

## MEMORANDUM TO THE COMMISSION

By correspondence dated 8 May 2008 the Lithuanian authorities applied for a contribution from the European Globalisation Adjustment Fund ('EGF') in order to assist workers made redundant in Alytaus Tekstilė.

The application is based upon 1,089 redundancies, as a consequence of the bankruptcy of the firm in August 2007. This bankruptcy was caused by major structural changes in the pattern of world trade, in particular an increase of imports into the EU of cotton fabric and finished textiles and a reduction of the EU share in textile production. The scope and the effects of these changes are of a sufficiently important nature to justify an application to the EGF according to the criteria laid down in Regulation (EC) No. 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the EGF.

The application has been thoroughly examined and assessed by the services of the Commission, in accordance with Regulation (EC) No 1927/2006, in particular with Articles 2, 3, 5 and 6 thereof. The application meets the intervention criteria of Article 2(a) ("redundancies in one enterprise and in its suppliers or downstream producers") and the proposed measures are active labour market measures made available to the workers affected for a limited period of time, in conformity with Article 3. Accordingly, it is proposed to mobilise the EGF in this case.

The actions, which would be concentrated on 600 of the workers affected, include the provision of information on employment opportunities, the development of personalised employment plans and the provision of job-search assistance; training and re-training; outplacement assistance, such as subsidised employment for persons with disabilities or over 50 years of age, support for the acquisition of professional skills through subsidised fixed-term contracts in companies, and temporary employment in public works in order to assist rapid re-integration in the labour market; promotion of entrepreneurship; job-search allowances and training allowances.

The total annual budget available for the EGF is EUR 500 million. So far in 2008, 2 cases have been funded for an aggregated amount of EUR 3,106,882. The Commission proposes a contribution of EUR 298,994 from the EGF to co-finance a coordinated package of actions designed to assist the re-integration into employment of 600 of the redundant workers in Alytaus Tekstilė as well as to cover administrative expenditure. The Lithuanian state will contribute an equivalent amount.

### **THE COMMISSION IS INVITED TO**

- Approve the conclusions on application EGF/2008/003 LT/Alytaus Tekstilė submitted by Lithuania as set out in the present Communication;**
- Submit to the budgetary authority a proposal to authorise appropriations corresponding to EUR 298,994 and a request for a transfer of this amount in commitment appropriations to budget line 04.0501 (European Globalisation Adjustment Fund) in accordance with Article 12(3) of Regulation (EC) No 1927/2006;**
- Authorise the transfer of an identical amount in payment appropriations from budget line 04.0201 (Completion of the European Social Fund) to budget line 04.0501 (European Globalisation Adjustment Fund).**

## COMMUNICATION TO THE COMMISSION

### concerning application n° EGF/2008/003 LT/Alytaus Tekstilė received from Lithuania for a financial contribution from the European Globalisation Adjustment Fund

Lithuania submitted application EGF/2008/003/LT Alytaus Tekstilė for a financial contribution from the European Globalisation Adjustment Fund, hereinafter 'EGF', following the redundancies in Alytaus Tekstilė.

1. The Commission received the application from the Lithuanian authorities on 8 May 2008. It was based upon the specific intervention criteria of Article 2(a) of Regulation (EC) No 1927/2006<sup>1</sup> of the European Parliament and of the Council on establishing the European Globalisation Adjustment Fund, and was submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.
2. The application meets the conditions for deploying the EGF set out in Article 2 of Regulation (EC) No 1927/2006.

#### SUMMARY OF THE APPLICATION AND ANALYSIS

##### (a) Analysis of the link between the redundancies and major structural changes in world trade patterns:

3. The application relates to 1,089 redundancies in Alytaus Tekstilė, a textile manufacturing company in Lithuania. The redundancies were caused by the decision by the firm in July 2007 to close down.

In order to establish the link between the redundancies and the major structural changes in world trade patterns, Lithuania argues that the redundancies are the result of a general migration of worldwide textile and clothing production towards lower-cost Asian countries, in particular China. Before its accession, Lithuania's textile exports went predominantly to EU Member States. However, since the expiration of the Multi Fibre Arrangement (MFA) on 1 January 2005, Lithuania has come under increased competition from outside the EU, and particularly from low-cost Asian producers.

4. The application uses World Trade Organisation (WTO) and EUROSTAT trade statistics to illustrate the rise - between 2000 and 2006 - of textile and clothing imports into the EU and its impact on intra-EU trade.

