ERM quarterly

EMCC european monitoring centre on change

April 2012

Macroeconomic trends and prospects

Significant ECB interventions in December 2011 and February 2012 have helped to stabilise, at least in the short-term, Eurozone sovereign debt concerns. A fresh focus on the essentials of economic activity reveals a weakening EU economy with an increasing likelihood that the Union is already in a double-dip recession Output growth was negative in the most recent quarter (-0.3%, 2011Q4) and predicted to be negative also in the first quarter of 2012.

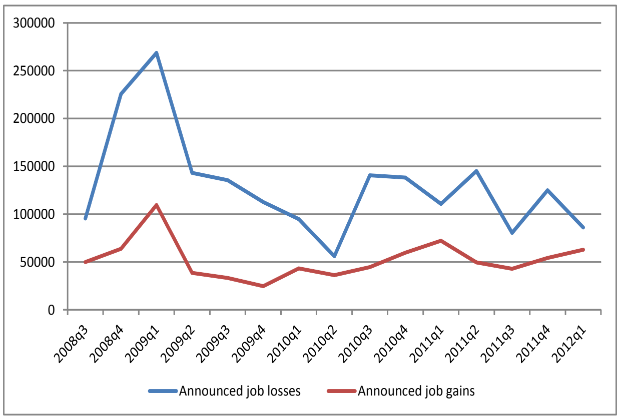
Unemployment has risen persistently in the past year. After a post-recession lull which ended in early 2011, it is now at its highest level – 10.2% (February 2012) - since the beginning of the crisis in 2008. Around 200,000 people are being added to EU unemployment lines each month. The pattern of labour market performance remains very diverse. Unemployment is at 5.7% in Germany (but has stopped falling), 4.2% in Austria but affects nearly a quarter of the Spanish workforce (24%). In contrast, unemployment in the US has declined for over a year and is now two percentage points lower than in the EU. The highest unemployment rates are in Portugal, Ireland, Greece as well as Spain, showing a predictable link between the severity of austerity adjustments at Member State level and growing unemployment. This continues to feed debates about possible negative feedback where austerity medicine helps kill the disease – excessive debt – but fatally hobbles the patient as well. In addition to retrenchment in state spending, other factors contributing to increased downside risks – globally as well as in the EU – include rising oil prices, above-target inflation as well as slowing growth in some large developing economies.

IN THIS ISSUE

The ERM quarterly has a new shorter, four-page format in 2012 with publication in the third week after each quarter ends.

Job creation and job losses at a glance

The ERM recorded a total of 342 cases of restructuring between 1 January and 31 March 2012. Of these, 213 were cases of announced restructuring involving job loss, 126 were cases involving announced job creation and three cases involved both job loss and job gain. They amounted to 86,013 announced job losses and 62,878 announced job gains. Internal restructuring accounted for almost 70% of the announced job losses. Compared to the previous quarter, the ERM recorded an increase in the incidence of bankruptcies (13%), closures (9%), offshoring and delocalisation (5%) as well as mergers and acquisitions (4%). In terms of geographic distribution, the countries which recorded the greatest number of announced job losses were Germany (12,416 jobs) and Hungary (12,301 jobs), followed by Spain (10,199 jobs), the United Kingdom (8,081 jobs) and France (8,036 jobs). Romania (12,326 jobs) recorded the highest number of new jobs, followed by the United Kingdom (11,600 jobs), Poland (10,623 jobs) and France (10,430 jobs).



About the ERM The European Restructuring Monitor (ERM) is a unique EU-wide data set on larger-scale restructuring events. It monitors the announced employment effects of large-scale restructuring events in the EU27 and Norway. The ERM is updated on a daily basis and data can be used for statistical analysis. The monitor relies on reports in selected media titles (3–5 per country). All announcements involving the reduction or creation of at least 100 jobs, or affecting 10% of the workforce in sites employing 250 people or more, are taken into account. Given that the ERM relies on selected media titles, its coverage of restructuring activity in each Member State is indicative and cannot be considered representative. Nevertheless, ERM data does generate a good picture of labour market restructuring, which is broadly consistent with data coming from more representative sources such as the European Labour Force Survey.

The data for this report was extracted on 5 April 2012. As the ERM continually updates cases in light of new information on recent cases, data reported here may not correspond exactly to later extractions.

