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Proposal for a

**DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**on the mobilisation of the European Globalisation Adjustment Fund in accordance with point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (application EGF/2011/013 DK/Flextronics from Denmark)**

## EXPLANATORY MEMORANDUM

Point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management<sup>1</sup> 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 rules applicable to the contributions from the EGF are laid down in Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund<sup>2</sup>.

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.

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.

### **SUMMARY OF THE APPLICATION AND ANALYSIS**

<b>Key data:</b>	
EGF Reference no.	EGF/2011/013
Member State	Denmark
Article 2	(c)
Primary enterprise	Flextronics International Denmark A/S
Suppliers and downstream producers	0
Reference period	1.7.2011 – 31.10.2011
Starting date for the personalised services	21.3.2012
Application date	21.12.2011
Redundancies during the reference period	216
Redundancies before and after the reference period	87
Total eligible redundancies	303
Redundant workers expected to participate in the measures	153
Expenditure for personalised services (EUR)	1 972 381
Expenditure for implementing EGF <sup>3</sup> (EUR)	136 712
Expenditure for implementing EGF (%)	6,48
Total budget (EUR)	2 109 093
EGF contribution (65 %) (EUR)	1 370 910

1. The application was presented to the Commission on 21 December 2011 and supplemented by additional information up to 23 August 2012.

<sup>1</sup> OJ C 139, 14.6.2006, p. 1.

<sup>2</sup> OJ L 406, 30.12.2006, p. 1.

<sup>3</sup> In accordance with the third paragraph of Article 3 of Regulation (EC) No 1927/2006.

2. The application meets the conditions for deploying the EGF as set out in Article 2(c) of Regulation (EC) No 1927/2006, and was submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.

**Link between the redundancies and major structural changes in world trade patterns due to globalisation or the global financial and economic crisis**

3. 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.
4. Flextronics International Denmark A/S (the full name of the company) was created in 2004 as part of Flextronics International Ltd., which itself was registered in 1990 in Singapore, having grown from an originally US American company founded in Silicon Valley in 1969. Flextronics in 2011 was ranked, according to CircuitsAssembly.com<sup>4</sup>, as the second global Electronics Manufacturing Services (EMS) company by revenue.
5. 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. On the development agenda of Flextronics International Ltd. there is a focus on the creation of huge production parks in South America and South East Asia<sup>5</sup>.
6. Flextronics Denmark 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. With the company outsourcing this production to a daughter company Multek, one of the best-known PCB suppliers in the world, providing one-stop interconnect solutions in the electronic industry, the output of Flextronics Denmark and the relevant European PCBs market was no longer of any interest to Flextronics International Ltd.
7. Founded in 1978, currently Multek has more than 12 000 workers across the globe working at ten facilities on four different continents. There are only 420 employees left in Europe (Rigid PCB Manufacturing-Germany) and 370 in the USA, while the venues in China are expanding rapidly (with 10 900 employees), supplying the booming electronic industry in South Asia.
8. 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 benefits<sup>6</sup>.
9. 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.

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<sup>4</sup> <http://www.circuitsassembly.com/cms/component/content/article/159/10901-ems-top-50>

<sup>5</sup> <http://investors.flextronics.com/phoenix.zhtml?c=98555&p=irol-irhome>

<sup>6</sup> <http://www.electronics.ca>

**Demonstration of the number of redundancies and compliance with the criteria of Article 2(c)**

10. 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.
11. The application cites 216 redundancies in Flextronics International Denmark A/S 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. All 303 redundancies were calculated in accordance with the first indent of the second paragraph of Article 2 of Regulation (EC) No 1927/2006.
12. 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 as well as demographic trends. The closure of Flextronics Denmark followed several other closures or delocalisations of important employers in the area such as Metallic, Nørhaven, Jamo, Royal Greenland, Bodisen and Danish Crown. Danish authorities confirm that at the time of its closure, Flextronics Denmark was the most important industrial employer in the municipality.
13. Danish authorities also argue the exceptional circumstances for this case in view of the fact that the municipality of 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 (EGF/2010/017 and EGF/2012/003). In both cases redundancies occurred at the Vestas group, i.e. 813 workers were dismissed between June 2009 and March 2010 and additional 569 in 2012. Apart from the workers from the municipality of Varde (region of South Denmark) all the rest of the dismissed workers were from the region of Midtjylland where the municipality of Skive is situated. This makes the labour market opportunities even more limited for the redundant workers from Flextronics.
14. 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. Full time unemployed comprised 5,6 % in Skive in November 2011 and grew to 7 % in March 2012, while respective figures for Midtjylland were 5,2 % in November 2011 and 6 % in March 2012 ( 5 % and 6 % for the area of Vestjylland for the same reference period).
15. Industrial jobs declined by 35 % in the municipality of Skive in the period 2006 – 2011. For the period 2008 – 2010, job losses there were considerably larger (7,5 %) than in the rest of Denmark in general (4 %) or the region of Midtjylland in particular (4,5 %).

