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**REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE
EUROPEAN COURT OF AUDITORS**

**"HAS THE EUROPEAN GLOBALISATION ADJUSTMENT FUND DELIVERED EU
ADDED VALUE IN RE-INTEGRATING REDUNDANT WORKERS?"**

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EXECUTIVE SUMMARY

I. Since 2006, the EGF has delivered a significant European added value towards workers affected by mass redundancies due to major structural changes in world trade patterns resulting from globalisation. It does so by assisting workers, supporting their re-integration into employment, business start-ups or targeted training actions. Member States acted in accordance with Article 3 of Regulation n° 1927/2006 ("Eligible actions") laying down a variety of eligible measures to be co-financed with EGF assistance.

II. The EGF and the ESF are complementary policy measures. In line with the principle of subsidiarity, the mix of EGF measures designed at Member State level is largely complementary with mainstream ESF provisions to support transitions back to employment.

IV. The Commission notes that:

(a) The identification of all affected enterprises and workers takes considerable time and effort. As a result, and in order to speed up requests, some redundant workers who might have been eligible may not have been included in an EGF application. However, the Commission has not been informed that any affected workers were ever intentionally excluded.

(b) The decision whether to apply for ESF or EGF funding is made at Member State level, on the condition that the ESF operational programme agreed with the Commission is compatible with such contemplated ESF support. Indeed ESF Operational Programmes are different from one Member State / region to another.

(c) Whilst the collection of data can always be improved, the Commission considers that the EGF has struck a reasonable cost-benefit balance between the obligations placed on Member States vs. the quality and quantity of data provided. The Commission notes that the EGF Regulation does not require quantitative re-integration objectives. It is also important to note that the audited Member States respected their reporting obligations as laid down in Article 15 of the EGF Regulation.

Common reply to (d) and (e).

The Commission considers that very few results would have been achieved without EGF support. The mid-term evaluation report prepared by independent experts also confirmed this view.

The measures financed by the EGF should be considered as a "package" of interrelated measures, bringing together personalised targeted actions and the necessary income supports. All together they contribute to the success of the operations funded by the EGF.

Moreover, the EGF never provided stand-alone income support. From a legal perspective, it should be noted that Article 3 of the EGF Regulation N° 1927/2006 includes income support, if eligibility requirements are met. It does not impose or exclude any minimum or maximum proportions of allowances.

(f) The Commission agrees that the current approval process is long and therefore strives to minimise delays where possible whilst ensuring that due process takes place. The fact that EGF operates outside the Multi Annual Framework unavoidably influences the timeline of procedures.

At present the Commission is actively working to make progress in reducing the time necessary for approval procedures, for example through the development of e-applications or stricter deadlines for both Member States and the Commission in its proposal for the new regulation. However, it is

important to note that procedures do not determine the speed at which support for workers arrives, nor does it hamper solidarity.

In fact, the Commission stimulates Member States to take action at the earliest possible stage when mass redundancies arise.

V. Recommendations:

(a) The Commission accepts the recommendation to ensure the availability of up-to-date and reliable monitoring data. Necessary steps have been undertaken with the adoption of the Commission proposal for EGF 2014-2020. It includes the introduction of an interim report from the Member States in order to ensure that quicker, more up-to-date and reliable data is available. It should be noted however that this element of the Commission proposal was not positively received in Council. The Commission has made its proposal whilst aiming to ensure a reasonable cost-benefit balance between the obligations placed on Member States and the quality and quantity of data required.

The Commission furthermore observes that national data protection legislation risks hampering the complete implementation of the recommendation.

(b) The Commission partially accepts the Court recommendation and has proposed for 2014-2020 a ceiling on allowances (50%). This proposal should further improve the efficiency and European added value of EGF measures and ensure a level playing field between Member States.

Furthermore, over the past six years, the Commission (and subsequently the budgetary authority) has only approved EGF cases likely to provide added value.

The conclusions of the mid-term evaluation show that this objective was clearly reached.

(c) The Commission considers that this recommendation has already been implemented, as the option to include the EGF within the ESF for the period 2014-2020 was carefully assessed and analysed in the impact assessment and the ex ante evaluation for the Commission's proposal for the new EGF regulation. The European Council and the European Parliament have agreed in principle on the continuation of the Fund.

The Commission draws attention to the conclusions of the Mid-Term Evaluation report. This report concludes that the EGF has delivered "significant added value" and "independent experts concluded that hardly any results would have been achieved without EGF support".

