner involvement is crucial in many of the schemes available to anticipate and manage restructuring.

Many of the schemes in existence would not be able to function without the involvement of the social partners at all levels (1).

Collective bargaining and other forms of bi- and tripartite bargaining, negotiation and dialogue are one of the most important tools of anticipating and managing changes at all levels (6).

Social dialogue is a key tool in the anticipation and management of restructuring (8).

The active engagement of the social partners in the anticipation and management of change at all levels improved performance in the design of change management architecture and in restructuring practice (10).

The involvement of social partners in the design and implementation of flexicurity policies through social dialogue and collective bargaining is of crucial importance (12).

A wide range of actors participating in measures is a strengthening factor. Partnerships can provide a wide range of expertise and human resources to support organisations that are trying to manage restructuring. This can also limit the effects of restructuring on the wider region, community and employees' families.

A multi-actor approach is invaluable, in terms of career guidance and competence development support (4).

A range of knowledgeable partners are needed in order to promote healthier restructuring (5).

The multi-actor approach with strong interconnections between actions at different levels is extremely important (6).

Multi-actor collaboration is of importance through all the stages of restructuring, and partnerships at regional, national and sectoral level are essential ingredients for dealing with the issues and concerns that are related to restructuring (9).

SMEs have specific challenges when engaging with the anticipation and management of restructuring in a socially responsible way. They often lack the resources, both financial and in terms of personnel, to go much beyond statutory

Although SMEs cannot develop socially responsible practices on their own, they can be supported in this task by publicly funded strategic arrangements and regional partnerships. There may therefore be a case for targeted public support for SMEs in terms of career progression and skills development (4).

**Lesson****Documentary sources**

compliance.

SMEs do not have the same internal HR resources as larger companies and often lack the necessary knowledge about external support offers that might facilitate and ease the process of organisational restructuring. External collaborations are very useful for organisations, and particularly SMEs (5).

There are a range of tools that can be used by SMEs to help them to anticipate and manage restructuring. These include outplacement, a range of training offers, local and regional employment pacts that cover SMEs, and schemes that validate skills and competences (7).

There is a gap between large companies and SMEs regarding anticipation, social dialogue practices and the support given to workers when made redundant. Many restructuring models are not appropriate for smaller companies and there is therefore a lack of support for SMEs (8).

It is often said that small and micro enterprises are the engines of economic growth and act as shock absorbers at times of change, but it is clear that the role of small and micro enterprises in the economy and the issues they face in restructuring are more complex (10).

There should be fair allocation of resources regarding short-time and temporary lay-off schemes, with specific attention paid to the needs of SMEs (10).

Anticipation of restructuring is a powerful tool that can limit the negative effects of restructuring. However, there needs to be a greater emphasis on anticipation and preparation of restructuring.

Anticipation of likely future needs for career guidance is a key issue in supporting socially responsible practice (4).

There needs to be more health monitoring and prevention in a coordinated way (5).

True anticipation initiatives were only to be found in a limited number of EU Member States, and their effectiveness depends on timeliness and good-quality data (8).

Actions that focused on the 'before' stage of restructuring have entailed a more proactive approach and have been able to minimise the negative social impacts of restructuring (9).

**Lesson****Documentary sources**

	<p>Anticipation of change is crucial if sudden and unexpected workforce shocks are to be avoided and restructuring take place against timescales that facilitate both organisational change objectives and the delivery of acceptable solutions for affected workers (10).</p>
<p>European funds play an important role in some of the newer EU Member States and in southern Europe.</p>	<p>These funds play a vital role in funding transition schemes and are therefore of vital and continuing importance to these countries, some of which are still in the process of shifting the focus of their economies away from over-reliance on traditional heavy industry (1).</p> <p>EU funding is relied on by some of the newer EU Member States in the development of measures to anticipate and manage restructuring (8).</p>
<p>While redundancy should always be a last resort, active measures should take place over passive measures.</p>	<p>One of the key long-term strategies should be ensuring the sustainability of labour supply. This implies, for example, that early retirement not be readily facilitated (3).</p> <p>Severance payments, while attractive to individual workers, are not a long-term measure. When designing a severance package, elements such as retraining and competence development should be included. Similarly, there should not be any over-reliance on early retirement (8).</p>
<p>Training is a crucial and core issue when considering the anticipation and management of restructuring.</p>	<p>A more general access to support for training is desirable, with a focus on skills and competences that will be needed in the future. Such a future skills orientation might require occupational change and substantial retraining (3).</p> <p>Career guidance and continuing training are vital components of socially responsible restructuring (4).</p> <p>Training, skilling and reskilling are seen as key to anticipating or accompanying restructuring in order to avoid unemployment or to facilitate a rapid return to the labour market (8).</p>

**Lesson****Documentary sources**

The impact of restructuring on the health of the individuals concerned should be monitored closely, and negative effects, such as psychosocial impacts but also physical impacts, should be mitigated as much as possible. This concerns those who are made redundant, those overseeing the redundancies (line managers) and the 'survivors' of restructuring.

Although a range of innovative policies and practices have been highlighted by all these studies, at national, regional, sectoral and organisational level, there is a general lack of coordination and coherence in terms of the implementation of socially responsible restructuring. For example, in terms of anticipation, it is vital that the information collected by early warning or forecasting systems is passed on in a timely fashion to the relevant stakeholders in order to ensure that it is put to full use. In the management of restructuring, all stakeholders, such as employees, employers, employee representatives, local authorities and training providers need to work together to ensure that employees facing job loss are provided with career guidance, appropriate training and competence

Training and other human capital measures, such as mentoring, are key tools in the management of restructuring, allowing individuals to develop their skills, and deal with their own personal employment situation (9).

