Mobilisation of the European Globalisation Adjustment Fund: redundancies in electronics manufacturing services in Denmark

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PURPOSE: to mobilise the European Globalisation Adjustment Fund (EGF) in respect of redundancies in electronics manufacturing services in Denmark.

PROPOSED ACT: Decision of the European Parliament and of the Council.

CONTENT: the European Globalisation Adjustment Fund (EGF) was established by Council Regulation No 1927/2006 to provide additional support to redundant workers who suffer from the consequences of major structural changes in world trade patterns and to assist them with their reintegration into the labour market.

The Interinstitutional Agreement of 17 May 2006 on budgetary discipline allows for the mobilisation of the European Globalisation Adjustment Fund (EGF) through a flexibility mechanism, within the annual ceiling of EUR 500 million over and above the relevant headings of the financial framework.

The Commission services have carried out a thorough examination of the application submitted by Denmark to mobilise the EGF. The main elements of the assessment are as follows:

Denmark: EGF/2011/013 DK/Flextronics: on 21 December 2011, Denmark submitted application EGF /2011/013 DK/Flextronics for a financial contribution from the EGF, following redundancies in *Flextronics International Denmark A/S* (hereinafter called '*Flextronics Denmark*') in Denmark. The application was supplemented by additional information up to 23 August 2012.

In order to establish the link between the redundancies and the global financial and economic crisis, Denmark submits that the redundancies at *Flextronics Denmark* are a direct consequence of the major structural changes in world trade patterns in the area of services provided by *Flextronics Denmark*, i.e. design and electronics manufacturing services to original electronic equipment manufacturers. *Flextronics* in 2011 was ranked as the second global Electronics Manufacturing Services (EMS) company by revenue. It was an important producer of printed circuit boards (PCBs) which are ubiquitous components of any electronic equipment such as smart cards, electronic gaming, digital cameras, mobile phones, personal computer electronics, etc.

The recent trend in electronic equipment production of moving facilities to Asia was also followed by *Flextronics*, as the Singapore headquarters decided to close the Danish enterprise while at the same time expanding outside Europe. With the company outsourcing its production to a daughter company *Multek*, one of the best-known PCB suppliers in the world, there was no further need for the production of *Flextronics Denmark* and relevant European PCBs market.

Japan and the Asia-Pacific region collectively account for a major share of the worldwide PCBs market as do India and China. A key reason for the growing significance of these countries is the rapid expansion of electronic manufacturing there, not least due to the cost of labour and manufacturing cost advantages.

Under these circumstances, and with shrinking markets in Europe for the production of electronics in general and PCBs in particular, the decision to close *Flextronics Denmark* was taken by the headquarters of the company in August 2011.

Denmark submitted this application under the intervention criteria of Article 2(c) of Regulation (EC) No 1927/2006, which permits Member States, in **exceptional circumstances**, duly substantiated by the Member State concerned, to submit an application for a contribution from the EGF even if the intervention criteria laid down by point (a) or (b) are not entirely met, when redundancies have a serious impact on employment and the local economy. The application cites 216 redundancies in *Flextronics Denmark* during the four-month reference period from 1 July 2011 to 31 October 2011 and a further 87 outside the reference period but related to the same collective redundancies procedure.

Exceptional circumstances: Denmark argues that the application is made in exceptional circumstances and justifies the request for EGF support by the importance of the employer in the local labour market, the overall labour market situation in the municipality of Skive. Skive is part of the region of Midtjylland which was affected negatively by globalisation in the last couple of years and for which EGF support was sought both in 2010 and 2012 (see EGF/2010/017 and EGF/2012/003) – further limiting the possibility of finding alternative employment for workers made redundant by *Flextronics.*

Apart from the limited labour market opportunities in the municipality of Skive, there has been a more clearly expressed negative trend on unemployment rates in comparison to the region of Midtjylland and the Vestjylland area as a whole. The Danish authorities also refer to the considerable deterioration in the demographic structure observed since 2006, when the decline in jobs in manufacturing started, as both younger and better educated workers were leaving the municipality, opting for new employment elsewhere.

Given the circumstances described, the Danish authorities assess the future development of the labour market as exceptionally threatened and therefore want to upskill the redundant workers from *Flextronics* to provide relevant job opportunities for them within the Skive municipality. In such circumstances the redundancies can be seen to have a serious negative effect on the regional and local economy described.

After a thorough examination of this application, the Commission has concluded in accordance with Article 10 of Regulation (EC) No 1927/2006 that the conditions for a financial contribution under this Regulation are met.

On the basis of the application from Denmark, the proposed contribution from the EGF is **EUR 1 370 910**, representing 65% of the total cost.

IMPACT ASSESSMENT: no impact assessment was carried out.

FINANCIAL IMPLICATIONS: considering the maximum possible amount of a financial contribution from the EGF under Article 10(1) of Regulation (EC) No 1927/2006, as well as the scope for reallocating appropriations, the Commission proposes to mobilise the EGF for the total amount of EUR 1 370 910, to be allocated under heading 1a of the financial framework.

The proposed amount of financial contribution will leave more than 25% of the maximum annual amount earmarked for the EGF available for allocations during the last four months of the year.

By presenting this proposal to mobilise the EGF, the Commission initiates the simplified trilogue procedure, as required by Point 28 of the Interinstitutional Agreement of 17 May 2006, with a view to securing the agreement of the two arms of the budgetary authority on the need to use the EGF and the amount required. The Commission invites the first of the two arms of the budgetary authority that reaches

agreement on the draft mobilisation proposal, at appropriate political level, to inform the other arm and the Commission of its intentions. In case of disagreement by either of the two arms of the budgetary authority, a formal trilogue meeting will be convened.

The Commission presents separately a transfer request in order to enter in the 2012 budget specific commitment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

Source of payment appropriations: the amount of payment appropriations initially entered on the budget line 04 05 01 in 2012 will be fully consumed after the adoption by the two arms of the budgetary authority of the proposals submitted to date for mobilising the EGF and therefore insufficient to cover the amount needed for Denmark's application. **An increase in the payment appropriations of the EGF budget line will be requested** either through a transfer, in case a source of available appropriations can be identified, or an Amending budget. Appropriations from this budget line will be used to cover the amount of EUR 1 370 910 needed for the present application.