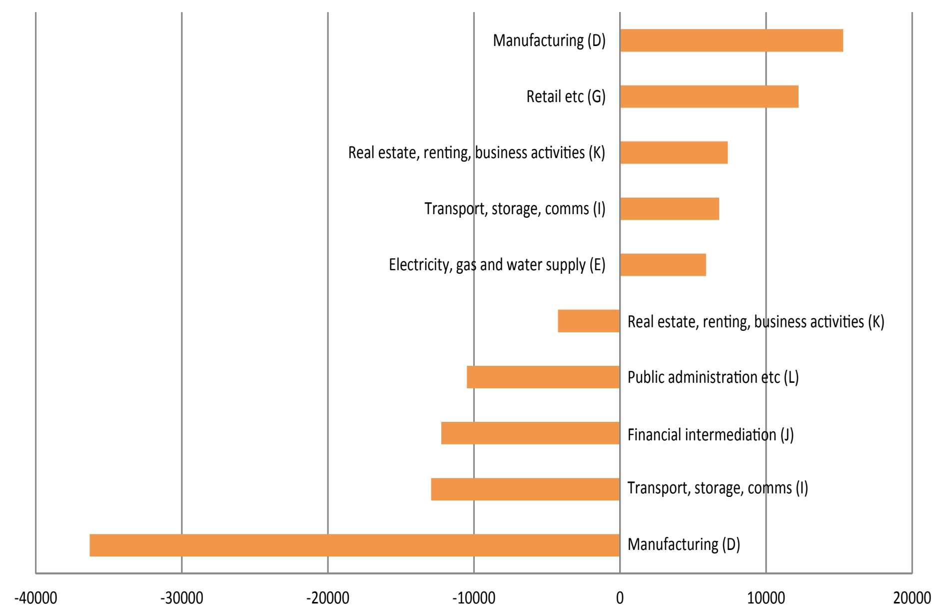
For previous editions of the quarterly, more details of ERM data collection as well as other ERM-related publications, please refer to the website at www.eurofound.europa.eu/emcc/erm/info.htm

Eurofound

Sectoral distribution of job losses / job gains

Figure 1 plots the top NACE 1-digit sectors in terms of announced job loss and job creation, as reported to the ERM in the first quarter of 2012.

Figure 1: ERM announced job losses/gains, 2012 Q1, by sector



Manufacturing (36,309 jobs) was by far the sector the most affected by job losses. Other notably affected sectors were transport, storage and communications (12,939 jobs), financial intermediation (12,235 jobs), public administration (10,492 jobs) and real estate/ business activities (4,245 jobs). The highest number of announced job creations was recorded in manufacturing (15,280 jobs), followed by retail (12,226 jobs). Other sectors that display job growth during the quarter are real estate and business activities (7,375 jobs), transport, storage and communications (6,784 jobs) and electricity, gas and water supply (5,880 jobs).

Source: ERM, January–March 2012

Top 5 cases job creation / job losses

The five most prominent cases of job reduction and creation are shown in the tables below.

Announced	Company	Announced job loss	Location	Sector	Type of restructuring
11/01/12	Public employers	6,719	Hungary	Public administration	Internal restructuring
31/01/12	Nokia Siemens Networks	2,900	Germany	Manufacturing	Internal restructuring
02/02/12	Spanair	2,604	Spain	Transport / communication	Bankruptcy
03/01/12	Banque de France	2,500	France	Financial services	Internal restructuring
08/02/12	Nokia	2,300	Hungary	Manufacturing	Offshoring/Delocalisation

The largest case of job losses recorded in the quarter relates to the announcement of 6,719 job cuts among Hungarian civil servants. In Germany, global data networking and telecommunications equipment joint venture Nokia Siemens Networks announced it will cut 2,900 jobs in Germany, as part of global restructuring involving 17,000 job cuts. Nokia announced the dismissal of 2,300 employees at its Hungarian unit as part of a worldwide restructuring plan involving 4,000 job losses as production will be offshored to its Asian production facilities. Spanish air carrier Spanair filed for bankruptcy in January, resulting in the dismissal of 2,604 employees. French central bank, Banque de France, has announced it is to reduce its workforce by 2,500 until 2020. The bank will adopt the rules set for the public sector, recruiting only one replacement for every two retired employees.

