Mobilisation of the European Globalisation Adjustment Fund: redundancies in the tobacco industry in Austria

2013/2048(BUD) - 07/03/2013 - Non-legislative basic document

PURPOSE: to mobilise the European Globalisation Adjustment Fund (EGF) in respect of redundancies in the tobacco industry in Austria.

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 Austria to mobilise the EGF. The main elements of the assessment are as follows:

Austria: application EGF/2011/010 AT/Austria Tabak: on 20 December 2011, Austria submitted application EGF/2011/010 AT/Austria Tabak for a financial contribution from the EGF, following redundancies in Austria Tabak GmbH and in 14 suppliers and downstream producers in Austria. The application was supplemented by additional information up to 9 October 2012.

In order to establish the link between the redundancies and major structural changes in world trade patterns due to globalisation, Austria argues that the cigarette and tobacco product manufacturing industry in the EU, has been seriously affected by changes in world trade patterns, in particular a significant reduction of the EU market share and delocalisation of production to third countries. These changes in trade patterns reflect the decline in cigarette consumption in the industrialised European countries as well as the USA and Japan over the past decade (mainly because of tobacco control measures and increasing taxation).

In response to these developments, **Japan Tobacco International** (JTI), owners of Austria Tabak and other major tobacco companies, has reduced its production sites and **shifted production to the emerging markets**. The firm has vigorously promoted the globalisation of its tobacco business and steadily broadened its business base, currently owning 28 production sites world-wide. JTI reduced the number of marketed cigarette brands to the most promising ones and adapted the production processes to the new global set-up allowing them to assign production volumes flexibly to the factories with free capacities.

Austria submitted the application under the intervention criterion of Article 2(c) of Regulation (EC) No 1927/2006. This provision allows applicants to derogate from the requirements of Articles 2(a) and 2(b) in small labour markets or in exceptional circumstances when redundancies have a serious impact on employment and the local economy. In this case the applicant must specify which of the main eligibility requirements its application fails to meet, and thus from which it is seeking a **derogation**. The Austrian authorities specified that the application seeks to derogate from Article 2(a), where the normal threshold is at least 500 redundancies over a four-month period.

The application cites a total of 320 redundancies in *Austria Tabak GmbH*, and 13 further suppliers and downstream producers during the period from 20 August 2011 to 19 December 2011.

Austria justifies the request for EGF support and the use of the exceptional circumstances criterion by the particular situation of the cross-border area where the redundancies occurred and the serious impact of the redundancies on the local and regional economies and labour markets (internal competition with Slovakian workers weakening even more the job market).

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 Austria, the proposed contribution from the EGF to the coordinated package of personalised services is **EUR 3 941 999**, representing 65% of the total cost.

IMPACT ASSESSMENT: not applicable.

FINANCIAL IMPLICATION: 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 3 941 999, 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 trialogue 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 trialogue meeting will be convened.

The Commission presents separately a transfer request in order to enter in the 2013 budget specific commitment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006. Appropriations from the EGF budget line will be used to cover the amount needed for the present application.