Following the expiry of the WTO Multi Fibre Arrangement and the subsequent abolition of quantitative restrictions on imports of textile and clothing articles, imports of Chinese articles into the EU-25 almost doubled, from EUR 11.8 billion in 2000 to EUR 22.9 billion in 2005. The comparative advantage of most Asian countries lies in lower production costs: the average cost to spin and weave 1 tonne of cotton yarn in Alytaus Tekstilė before its closure was EUR 160, against EUR 40

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

in China. The Lithuanian authorities state that, between 2000 and 2006, volumes of intra-EU trade in cotton yarns and fabrics dropped by 50% in quantity, while imports from China rose by 115%. These major changes in world trade patterns have had a significant negative impact on enterprises like Alytaus Tekstilė, operating in the lower value market segments.

In relative terms, Lithuania has the largest textile and clothing industry among the new Member States. In 2006, the textile and leather sectors contributed 10.4% of the value added generated by the domestic manufacturing industry and employed 22.6% of the total manufacturing industry labour force. Besides, Lithuania has a small domestic market, which explains why around 80% of its textile and clothing production is export-oriented. The Lithuanian economy has therefore been significantly affected by increased competition since the liberalisation of the textile trade.

5. In conclusion, the opinion of the Commission services is that the redundancies in Alytaus Tekstilė can be linked, as required by Article 2 of Regulation (EC) No 1927/2006, to major structural changes in world trade patterns, which have led to an increase of imports into the EU, a downward pressure on prices and ultimately to the closure of the firm.

(b) Demonstration of the number of redundancies:

6. Lithuania submitted this application under the intervention criterion of Article 2(a) of the EGF Regulation, which requires at least 1,000 redundancies over a 4-month period in an enterprise, including workers made redundant in its suppliers and downstream producers. The application demonstrates that a total of 1,089 redundancies occurred in Alytaus Tekstilė during the 4-month period of reference (from 30 October 2007 to 29 February 2008). None of these redundancies occurred amongst the suppliers to Alytaus Tekstilė.
7. The total of 1,089 job losses in Alytaus Tekstilė is sufficient to comply with the criteria of Article 2(a) of the EGF Regulation.

(c) Explanation of the unforeseen nature of the redundancies:

8. The Lithuanian authorities argue that the closure of Alytaus Tekstilė could not have been foreseen for three reasons. Firstly, several major customers of the company relocated their low value-added production to Asian countries, in order to be nearer to low-cost supplies of yarn and raw fabrics, resulting in an unforeseen interruption of procurements from Alytaus Tekstilė. Secondly, the company was operating in the lower value market segments but had to face an unexpected rise in energy costs. As it was competing with low-cost producers, it could not pass the additional costs on to its customers through higher prices. Finally, as the Lithuanian currency was pegged to the Euro (with some scope for fluctuation), it was affected by the appreciation of the Euro against the US Dollar and the currencies of several major Asian textile exporting countries. Thus, the unexpected strength of the Euro exacerbated the decline in Alytaus Tekstilė's ability to compete with Asian exporters.

- (d) Identification of the dismissing enterprises, suppliers or downstream producers, sectors, and the categories of workers to be targeted:

9. The application concerns the redundancies occurring as a consequence of the closure of Alytaus Tekstilė, a Public Limited Liability Company located in the region of Alytus in southern Lithuania.

Of the 600 workers to be targeted for assistance 82% are female and 18% are male. The largest proportion, i.e. 62%, belongs to the 25 to 54 years age group, but 37% are over 55 years old and around 5% are workers with a longstanding health problem or disability. In terms of professional categories<sup>2</sup> almost 52% fall within the group “craft and related workers”, 12% within the group “plant and machine operators and assemblers”, 12% within the group “elementary occupations”, 6% within the group “clerks”, 6% within the group “technicians and associate professionals”, 6% within the group “legislators, senior officials and managers”, 5% within the group “professionals” and 1% within the group “service workers and shop and market sales workers”.