The social partners in every participating country highlighted current skills mismatches and/or the future skills needs to support the changing economy as key issues for the social partners and for government. In the longer term, these issues have to be addressed through more, and more effective, investment in education and training at all levels. In the shorter term the issues of lifelong learning and migrant workers need to be tackled (10).

Healthier restructuring needs conscious stakeholders and leaders and a proactive health policy, with collaboration from both within and outside the organisation. It is clear that organisational change is always a potential stress factor. If employee stress levels can be monitored, specific preventative health measures can be put into place to try to avoid or mitigate the negative impact of restructuring on employees' health (5).

Good coordination from all the actors is needed in implementing career guidance and skills development policies (4).

The availability of measures to support the transfer of redundant workers to new jobs is limited and uneven across Member States (8).

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**Lesson**

**Documentary sources**

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development and outplacement support. More emphasis therefore needs to be placed on coordination of measures.

## SOURCES AND FURTHER READING

- (1) *Organising transitions in response to restructuring. Study on instruments and schemes of job and professional transition and re-conversion at national, sectoral or regional level in the EU.* Eckhard Voss, Wilke, Maack and Partner. In collaboration with Alan Wild, Valeria Pulignano, Ann Kwiatkiewicz and Nicolas Farvaque.
  - This study is a review of mechanisms, programmes, schemes and funds of support for workers affected by restructuring, which have been set up in parallel or to complement mechanisms provided by public employment services. The focus of the study is on transitions and professional transfers from one job or profession to another, rather than on maintaining employment by means such as short-time working. This study found that there exists a wide range of mechanisms to support professional transition and that these systems are constantly changing — only a very few mechanisms remain constant over time.
- (2) *Recovering from the crisis. 27 ways of tackling the employment challenge.* European Commission. 2009.
  - This is a review of ways in which each of the 27 EU Member States have tried to increase or maintain employment levels, giving one example from each Member State.
- (3) *Restructuring in recession — ERM Report 2009.* European Foundation for the Improvement of Living and Working Conditions.
  - This report examines the ways in which companies around the EU have taken initiative to main employment, largely by means of reducing working hours but also by other means, including wage cuts.
- (4) *Socially responsible restructuring. Effective strategies for supporting redundant workers.* Cedefop working paper No 7. 2010.
  - This report provides evidence of the contribution of career guidance and continuing training in helping to support redundant workers.
- (5) *Health in Restructuring. Innovative Approaches and Policy Recommendations (HIRES).* European Expert Group on Health in Restructuring. Thomas Kieselbach. Rainer Hampp Verlag, 2009.
  - This report focuses on the health dimension of restructuring, examining the available data for monitoring the forms and effects of restructuring, looking at the effects of restructuring on individual health and organisational performance, examining which EU policies might best guide restructuring to reduce its negative health effects, and looking at how the different groups of actors can best cooperate to maintain organisational, employee and community well-being.
- (6) *Checklist on Restructuring Processes.* European Commission, February 2009.



- This checklist examines the issues that are relevant for each of the actors involved in restructuring: companies; employee representatives; individual workers; social partners, including sectoral organisations; national authorities; and regional authorities. It states that all actors can play an active role in anticipating and managing change and sets out the key areas of focus and the challenges for each of these actors.
- (7) *European Restructuring Toolbox*. European Commission. Progress project VS/2009/0319. January 2010.
  - This toolbox consists of a users' manual, which contains a methods of how to learn from each other in terms of anticipating and managing restructuring. It also contains more than 60 tools that have already been implemented in countries, regions, local labour markets and companies. The users' manual describes how to use these tools.
- (8) *27 national Seminars Anticipating and Managing Restructuring*. EU Synthesis Report. September 2010.
  - This is the final report of a large EU-wide project based on the organisation of national seminars in each of the 27 EU Member States, focusing on best practices in terms of anticipating and managing restructuring.
- (9) *Toolkits for restructuring based on the innovative actions of European Social Fund Article 6 projects*. DG Employment, Social Affairs and Inclusion. GHK. December 2009.
  - This is a practical toolkit intended to help actors to deal with restructuring. It presents a range of actions and success factors for six types of actor in the three main stages of restructuring.
- (10) *Improving the anticipation and management of restructuring ... adding value through social partner engagement*. Aritake-Wild. January 2010.
  - This report was commissioned by the European social partner organisations and looks specifically and exclusively at the role of the social partners at the national, sectoral, regional and enterprise levels in economic restructuring.
- (11) *Preparatory study for an impact assessment of a European Code of Conduct on Restructuring*. Interim report, GHK, September 2010.
  - The purpose of this report is to examine current company practices in restructuring situations, to ascertain the costs and benefits of introducing European level regulations in this area (either through a Directive or a Commission Recommendation addressed at Member States), and to establish the potential impact on non-binding policy options, ie would companies follow the principles if they are not obliged to do so?
- (12) *ERM report 2010. Short-time working and temporary lay-off as flexicurity instruments*. European Foundation for the Improvement of Living and Working Conditions.

- This study looks at the incidence of short-time working across the EU during the current crisis, in addition to temporary lay-offs, within the framework of flexicurity.
- (13) *Restructuring work and employment in Europe. Managing change in an era of globalisation*. Bernard Gazier and Frédéric Bruggeman (eds). Edward Elgar publishing, 2008.
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