It should be noted that expenditure under the EGF is by its nature unpredictable whilst ESF has been established to address medium to long-term structural problems, which require stable investment strategies. The Commission has therefore considered it better to keep EGF outside the ESF context, and outside the Multi annual Financial Framework, allowing in turn the financial flexibility EGF requires.

The decision whether to apply for ESF or EGF funding is made at Member State level (on the condition that the ESF operational programme agreed with the Commission is compatible with such contemplated ESF support).

OBSERVATIONS

16. The Commission acknowledges that some redundant workers who were eligible may not have been included in EGF applications. However, the Commission has not been informed that any affected workers were ever intentionally excluded. Secondly, identifying all enterprises and persons concerned takes time and effort. Hence, at some stage the Member State may have decided to move ahead with the file, considering the cost (in terms of both finance and time) associated with finding

any additional potentially eligible workers to be disproportionate to likely benefits. Furthermore, even when not included, affected workers might have received other forms of assistance.

18. Based on the submitted final reports of EGF cases in Ireland, the Commission considers that an effort has been made by the Member State to establish the link between personalised services and actual labour market needs.

23. (a) The observation of the Court only applies to those Member States with higher co-financing rates such as the ones listed by the Court and cannot be deduced as a general rule.

24. The Commission understands that the UK never applied for EGF funding because of political reasons rather than due to reasons connected with the EGF itself.

25. The Commission considers that the EU level is the most appropriate level for dealing with the impact of changes in world trade patterns. In the light of this political view, it follows that EU assistance should be provided to those suffering from the impact of globalisation. Such EGF support has a strong European added value. The question then becomes whether the clear value added is also expressed through effective action. In that respect the Commission underlines that the effectiveness of EGF can also be assessed by the number of beneficiaries who upgraded their competences and vocational skills, thus improving their employability in the labour market.

27. Comparisons with international data sources, and in particular with EUROSTAT data, suggests that integration rates are satisfactory despite the very difficult context. Table 2 shows that, on average, 34 % of all participants in the cases audited by the Court had already been re-integrated by the end of the EGF assistance, almost 46 % between 3 and 12 months after the end of the EGF assistance and over 51 % of persons re-integrated 12 months after the end of the EGF assistance.

The main conclusions of the Mid-term evaluation report on the EGF between 2007 and April 2009 indicated an average re-employment rate of 42%, among affected workers immediately after the end of the EGF implementation period across the 15 EGF cases evaluated. This can be considered as a very good result.

EUROSTAT data on labour transition from unemployment to employment in 2010 shows a rate of 28.7% for the EU. In that light a reintegration rate of 42% compares favourably.

The reporting requirements for the Member States are those in accordance with Article 15 of EGF Regulation and the relevant Financing Decisions. They have been complied with by the Member States when providing their final reports of the 8 cases audited. All additional data is therefore gathered on a voluntary basis by Member States.

29. The Commission notes that EGF Regulation N° 1927/2006 does not include quantitative re-integration objectives and recalls that the various EGF measures can also be assessed through other indicators and by other means (such as evaluations). For the period 2014-2020, the Commission has proposed a reintegration objective of 50% after 12 months of implementation.

31. The Commission underlines that EGF and ESF are funds supporting complementary policy measures dealing with the labour market consequences of globalisation. In line with the principle of subsidiarity, the mix of EGF measures is designed at Member State level and is often similar to mainstream ESF provisions to support transitions back into employment.

32. Income support was never provided as a stand-alone measure. In line with the EGF Regulation, it was always part of a package combined with active labour market policy measures which achieve the positive effects confirmed by the mid-term evaluation and many final reports of EGF cases.

Member States acted in accordance with Article 3 of Regulation n° 1927/2006 ("Eligible actions") when designing the relevant package of personalised EGF measures. During the implementation period, this package of measures is carried out with EGF assistance. These include: general job

search assistance, training, job search allowances, training allowances, support for entrepreneurship, geographical mobility and employment subsidies, etc.

34. The purpose of ESF monitoring data is not to identify tens of thousands of (potential) ESF projects supported through the current 117 ESF operational programmes (2007-2013). Instead, the remit of this monitoring is to collect statistics on the implementation of programmes through financial data (broken down by priorities as defined in the ESF Regulation) and data on the number of persons supported (including breakdowns by gender, educational attainment, etc).

As regards the quality of ESF monitoring data, the Commission notes:

- (a) The quality of indicators is constantly improving;
- (b) The Commission takes action in monitoring Committee meetings when it considers the result indicators are insufficient;
- (c) The Commission checks how actions meet their targets on the basis of all information received and through ex-post evaluation.