(e) Description of the territory concerned and its authorities and stakeholders:

10. The territory concerned by the redundancies is the whole territory of Alytus County, particularly the Alytus city municipality. In 2007, 68,835 people lived in the town, where the demographic and economic situation is worse than that of Lithuania as a whole. Alytus County, in which the town is the main economic centre, is facing a faster decline in its population and a slower growth of employment than the country as a whole. In addition, the Gross Domestic Product (GDP) per capita and Foreign Direct Investments (FDI) per capita in Alytus are only between 60% and 80% of the national level. The Lithuanian authorities argue that labour-intensive industries have declined in Alytus, and that the region is not likely to develop a cluster of high value-added industries because of a lack of highly-skilled and highly-educated workers. The average number of full-time equivalent workers in the region shrank by 7% between 2000 and 2006, in contrast with the overall growth of 10% in Lithuania. The impact of the redundancies triggered by the closure of Alytaus Tekstilė on regional employment will make this situation worse.

The main responsible stakeholders are within the Ministry of Social Security and Labour of the Republic of Lithuania and the Alytus Labour Exchange as the main body responsible for the practical implementation of the proposed actions.

(f) Expected impact of the redundancies as regards local, regional or national employment:

11. The closure of Alytaus Tekstilė and the resulting redundancies have had a negative impact on local and regional employment. Almost all of the 1,089 dismissed workers live in Alytus city municipality, where the share of the unemployed in the working-age population went up from 3% in November 2006 to 3.9% in November 2007 (i.e. after Alytaus Tekstilė had gone bankrupt), whereas in the country as a whole this figure decreased from 3.3% to 2.9%.
12. In conclusion, in these circumstances, the redundancies can be seen to have a significantly negative effect on the local economy.

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<sup>2</sup> Categories based on the International Standard Classification of Occupations, 1 digit, (ISCO-88)

(g) 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:

13. The following types of measures are proposed, which collectively combine to form a co-ordinated package of personalised services aimed at re-integrating workers into the labour market:
- Assistance to jobseekers: This involves the provision of information on employment opportunities, the development of personalised employment plans and the provision of job-search assistance.
  - Training and re-training: This concerns training to update or acquire new skills in order to increase employability. It will be organised by the Alytus Labour Exchange.
  - Outplacement assistance: This covers three different measures to mediate between vacant positions and jobseekers as well as specifically targeted measures for those who face difficulties in finding employment. One measure is subsidised employment for persons with disabilities or over 50 years of age, from which 90 workers are expected to benefit. A second measure provides support for the acquisition of professional skills through subsidised fixed-term contracts in companies. Here it is expected that 20 workers will benefit. Finally, some 30 workers will benefit from temporary employment in public works in order to assist their more rapid re-integration in the labour market. In this latter measure, the group of workers concerned benefit from information and consultation services, and create individual employment plans which involve participation in other active labour market measures, with the aim of re-entering employment.
  - Promotion of entrepreneurship: Programmes will be organised by the Alytus Labour Exchange to provide, in particular, competencies on how to start a business and develop a business plan, self-employment and accounting.
  - Job-search allowances: Redundant workers who participate in active labour market measures, particularly education and training programmes, will receive job-search allowances which will amount on average to EUR 167 per month over 3 months.
  - Training allowances: This will be paid to redundant workers who participate in specific vocational training and entrepreneurial skills promotion courses. It is estimated that training allowances will amount on average to EUR 700 per capita over the entire training period.
14. The administrative expenditure, which is included in the application in accordance with Article 3 of Regulation (EC) No. 1927/2006, covers the preparation of the application and its translation into English, the provision of information and publicity on funded measures, the preparation of the required reports and the collection of financial and other supporting documents on the actual implementation of the proposed actions. The information and publicity activities include press articles, a publication on the EGF and the case of Alytaus Tekstilė, dissemination of

information through several websites, the organisation of events at Alytus Labour Exchange and a closing conference.

15. The personalised services that are part of the co-ordinated package presented by the Lithuanian authorities are active labour market measures falling within the eligible actions as defined in Article 3 of Regulation (EC) No. 1927/2006. The total costs of these services are estimated by the Lithuanian authorities at EUR 567,700 and the administrative expenditure at EUR 30,287 (= 5.1% of the total amount). The total requested contribution from the EGF is EUR 298,994 (50% of the total costs).

