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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/2010/026 PT/Rohde from Portugal)**

## 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 26 November 2010, Portugal submitted application EGF/2010/026 PT/Rohde for a financial contribution from the EGF, following redundancies in Rohde Sociedade Industrial de Calçado Luso-Alemã, Lda ('Rohde') in Portugal.

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/2010/026
Member State	Portugal
Article 2	(a)
Primary enterprise	Rohde - Sociedade Industrial de Calçado Luso-Alemã, Lda.
Suppliers and downstream producers	0
Reference period	19.05.2010 – 19.09.2010
Starting date for the personalised services	20.05.2010
Application date	26.11.2010
Redundancies during the reference period	974
Redundancies before and after the reference period	0
Total eligible redundancies	974
Redundant workers targeted for support	680
Expenditure for personalised services (EUR)	2 135 000
Expenditure for implementing EGF <sup>3</sup> (EUR)	95 000
Expenditure for implementing EGF (%)	4,26
Total budget (EUR)	2 230 000
EGF contribution (65 %) (EUR)	1 449 500

1. The application was presented to the Commission on 26 November 2010 and supplemented by additional information up to 19 May 2011.

<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(a) 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. In order to establish the link between the redundancies and the global financial and economic crisis, Portugal argues that the clothing and footwear industries were strongly hit by the crisis. These sectors are very vulnerable to external factors such as loss of consumer purchasing power. The economic recession had a negative impact on the labour market, unemployment levels rose, and this affected consumer confidence. As a consequence, manufacturing industries experienced a sharp drop in sales and production. The Portuguese authorities report that Portugal recorded a decline in GDP over the last two quarters of 2008 and in 2009 (4% decrease according to the Banco de Portugal). Both clothing and footwear industries recorded a decrease in exports (EUR 24 million in clothing, EUR 6 million in footwear). Portuguese footwear exports declined in 2009 to EUR 1 207 million, representing 6,4 % less than those of the previous year.
4. The Rohde company kept a stable position on the market despite the increasing difficulties due to intensified competition, China becoming a global leader in the sector and growing importance of Vietnam, India and Indonesia. However, the situation of Rohde was affected by the decrease in sales, and the position of Rohde on the European market deteriorated. As a result of the crisis and the reduced capacity to invest, the parent enterprise based in Schwalmstadt, Germany, finally went bankrupt.
5. The Rohde Group was then the subject of a recovery plan: the company was bought by a joint venture between Square Four and the Morgan Stanley Merchant bank in an attempt to save Rohde and its level of production. The factory in Portugal was planned to remain in production. However, finally the group substantially downsized. These circumstances, including the declining orders from the parent enterprise, affected the situation of the Rohde factory based in Santa Maria da Feira, Portugal, and as a result, insolvency proceedings started in September 2009, leading to the eventual closure of the factory and the dismissal of the workers.

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

6. Portugal submitted this application under the intervention criteria of Article 2(a) of Regulation (EC) No 1927/2006, which requires at least 500 redundancies over a four-month period in an enterprise in a Member State, including workers made redundant in its suppliers and downstream producers.
7. The application cites 974<sup>4</sup> redundancies in Rohde during the four-month reference period from 19 May 2010 to 19 September 2010. All of these redundancies were

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<sup>4</sup> The Portuguese authorities explained that the redundancies concerned 983 workers in the reference period, however nine of these did not register in Job Centres and therefore are not eligible for inclusion in this application.

calculated in accordance with the second indent of the second paragraph of Article 2 of Regulation (EC) No 1927/2006.

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

8. The Portuguese authorities argue that the financial and economic crisis and its impact could not have been foreseen. The redundancies in Rohde were not expected despite the gradually increasing difficulties facing the company due to intensified competition, successive growth in imports and decline in consumption. The enterprise was in a stable position in the market until this was undermined by the crisis. Moreover, the bankruptcy of the parent company in Germany was not initially seen as a significant danger, since the company was the subject of a recovery plan in 2008/09.