16. The Skive municipality is characterised by a higher presence of unskilled workers (20,1 %) in comparison to the whole of Denmark (18,1 %). It is also characterised by a higher level (35,5 %) of workers who have achieved primary education only; the relevant value for Denmark as a whole is 29,3 %.
17. Labour market indicators for 2010 show that 2,2 % of the population of the municipality were unemployed, 3 % were temporarily out of the workforce while 20 % were employed as low-skilled and only 4,6 % as high-skilled workers. The lay-offs from Flextronics Denmark are considered as further deteriorating the labour market in Skive especially with regard to low-skilled workers.
18. 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.
19. In such circumstances the redundancies can be seen to have a serious negative effect on the regional and local economy described.

#### **Explanation of the unforeseen nature of those redundancies**

20. The Danish authorities argue that the redundancies were unforeseen as Flextronics Denmark A/S was developing extremely well between 2004 and 2011. In 2010, the company employed 420 workers and was the biggest industrial employer in the municipality of Skive. In its annual accounts for 2010, Flextronics Denmark reported a surplus of DKK 11,2 million DKK (approximately. EUR 1,5 million).
21. Given the excellent economic results, it was completely unforeseen when the headquarters started laying off workers in Skive at the beginning of 2011 when it lost interest in the Danish market. Even though the CEO tried to rescue the company with a new strategy and diversification of production, in August 2011, Flextronics Int. Ltd decided to close down the plant in Skive.

#### **Identification of the dismissing enterprises and workers targeted for assistance**

22. The application relates to 303 redundancies in the enterprise Flextronics Denmark, 153 of whom are expected to participate in the measures.
23. The break-down of the targeted workers is as follows:

<b>Category</b>	<b>Number</b>	<b>Percent</b>
Men	72	47,06
Women	81	52,94
EU citizens	150	98,04
Non EU citizens	3	1,96
15-24 years old	5	3,27
25-54 years old	118	77,12
55-64 years old	30	19,61
> 64 years old	0	0,00

24. Among the targeted workers, seven have a longstanding health problem or disability.
25. In terms of occupational categories, the break-down is as follows:

Category	Number	Percent
Managers	3	1,96
Professionals	3	1,96
Technicians and associate professionals	20	13,07
Clerks	6	3,92
Craft and related trade workers	10	6,54
Plant and machine operators	110	71,89
Elementary occupations	1	0,65

26. In accordance with Article 7 of Regulation (EC) No 1927/2006, Denmark has confirmed that a policy of equality between women and men as well as non-discrimination has been applied, and will continue to apply, during the various stages of the implementation of and, in particular, in access to the EGF.

### **Description of the territory concerned and its authorities and stakeholders**

27. The municipality of Skive is located in a rural area in the north-west of the region of Midtjylland. The population has been gradually declining in recent years and numbered 47 928 in 2011. The municipality covers an area of 690,7 km<sup>2</sup> with a population density of 69,5 inhabitants per km<sup>2</sup>. Although Skive is located in "outer" Denmark in a rural region, industry has played a major role, with three out of ten employees in the private sector working in industry. But since 2006, major industries have left the municipality and Skive has lost approximately 2 000 industrial jobs between 2008 and 2010, some of them due to globalisation. In June 2011, 12 % of the members of 3F (the trade union representing low-skilled workers) were unemployed. In an analysis of the future competence needs in the region of Midtjylland with a 2020 perspective, new growth areas have been identified: energy and environment, medical / health ICT, tourism, and food production<sup>7</sup>.
28. Denmark implemented a comprehensive local and regional government reform in 2007, leading to further empowerment of the municipal authorities. These have new specific responsibilities regarding employment. Job centres have been established at municipal level to ensure a common access point for citizens and business enterprises to the public employment effort. In addition, at local, regional and national levels Employment Councils have been established, representing the stakeholders in the labour market.
29. For the purposes of this application, the principal stakeholder is the municipality of Skive. Other stakeholders are mentioned in more detail in point 37 below.

### **Expected impact of the redundancies as regards local, regional or national employment**

30. Flextronics Denmark was the major provider of both high-skilled and low-skilled jobs in the municipality. The closure of Flextronics followed a number of other closures of manufacturing enterprises in recent years, i.e. Metallic, Nørhaven, Jamo,

<sup>7</sup> <http://www.newinsight.dk/en/projekter/vis/projectName/analyse-af-virksomhedernes-kompetencebehov-i-holstebro-skive-struer-og-lemvig>

Royal Greenland, Bodisen and Danish Crown which either closed or moved out of the region.