Announced	Company	Announced job gains	Location	Sector
21/01/12	Polish Police Force	5,100	Poland	Public administration
23/01/12	ASDA	5,000	United Kingdom	Retail
04/01/12	EDF	5,000	France	Utilities
25/01/12	McDonald's	2,500	United Kingdom	Hotels / restaurants
30/01/12	Bosch Romania	2,000	Romania	Manufacturing

The largest case of job gains in the quarter relates to the Polish National Police which announced its plans to create 5,100 jobs across Poland. Several new jobs have also been announced as supermarket chain Asda plans to open 25 new stores and three depots, creating 5,000 jobs across the UK in 2012. The same number of new jobs has also been recorded as French electricity producer and distributer EDF is to recruit 5,000 employees in 2012 to offset the massive departures on retirement in the coming years. Fast food chain McDonald's is set to create 2,500 new jobs across the UK while piloting a 'family friendly' style of restaurant. German global engineering and electronics group Bosch announced 2,000 new jobs in Romania at the former Nokia site in Jucu.

AFTER RESTRUCTURING

Filling the 'Nokia gap' in Jucu, Romania

In September 2011, the town of Jucu saw 2,200 jobs go with Nokia's decision to close its Romanian factory. These job losses were part of a global restructuring plan involving 3,500 redundancies and the move of production activity to Asian plants in China, South Korea, India and Vietnam.

Only months after this announcement, other companies have unveiled their plans to fill the gap that Nokia left in the Tetarom industrial park. In early 2012, three international corporations announced job creations of up to 3,150 new jobs in the former Nokia grounds. Most jobs will be positions in manufacturing. The announced job creation may even overcompensate for the previous redundancies; the plans envisage 50 % more jobs than were lost through Nokia's restructuring.

The bulk of new jobs in the Jucu Tetarom industrial park will be created by German global engineering and electronics group Bosch. The company had initially announced it would create 2,000 jobs at Jucu. More recent media (2) reports indicate long-term plans to create 3,000 new jobs up to 2020. The company will produce electronic automotive components at the site. Additionally, Italian manufacturer of home electric appliances De Longhi (link) wants to create between 600 and 1,000 jobs at Tetarom Jucu, starting production this year (1). The final 150 jobs come from Transcarpatica (link), a metal products trader.

Although the announced job creations are a very positive development for Jucu and Cluj County, Nokia's retreat from the Tetarom industrial park only three years after set-up has sparked a debate about international companies receiving state aid in Romania (2). It is reported that Cluj County Council will support Bosch's capital expenditure with infrastructural investments (3).

(1) Gandul 28.03.2012
(2) Ziarul Financiar, 08.04.2012
(3) http://www.thediplomat.ro/articol.php?id=3042, April 2012

This issue is based on contributions from John Hurley, Lidia Salvatore, Anja Meierkord, Funda Celikel-Esser, Sara Riso and Andrea Broughton (ERM EU-level correspondent).

EF/12/31

SUPPORT MEASURES IN FOCUS

Restructuring support measures under the spotlight

To its existing database of restructuring events, the ERM has recently added a new qualitative database incorporating government or social partner-based restructuring support instruments from the EU27 and Norway.

While restructuring is a natural characteristic of dynamic economies, it is in most of the cases a painful process that entails costs for both companies and employees. Therefore, across Europe, governments and social partners have been implementing a wide range of instruments to support both anticipation and management of change with the aim of reducing social costs and improving the outcome of restructuring events.

Around 400 examples of such measures have been identified and are systematically presented in a user-friendly format in the new ERM database, which provides an overview of heterogeneous possibilities to support restructuring. In this way, the database allows users to examine several policy options as regards their main characteristics.

This exercise adopted a broad working definition of 'anticipation' and 'management' of restructuring and included also instruments that are not explicitly labelled 'restructuring support' whenever they are deemed to be relevant.

About two thirds of the collected measures target anticipation of change by, for example, offering training at company level to prepare for future skill needs, fostering innovation, providing advice and information for businesses in their start-up or growth phase or improving enterprises' access to finance. The remaining third of the instruments support management of change following restructuring by, among others, providing income support, training or matching services to those employees that have been affected in the framework of a restructuring event.

The majority of restructuring support instruments under the spotlight are provided with the cooperation of various actors including national and regional/local governments, employer and employee organisations and public employment services.