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

9. The application cites a total of 974 redundancies in Rohde during the four-month reference period. Of this total, 680 are targeted for assistance: the Portuguese authorities estimate that some 70 % of the redundant workers will participate in the measures co-financed by the EGF, while the others will find another job, or travel abroad, retire or participate in other measures complementary to those co-funded by the EGF.
10. The break-down of the targeted workers is as follows:

<b>Category</b>	<b>Number</b>	<b>Percent</b>
Men	88	13,00
Women	592	87,00
EU citizens	680	100,00
Non EU citizens	0	0,00
15-24 years old	1	0,15
25-54 years old	632	92,94
55-64 years old	45	6,62
> 64 years old	2	0,29

It is to be noted that 78,5 % of these workers did not complete elementary education (nine years of schooling), while just 17,8 % concluded elementary and 1,2 % secondary education. There are 7 workers with a longstanding health problem or disability included in the categories above.

11. In terms of occupational categories, the break-down is as follows:

<b>Category</b>	<b>Number</b>	<b>Percent</b>
Legislators, senior officials and managers	2	0,29
Professionals	1	0,15
Technicians and associate professionals	17	2,50
Clerks	34	5,00
Service workers and shop and market sales workers	3	0,44
Craft and related trades workers	537	78,97
Plant and Machine operators and assemblers	20	2,94

Elementary occupations	66	9,71
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12. In accordance with Article 7 of Regulation (EC) No 1927/2006, Portugal 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**

13. The territory concerned is mainly the municipality of Santa Maria Da Feira where Rohde was established. However the redundancies also affected the contiguous municipality of Ovar. They are located respectively within two NUTS II regions: Norte and Centro.
14. Norte is the most densely populated region of Portugal and the most highly industrialised of the country, with a strong concentration of traditional industries (textiles, clothing, footwear, wood), while the services sector has been developing recently too. In all these sectors, the small and medium sized enterprises predominate. The region still suffers from a low educational base, particularly affecting the older generation, and from long-term unemployment.
15. Centro is a region characterised by low population density and sharp demographic imbalances which are mainly the results of ongoing depopulation and the progressive ageing of the population. The productive structure is diversified, but the industry is dominated by traditional productive specialisations. Similarly to the Norte region, Centro is characterised by a low level of education. Unemployment has become problematic due to the regression of the primary and traditional industrial sectors.
16. Both regions are characterised by vulnerability in the employment structure and the struggle with the low qualifications of the labour force, low salaries, and precarious employment.
17. The principal stakeholders are the Instituto do Emprego e Formacao Profissional (IEFP, I.P.), a public administration institution with decentralised job centres and vocational training centres, social partners (the employer organisations include Portuguese Association of Footwear, Leather Components and Articles and their branches; the trade unions structures include Federation of the Unions of Textile, Wool Products, Clothing, Footwear and Leather Workers of Portugal). An important role is also played by the municipalities and their associations (mainly of the Metropolitan Area of Porto), Universities and Polytechnic Institutes and the Footwear Technological Centre.

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

18. According to the National Institute of Statistics (INE) the unemployment level in Portugal in the third quarter of 2010 was 10,9 % which is 1,1 % higher than in the same period of 2009. The unemployment rate in the Norte region increased from 11,6 % in the third quarter of 2009 to 13,2 % in the same period of 2010 and was the highest unemployment rate in the country. The Centro region experienced a slight increase in the unemployment rate (from 7,2 % to 7,4 % in the same period as above).

In the municipality of Santa Maria da Feira, where Rohde was established, the unemployment rate was the highest in the NUTS III region Entre Douro e Vouga. In the municipality of Ovar in the Centro region, unemployment rates are higher than the national average.

In this context, the direct impact of closing Rohde was the dismissal of about 980 workers, which severely affected these municipalities already having unemployment rates above the national average.

19. The Portuguese authorities report that the unemployed population of the most traditional industrial sectors, including footwear, are characterised by very low education levels and as a result, have greater difficulty in retraining for other activities.