For the period 2014-2020, the Commission has proposed mandatory output and result indicators.

36. The EGF financing is to allow Member States to take actions on the ground after they have spent the amount set aside for co-financing; it does not determine their speed of implementation, nor should it influence the speed with which these actions are initiated.

It is the Member States' responsibility to ensure that the right assistance reaches their unemployed workers as soon as possible. Late adoption of financing decisions for actions that should be (pre-) financed nationally should not be seen as an obstacle to enhancing the speed of implementation.

38. EGF and ESF are complementary Funds which provide either long-term strategic help or act as a one-off time-limited and specific response to a single restructuring "emergency". If the EGF funds come in, for specific reasons valid in this case, later than other support funds, the EGF objective is nevertheless met.

It must be noted that it is up to each Member State to manage the complementarity between ESF and EGF in the best possible manner given the local conditions prevailing at the time.

43. In this global context, it should be noted that the Commission cannot be aware at this stage of the possible impact of differences in the overall affected population and their respective employability.

45. The Commission notes that in general the re-integration data provided in the final reports of Member States is consistent and reliable. When the analysis of the Commission shows discrepancies, immediate action is taken.

The final EGF reports have a pre-defined standard format, allowing an effective comparison of EGF supported cases. The (audited) Member States have respected their reporting obligations as laid down in Article 15 of the EGF Regulation N° 1927/2006.

At the same time, the Commission considers that within EGF, a reasonable cost-benefit balance has been struck when reviewing the obligations placed on Member States in terms of monitoring, reporting and evaluation and the quality and quantity of data provided.

46. The Commission has carefully examined all final reports and, when necessary, taken further action. All important data is being recorded in the EGF database, allowing the Commission to monitor and report.

Regarding the nature and the percentage of allowances paid or committed for EGF cases, the situation is as follows.

On the basis of applications, the Commission has an expectation as regards the share of allowances in the final total expenditure of a project. Then, upon reception of the final report, the Commission is informed of the actual expenditure.

Both sources are used for the database, allowing the extraction of in-depth information. It should be noted that final reports, by their very nature, become available six months after the end of the implementation period. Hence, final data is not yet available for all cases, since for many cases implementation is on-going.

The Commission is improving the monitoring of all support measures by further developing its database and providing for an interim report to be presented by Member States in its proposal for the EGF regulation for 2014-2020.

47. The Commission considers that the EU level is the most appropriate level for dealing with the impact of changes in world trade patterns. Based on that political view, it follows that EU assistance should be provided to those suffering from the impact of globalisation.

The conclusions of the Mid-term evaluation final report (GHK – 2011) indicate that the EGF has delivered "significant added value". Furthermore, it also notes that "independent experts concluded that hardly any results would have been achieved without EGF support".

48. EGF co-finances, on the basis of article 3, integrated support packages to workers, including allowances in relation to job search and mobility or allowances to individuals in life long learning and training activities.

Furthermore, the Eurostat Labour market policy database Methodology states (in line with the OECD definition), that the unemployment benefits received by participants in Labour Market Policy measures (instead of receiving training allowances, wages or similar) should be included as part of the expenditure for that measure and excluded from the amounts reported as unemployment benefits.

49. The Commission does not wish to place undue emphasis on training measures, which are only one part of the package of eligible measures put together by the Member States. In addition, there is education, enterprise creation, career advice and counselling, internships, mentoring in a new job, peer group interaction, and much more.

50. The legislator considered it important for the European Union to provide support to workers made redundant when trade shifts or - for a limited period - the global financial and economic crisis have adverse effects on employment. This EU solidarity with the affected workers and the Member States should be considered in a broader context in which there is a visible relation between the EU role in trade negotiations on a global scale or the effects of the global financial and economic crisis and the EU taking its (social) responsibility when this has locally or regionally important adverse effects.

In that context, the Commission considers it important to provide the option of taking on the full cost and to treat all Member States equally. In financing allowances which would otherwise have been paid by a Member State, that Member State can receive the same level of support as a Member State where such allowances do not exist. Not following such a line would have implied treating various Member States differently.

The support provided by the EGF should be considered as a "package", which is larger and more effective than the sum of its parts. All agreed allowances should be considered as part of this package, and can be judged on the basis of the overall success of each individual worker's package (decision for support) i.e. how many of the targeted workers find new employment.

52. Article 3 of the EGF Regulation N° 1927/2006 does not exclude income support provided that the support is an integral part of the package which includes for example training, mentoring,

support for micro-business start-up, etc. Moreover, Article 3 does not impose or exclude any minimum or maximum proportions of allowances.