31. Following such closures, higher-educated workers moved to other industrial regions while the lower-educated and lower-skilled people tended to stay and remain jobless. As approximately 190 of the redundant workers from Flextronics Denmark are low-skilled, the percentage of the low-skilled unemployed in the municipality is likely to rise by about two percentage points.
32. Relevant authorities in the Employment Region Midjutland have published in May 2012 a survey of the labour market situation where they clearly identify that unskilled workers – both men and women – are at a higher risk of long-term unemployment as compared to other groups. Given the high percentage of low-skilled workers from Flextronics, there is a higher risk for these workers to remain unemployed for a longer period.
33. As local authorities have identified a direct link between the educational level of the redundant workers and the demographic situation in the municipality, they anticipated the creation of a vicious circle of low education level → unemployment → deteriorating demographic situation and are trying to avert it by mobilising resources from the EGF in addition to their own efforts.

**Co-ordinated package of personalised services to be funded and a breakdown of its estimated costs, including its complementarity with actions funded by the Structural Funds**

34. All the following measures proposed by the Danish authorities combine to form a co-ordinated package of personalised services which aims at re-integrating the redundant workers into employment:
  - Assessment of already acquired qualifications and competences as a means of shortening the pathway to obtaining a (new) formal qualification - individually or in groups. This assessment is expected to be especially relevant for the unskilled workers.
  - Training and education activities:
    - *For the unskilled workers* a combination of general education as a means of obtaining access to or the accomplishment of vocational education; training in reading/writing skills and arithmetics; vocational training within sectors with good job opportunities and further education / vocational training courses, i.e. obtaining basic qualifications within new sectors and relevant certificates.
    - *For the skilled workers* (including office personnel) various types of education / adult education to raise the workers' qualifications to a higher level within the same occupational field, e.g skilled craftsperson to become a technician; specialised courses to obtain supplementary skills or certificates and new general or vocational education with a view to changing occupation or sector.

- *For managers, engineers and technicians*, the personalised package envisages special courses to obtain supplementary or formal qualifications, for example certificates for project management and similar fields.

The long-term employment perspectives of the individual workers are taken into consideration, so that training and educational activities are designed to concentrate – but not be limited to – sectors with a development potential as identified by the latest analyses.

- Entrepreneurship is particularly supported by a two-step process to be implemented in cooperation with the local Business and Tourist Centre. The first step of this process is an initial course which will assess the potential of the future entrepreneur. Only after a positive outcome will the second step be implemented; this will comprise a process of development of a business plan in combination with individual counselling, information sessions, and meetings with relevant network groups.
- Individual outplacement: This will be targeted at workers with professional or managerial skills who have not succeeded in finding a new job within a reasonable time after leaving Flextronics. The basic idea is to help people who already have the necessary skills but who have not been successful in finding a new job. Each worker will be assisted by a professional outplacement consultant who will act as advisor and sparring partner for the worker in his or her job search efforts for a period of time. The purpose is to help these workers get maximum effect from their job search efforts as quickly as possible.
- Subsistence allowance: This will be paid daily to all targeted workers who actively participate in the EGF measures. The allowances will be granted for the duration of the specific activity and will be an integral part of the active labour market measures which target the employability of the redundant workers in a longer-term perspective and seek for increase of skills and competences.

35. The expenditure for implementing the EGF, which is included in the application in accordance with Article 3 of Regulation (EC) No 1927/2006, covers preparatory and administrative measures, management, information and publicity activities as well as evaluation and control activities. Apart from leaflets, a web site and general information activities, successful case stories will be collected and presented to the press and the public from time to time. A final seminar will be organised on the impact of the EGF support in this case. The proportion of implementing expenditure, at 6,48 % of total expenditure, is higher than usual since this is a relatively small case, yet some of the costs in absolute terms are close to those needed for the management of a larger one. The evaluation expenditure includes the services of an external consultant.

36. The personalised services presented by the Danish authorities are active labour market measures within the eligible actions defined by Article 3 of Regulation (EC) No 1927/2006. The Danish authorities estimate the total costs at EUR 2 109 093, of which the expenditure for personalised services at EUR 1 972 381 and the expenditure for implementing the EGF at EUR 136 712 (6,48 % of the total amount). The total contribution requested from the EGF is EUR 1 370 910 (65 % of the total costs).