In the forthcoming issues selected examples of these measures will be presented in this column. The whole database is accessible at:

www.eurofound.europa.eu/emcc/erm/supportinstruments/

Sector in Focus

Restructuring in the pharmaceuticals sector

The past few months have seen relatively high levels of restructuring activity in the pharmaceuticals sector around the EU. This sector is characterised, according to the European Parliament, by the high cost of research, industry concentration, and market fragmentation, especially in terms of price. [1] It is also a sector that has experienced significant levels of restructuring in the form of mergers and acquisitions over a sustained period. The ILO notes that the number of 'megamergers' in this industry worldwide has been increasing steadily over the past two decades, reaching a record high of 46 transactions in 2007. Most recently, restructuring has been driven by forces such as increasing competition, changes in national health systems, the fact that the profits of many companies are being hit by the expiry of patents and the impact of the recession. Other problems include the fact that although spending on R&D remains high, the number of new products being developed is relatively low.

For example, in February 2012, the Anglo-Swedish pharmaceuticals firm AstraZeneca announced that it planned to put into place a new restructuring plan, which will result in the loss of around 7,300 jobs worldwide. This company has restructured three times since 2007. [2]This latest plan aims to cut costs and involves initiatives such as an increased use of call centres and digital channels for customer communications. AstraZeneca also plans to create a virtual research group in neuroscience, consisting of 40–50 researchers outside of Sweden. The company cites increased competition and the expiry of patents on key products as the contributing factors to the need to cut costs.

The Japanese multinational, Takeda Pharmaceuticals, announced cutbacks and job losses in January 2012. It plans to reduce its global workforce by 10% by the end of 2015, which will mean the loss of 2,100 European jobs, mainly in R&D, commercial, general and administrative sections. One of the main reasons for this restructuring is the overlap in functions that has resulted since Takeda acquired Nycomed in September 2011. Nycomed announced in January 2012 that it will cut 1,200 jobs in Germany, around half its workforce. This retrenchment is reported to be due to changes in the German pharmaceuticals market and the expiry of patents.

In France, Merck Sharp & Dohme announced plans in February 2012 to cut just over 100 jobs at a newly-acquired site in Calvados. However, the company also intends to invest in the site by increasing capacity, improving efficiency and health and safety. In the new Member States, in Poland, the pharmaceutical wholesaler Phoenix announced plans in January 2012 to withdraw from the Polish market. This decision was prompted by a falling market share and an upcoming health reform in Poland. Further, in Hungary, Albany Molecular Research, which is a global contract research and manufacturing organisation supplying services and technologies to develop pharmaceutical products, announced in March 2012 that it will close its Hungarian research institute in Budapest, with the loss of the entire workforce of 100. This is due to corporate losses over the past year.

It is likely that restructuring in this sector will continue in the foreseeable future, with the emphasis shifting away from large manufacturing facilities towards greater emphasis on R&D, as companies strive to develop new products and break into new markets.

1 European Parliament Factsheet: The Chemical and Pharmaceutical Industry: http://www.europarl.europa.eu/factsheets/4_7_5_en.htm

2 Restructuring, employment and social dialogue in the chemicals and pharmaceutical industries. ILO , Geneva 2011

Research brief

Life and work after the offshoring of a clothing factory in the Welsh valleys

Summary: This article details mixed mode research into the consequences of the closure of the Burberry clothing manufacturing plant (ERM factsheet) at Treorchy in the Welsh valleys in 2007. Around three hundred workers, the majority female and over 45 years old, lost their jobs when Burberry decided to relocate garment production to China. Previously, the company had set itself apart from the trend to offshoring in the clothing sector and marketed its high value garments as 'quintessentially British'.

Using a combination of interviews, surveys and observational methods, the authors tracked individual workers and worker representatives over a three year period from initial protests at the announced redundancies, to the closure itself and to the subsequent work and non-work life of Burberry workers. It represents something of a companion piece to the extensive earlier research on the Longbridge car factory closure (ERM factsheet) in Birmingham in 2005 though the demographic of the workers (mainly female, low-skilled blue collar workers) was quite different. A particular focus of the study is on work–life balance for the workers made redundant. 95% of Burberry workers had been in fixed schedule, full-time employment. Re-employment tended to be in poorer paid service jobs, often part-time, as Burberry was the last major manufacturing presence in the town. One of the main conclusions of the research was the double-edged nature of involuntary part-time work from a work–life perspective as respondents focussed in particular on the negative impact of shift work and unpredictable work hours on non-work life. This was in addition to the fraying of the community and interpersonal ties that followed closure and declining weekly wages amongst a majority of the re-employed ex-Burberry workers.

Reference: Blyton, P. and Jenkins, J. (2012), 'Life after Burberry: shifting experiences of work and non-work life following redundancy' in *Work, Employment and Society 2012* 26:26-41.