53. The Commission does not share the Court's criticism as training and income support should be viewed as a package. The Commission recalls that the current EGF Regulation prohibits the co-funding of passive measures.

Common reply to paragraphs 54, 55 and 56. The Commission observes that the current EGF Regulation prohibits the co-funding of passive measures, but does not place a ceiling on allowances within a package of personalised measures. Such a ceiling has been proposed for the future EGF Regulation (2014-2020), where it is to be set at 50%. The reason for the proposed change is reinforce the efficiency of EGF measures and to level the playing field between Member States.

In addition, as noted for § 46, the Commission does have a database in which relevant data and statistics provided through the submission of cases as well as those provided through the EGF final reports are available.

Common reply to paragraphs 57-59. The Commission considers that both Member States were treated in a consistent and equal manner.

The EGF is administered in shared management. Therefore, the Commission needs to rely on the information made available by the Member States. It analyses this information and bases its actions on that assessment, and in addition, it audits the EGF cases according to its risk assessment criteria.

With regard to the two Member States cited by the Court, Germany provided detailed information about the system of allowances through a study, and as a result, self-imposed a limitation in the support for allowances. The Commission, based on its assessment, accepted the outcome of this study. Upon request by the Commission, Austria presented information on its system of allowances. The Commission made the same type of analysis of the information provided by Austria, and had no basis for rejecting it.

Common reply to paragraphs 60 to 62. Member States are entitled and encouraged to start implementing their planned measures as soon as they are ready and as early as possible, so that workers do not need to wait for the care to which they are entitled. They should clearly do so before the final approval by the budgetary authority of an application comes through. In other words, the fact that approval takes time should not impact a reasonably fast response "on the ground".

Depending on the type of EGF case (Article 2(a) or (b)), Member States have a 4-month or 9-month reference period, during which the redundancies occur. This is followed by a ten-week period (Article 5 of the EGF Regulation), during which Member States finalise their applications. Member States make contact with the Commission during both these periods, and often already before the reference period, in cases where a large undertaking has announced future redundancies that could potentially be eligible for EGF assistance.

All these contacts revolve around the application form and the necessary data to complete it. Each EGF case was treated on its own merits, and Member States were given the opportunity to provide further information after having submitted their applications, until the Commission had all the data at its disposal enabling it to argue the eligibility of the case in front of the Council and the European Parliament. The Commission has never yet rejected an EGF application on the grounds of insufficient information having been supplied by the applicant Member State.

65. The Commission strives to minimise delays where possible whilst ensuring due process takes place.

The time required to adopt an EGF financing decision does not block Member States from taking action.

When considering the length of the appraisal procedure, the Commission has proposed for 2014-2020 a deadline for Member States' additional information, and a condition that such additional information should be provided only in exceptional cases. Also learning curve effects have been visible for some time, allowing a somewhat faster process. All targetted changes together, including e-applications, should allow an important speeding up of the length of the assessment and subsequent adoption of financing decisions.

67. The major part of the preparation of the Financing Decision is concurrent with the budgetary procedure, so that only the adoption by empowerment takes place after the decision of the budgetary authority has been signed. The four weeks mentioned by the Court include both the adoption of the Financing Decision by empowerment, and the actual commitment and payment of the contribution.

68. The Commission refers to its reply under paragraphs 60 to 62.

69. EGF procedures, for the reasons referred to in paragraphs 65 and 67, exceed the level of complexity associated with ordinary financing decisions of the Commission. As the Court notes (§66), important parts of the procedure cannot be compressed. The Commission has been striving to speed up the entire approval process and is therefore actively working on further ways by which the overall timeline can be shortened, for example through the development of e-applications or stricter deadlines for both Member States and the Commission in its proposal for the new regulation.

CONCLUSIONS AND RECOMMENDATIONS

72. The Commission draws attention to the conclusions of the Mid-Term Evaluation report related to added value. This report concludes that the EGF has delivered "significant added value" and "independent experts concluded that hardly any results would have been achieved without EGF support".

73. The Commission strives, with Member States, to achieve a reasonable balance between a comprehensive coverage and the time necessary to prepare and submit an application. It underlines that the affected workers of the downstream suppliers have never been intentionally excluded. Also, even when not included, they might have received other forms of assistance.

75. The Commission agrees that EGF and ESF are mutually complementary policy measures in supporting the transition of redundant workers back into employment and notes that the Court lists 7 out of 27 Member States that preferred ESF over EGF (§23-24). The Commission also refers to its reply to Recommendation No 3 of the Court.