Actions	Estimated number of workers targeted	Estimated cost per worker targeted (in EUR)	Total costs (EGF and national cofinancing) (in EUR)
<b>Personalised services (Article 3(1))</b>			
Job-search assistance	600	60	36,000
Training and retraining	150	1010	151,500
Outplacement assistance	140	1,072.86	150,200
Entrepreneurship promotion	50	300	15,000
Job-search allowances	150	500	75,000
Training allowances	200	700	140,000
<b>Subtotal personalised services</b>			<b>567,700</b>
<b>Technical assistance for implementing EGF (Article 3(3))</b>			
Preparatory			12,000
Management			8,287
Information and publicity			4,000
Control activities			6,000
<b>Total administrative expenditure</b>			<b>30,287</b>
<b>Total estimated costs</b>			<b>597,987</b>
<b>EGF contribution (50% of total costs)</b>			<b>298,994</b>

16. As regards the complementarity with actions funded by the Structural Funds, Lithuania confirms that these measures complement the actions under the European Social Fund (ESF), both for the 2004-2006 and the 2007-2013 programming periods, particularly those supporting active labour market measures.

(h) Date(s) on which the personalised services to the affected workers were started or are due to start:

17. Personalised services to the affected workers included in the co-ordinated package proposed for co-financing by the EGF were started by Lithuania on 7 November 2007; this was one week after the first individual notice of dismissal was sent out. This date therefore represents the beginning of the period of eligibility for any assistance that might be awarded from the EGF.

(i) Procedures followed for consulting the social partners:

18. The social partners were consulted at a tripartite meeting held on 21 February 2007 under the aegis of the Alytus Labour Exchange to discuss the issue of potential redundancies from Alytaus Tekstilė. Following that meeting, the social partners adopted a preventive programme to mitigate the negative consequences of those redundancies.

19. The Lithuanian authorities confirmed that the requirements laid down in national and Community legislation concerning collective redundancies have been complied with.

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

20. As regards the fulfilment of the criteria set out in Article 6 of Regulation (EC) No 1927/2006 the application provided the following elements:

- The Lithuanian authorities 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. In conformity with legal obligations and collective agreements, workers made redundant by Alytaus Tekstilė have received termination benefits and have been paid all other employment-related amounts.
- The Lithuanian authorities have given assurances that the actions provide support for individual workers and are not to be used for restructuring companies or sectors.
- The Lithuanian authorities confirmed that the eligible actions referred to under points 13 and 14 above do not receive assistance from other Community financial instruments. Moreover, the Managing Authority for the EGF is also the intermediate body in charge of the relevant ESF measures. The Ministry of Social Security and Labour will develop guidelines and provide clarifications to the Lithuanian Labour Exchange and the Alytus Labour Exchange to ensure a proper distinction between actions supported under the different Community financial instruments.
- The Lithuanian authorities confirmed that any public support to be provided complies with the procedural and material EC State aid rules applicable at the point in time when the public support is granted.

21. Management and control systems

Lithuania has notified the Commission that the financial contribution will be managed and controlled by the same authorities that are acting as managing authority and paying authority for both the ESF and the EGF (Managing authority located in the Ministry of Social Security and Labour, paying authority within the Ministry of Finance and audit authority within the Internal Audit Division [previously named Internal Audit Unit] of the Ministry of Social Security and Labour).

Conclusion

22. In conclusion, for the reasons set out above, it is proposed to accept application EGF/2008/003/LT Alytaus Tekstilė submitted by Lithuania, relating to the redundancies in Alytaus Tekstilė, as evidence has been provided that these redundancies result from major structural changes in world trade patterns which have led to serious economic disruption, affecting employment and the local economy. A co-ordinated package of eligible personalised services has been proposed. Therefore, it is proposed to deploy the EGF in response to the application from Lithuania.

**FINANCING**

The total annual budget available for the EGF is EUR 500 million. So far in 2008, two cases have been accepted for funding, for an amount of EUR 3,106,882.

Article 12 (6) of Regulation (EC) No. 1927/2006 states that, on 1 September of each year, at least EUR 125 million should remain available in order to cover the needs arising until the end of the year. After deduction of the amount already committed, an amount of EUR 496,893,118 remains available.

It is proposed to deploy EUR 298,994 from the EGF.

**THE COMMISSION IS THEREFORE INVITED TO:**

- approve the conclusions on application EGF/2008/003/LT Alytaus Tekstilė submitted by Lithuania as set out in this Communication;
- submit to the budgetary authority a proposal to authorise appropriations corresponding to EUR 298,994, as specified in point 15, as well as a request for the transfer of this amount in commitment appropriations to budget line 04.0501 (European Globalisation Adjustment Fund) in accordance with Article 12 (3) of Regulation (EC) No 1927/2006;
- authorise the transfer of the identical amount in payment appropriations from budget line 04.0201 (Completion of the European Social Fund) to budget line 04.0501 (European Globalisation Adjustment Fund).