Actions	Estimated number of workers targeted	Estimated cost per worker targeted (EUR)	Total costs (EGF and national cofinancing) (EUR)
<b>Personalised services</b> (first paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Assessment of qualifications and competences	110	537	59 070
General education for unskilled labour	50	6 040	302 000
Vocational training for unskilled labour	60	8 054	483 240
Vocational training for skilled labour	11	12 904	141 944
Technical courses for technicians	20	10 738	214 760
Specialised courses for managers and engineers	6	4 295	25 770
Preparation courses for future entrepreneurs	20	1 342	26 840
Business planning and counselling	10	1 275	12 750
Individual outplacement	20	1 342	26 840
Subsistence allowances	153	4 439	679 167
<b>Sub total personalised services</b>			<b>1 972 381</b>
<b>Expenditure for implementing EGF</b> (third paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Preparatory activities and administration			59 866
Management			32 886
Information and publicity			18 792
Evaluation			20 134
Control activities			5 034
<b>Sub total expenditure for implementing EGF</b>			<b>136 712</b>
<b>Total estimated costs</b>			<b>2 109 093</b>
<b>EGF contribution (65 % of total costs)</b>			<b>1 370 910</b>

37. Denmark confirms that the measures described above are complementary with actions funded by the Structural Funds and that the necessary mechanisms are in place to prevent double financing from EU funds.

**Date(s) on which the personalised services to the affected workers were started or are planned to start**

38. Denmark started the personalised services to the affected workers included in the co-ordinated package proposed for co-financing to the EGF on 21 March 2012. This date therefore represents the beginning of the period of eligibility for any assistance that might be awarded from the EGF.

**Procedures for consulting the social partners**

39. Following the announcement of the future closure of Flextronics Denmark, the Job Centre initiated the establishment of a task force. Representatives of the company, the employees, the Job Centre and the Trade Union F3 met regularly and coordinated the drafting of the application which was initiated by the task force and the Job Centre. The Job centre also had an ongoing dialogue with the social partners about the quality and relevance of the services offered.
40. The Danish authorities confirmed that the requirements laid down in national and EU legislation concerning collective redundancies have been complied with.

**Information on actions that are mandatory by virtue of national law or pursuant to collective agreements**

41. As regards the criteria contained in Article 6 of Regulation (EC) No 1927/2006, the Danish authorities in their application:
- confirmed that the financial contribution from the EGF does not replace measures which are the responsibility of companies by virtue of national law or collective agreements;
  - demonstrated that the actions provide support for individual workers and are not to be used for restructuring companies or sectors;
  - confirmed that the eligible actions referred to above do not receive assistance from other EU financial instruments.

**Management and control systems**

42. Denmark has notified the Commission that the financial contribution will be managed and controlled by the same bodies that manage and control the European Social Fund (ESF) in Denmark.

**Financing**

43. On the basis of the application from Denmark, the proposed contribution from the EGF to the coordinated package of personalised services (including expenditure to implement EGF) is EUR 1 370 910, representing 65 % of the total cost. The

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

44. 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 referred to above, to be allocated under heading 1a of the financial framework.
45. 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, as required by Article 12(6) of Regulation (EC) No 1927/2006.
46. By presenting this proposal to mobilise the EGF, the Commission initiates the simplified dialogue 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 dialogue meeting will be convened.
47. 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**

48. 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 the present application. A reinforcement of 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.

Proposal for a

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management<sup>8</sup>, and in particular point 28 thereof,

Having regard to Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 establishing the European Globalisation Adjustment Fund<sup>9</sup>, and in particular Article 12(3) thereof,

Having regard to the proposal from the European Commission<sup>10</sup>,

Whereas:

- (1) The European Globalisation Adjustment Fund (EGF) was established to provide additional support for workers made redundant as a result of major structural changes in world trade patterns due to globalisation and to assist them with their reintegration into the labour market.
- (2) The scope of the EGF was broadened for applications submitted from 1 May 2009 to 30 December 2011 to include support for workers made redundant as a direct result of the global financial and economic crisis.
- (3) The Interinstitutional Agreement of 17 May 2006 allows the mobilisation of the EGF within the annual ceiling of EUR 500 million.
- (4) Denmark submitted an application to mobilise the EGF, in respect of redundancies in the enterprise Flextronics International Denmark A/S, on 21 December 2011 and supplemented it by additional information up to 23 August 2012. This application complies with the requirements for determining the financial contributions as laid down in Article 10 of Regulation (EC) No 1927/2006. The Commission, therefore, proposes to mobilise an amount of EUR 1 370 910.

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<sup>8</sup> OJ C 139, 14.6.2006, p. 1.

<sup>9</sup> OJ L 406, 30.12.2006, p. 1.

<sup>10</sup> OJ C [...], [...], p. [...].

- (5) The EGF should, therefore, be mobilised in order to provide a financial contribution for the application submitted by Denmark,

HAVE ADOPTED THIS DECISION:

*Article 1*

For the general budget of the European Union for the financial year 2012, the European Globalisation Adjustment Fund (EGF) shall be mobilised to provide the sum of EUR 1 370 910 in commitment and payment appropriations.

*Article 2*

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

Done at Brussels,

*For the European Parliament*  
*The President*

*For the Council*  
*The President*