76. The Commission notes that, in general, it has accurate and detailed re-integration data at its disposal for all EGF cases. With regards to the level of detail of such data, in all of the EGF cases audited, the Member States complied with their reporting obligations in accordance with Article 15 of the EGF Regulation N° 1927/2006.

Moreover, the Commission underlines that re-integration objectives were not included in EGF Regulation N° 1927/2006.

In its proposal for the new EGF Regulation 2014-2020, the Commission proposed as objective to be obtained that 50% of workers are re-integrated into employment one year after the date of application.

Recommendation 1

The Commission accepts the recommendation to ensure the availability of up-to-date and reliable monitoring data. Necessary steps have been initiated with the Commission's proposal for EGF 2014-2020. It includes the introduction of an interim report from the Member States in order to ensure that quicker, more up-to-date and reliable data is available.

It should be noted however that this element of the Commission proposal was not positively received in Council. The Commission has made its proposal whilst aiming to ensure a reasonable cost-benefit balance between the obligations placed on MS and the quality and quantity of data required.

The Commission furthermore observes that national data protection legislation risks hampering the complete implementation of the recommendation.

77. The Commission treats all Member States equally in respect of their EGF cases. It does not provide more or less support to a Member State depending on how generous a social support system in place is. Treating all Member States equally was considered to be a fundamental aspect of the EGF by the legislator.

Furthermore, an important dimension of EGF is the link with the negative aspects globalisation may have in this context locally/regionally. The EU dimension provides in that context full support and represents a key added value.

78. The Commission refers to its replies to paragraphs 48-52. The Commission observes that support provided by the EGF should be considered as financing a "package" of interrelated measures, which as a whole contribute to the success of the funded operations.

Indeed EGF provides support to workers through various forms of assistance, including allowances to ensure that workers have sufficient income for the duration of the activation measures, and are hence in a position to benefit from the various supported actions such as training.

The EGF Regulation does not set conditions or specify a preference for the source of such allowances, nor do evaluations and assessments show any differentiation in terms of effectiveness or performance related to the source or type of allowances for workers while following training courses (or other actions) with a view to finding new employment.

79. The Commission is improving the monitoring of all support measures by further developing its database and providing for an interim report to be presented by Member States in its proposal for the EGF regulation for 2014-2020.

The Commission considers that all Member States are treated in a consistent and equal manner and refers to its reply in paragraphs 57-59.

Recommendation 2

The Commission partially accepts the Court recommendation and has proposed for 2014-2020 a ceiling on allowances (50%). This proposal should further improve the efficiency and European added value of EGF measures and ensure a level playing field between Member States.

Furthermore, over the past six years, the Commission (and subsequently the budgetary authority) has only approved EGF cases likely to provide added value.

The conclusions of the mid-term evaluation show that this objective was clearly reached.

80. The Commission agrees that the current approval process is long and therefore strives to minimise delays where possible whilst ensuring that due process takes place. At present the Commission is actively working to make progress in this respect. However, it is important to note that procedures do not determine the speed at which support for workers arrives, nor does it hamper solidarity.

In fact, the Commission stimulates Member States to take action at the earliest possible stage.

It is important to note that each EGF case was treated on its own merits, and Member States were given the opportunity to supplement their applications with further information, until the

Commission had all the data at its disposal that would enable it to argue the eligibility of the case in front of the Council and the European Parliament.

As a result of the full process a high success rate of EGF applications could be obtained.

81. EGF operates outside the Multi-Annual Financial Framework (MFF); which entails that each EGF case must be presented individually to the Council and the European Parliament.

Recommendation 3

The Commission considers that this recommendation has already been implemented, as the option to include the EGF within the ESF for the period 2014-2020 was carefully assessed and analysed in the impact assessment and the ex ante evaluation for the Commission's proposal for the new EGF regulation. The European Council and the European Parliament have agreed in principle on the continuation of the Fund.

The Commission draws attention to the conclusions of the Mid-Term Evaluation report. This report concludes that the EGF has delivered "significant added value" and "independent experts concluded that hardly any results would have been achieved without EGF support".

It should be noted that expenditure under the EGF is by its nature unpredictable whilst ESF has been established to address medium to long-term structural problems, which require stable investment strategies. The Commission has therefore considered it better to keep EGF outside the ESF context, and outside the Multi annual Financial Framework, allowing in turn the financial flexibility EGF requires.

The decision whether to apply for ESF or EGF funding is made at Member State level (on the condition that the ESF operational programme agreed with the Commission is compatible with such contemplated ESF support).