### **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**

20. The following types of measures are proposed, all of which combine to form a coordinated package of personalised services aimed at re-integrating the workers into the labour market:

- (1) Information and guidance: The information actions consist of updating all potential beneficiaries on the available measures, encouraging the workers to actively participate in them, providing information on the labour market, as well as defining and adjusting their respective Personal Employment Plans which should describe the measures in which the workers intend to participate. This profiling will be carried out by Job Centres and it is not co-financed by the EGF. It is expected that 250 of the targeted workers will proceed to follow more complex guidance sessions. These will encourage the workers towards vocational training, occupational reconversion and personal development including promotion of self-esteem and job search techniques. During these actions, the workers will receive meals and transport allowances.
- (2) Recognition, validation and certification of competences: With the help of recognised New Opportunities Centres (NOC), the workers will identify the knowledge and skills acquired throughout their lives in formal and informal contexts. During individual and group sessions, together with professional trainers, they will prepare a portfolio that will contain the evidence of their learning process. Special panels will be organised for those workers who need specific competences to obtain a school or vocational certificate. NOC will be promoted by the Vocational Training Centres under Joint Management.
- (3) Vocational Training: The workers will receive the training most appropriate to their educational and skills levels, helping them to reintegrate rapidly into employment. There will be adult training courses leading to double certification (educational and vocational), some will be given on a modular basis (flexible training organised in short-term training units, presented in the training benchmarks of the National Qualifications Catalogue) and some will be specific training, suitable to the specific needs of the labour market (actions not included in the National Qualifications Catalogue). The training courses will be delivered by the Vocational Training Centres and other entities of recognised competence identified by IEFPP. Allowances for

training, meals, transport, personal accident insurance and accommodation will be offered within strict limits and conditions.

- (4) Grant for training at personal initiative: This will enable workers to participate in suitable training courses, agreed as part of their personal employment plans and which are delivered by recognised training institutions. The participants of this form of training will be offered a grant under strict conditions. They can attend, consecutively or simultaneously, more than one course, on condition that they keep within the set limits.
  - (5) Support for self-placement: This is a grant awarded to workers who, during the implementation period of the EGF package, find themselves a new job with either an indefinite contract or one for at least six months. The amount varies depending on the length of the contract offered, and can be increased if the new workplace is more than 100 km from the location of the worker's residence.
  - (6) Hiring incentive: For the purposes of stimulating the creation of new jobs, financial support may be allocated to employer entities which sign full-time contracts with an EGF beneficiary worker. The minimum duration of the contract has to be 12 months, and a higher incentive is paid to those taking on workers with contracts of unlimited duration.
  - (7) Entrepreneurial support: For those workers wishing to create their own businesses, training in specific knowledge and competences for the creation and management of small businesses will be organised. Attendance of the training is compulsory before the decision to support the business creation is issued, except in cases where there is confirmed pre-existing training or relevant experience. Technical support to the project includes activities to support the development of the business idea, preparation of the business plan, constitution of the company and follow-up of the project during the first year of its operations.
  - (8) Support for the creation of a business: The workers will be helped with a non-reimbursable subsidy of EUR 20 000 per job created, including that of the promoter, up to a maximum of three. The jobs created should be filled by EGF beneficiaries, or by unemployed persons in the job centres of the region, and should be full-time for a minimum duration of two years. Allowances for meals, transport and personal accident insurance will be offered within strict limits and conditions.
  - (9) Integration plan: This will provide the workers with work experience of at least 30 hours per week during a period from six to twelve months. The objective is to make sure that these workers do not lose contact with other workers, do not suffer from isolation and loss of motivation, and gain the opportunity to acquire new knowledge and skills and thus to improve their employability following the integration period. The workers will be placed with non profit-making employer entities for a limited period; this will entitle them to meals and transport allowances, insurance and a monthly subsidy instead of wages.
21. 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, management and control activities, as well as information and publicity.

22. The personalised services presented by the Portuguese authorities are active labour market measures within the eligible actions defined by Article 3 of Regulation (EC) No 1927/2006. The Portuguese authorities estimate the total costs of these services at EUR 2 135 000 and the expenditure for implementing the EGF at EUR 95 000 (4,26 % of the total amount). The total contribution requested from the EGF is EUR 1 449 500 (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)			
Information and guidance	250	160	40 000
Recognition, validation and certification of competences	250	640	160 000
Vocational Training	150	6 000	900 000
Grant for training at personal initiative	20	4 000	80 000
Support for self-placement	80	1 000	80 000
Hiring incentive	50	2 300	115 000
Entrepreneurial support	30	2 000	60 000
Support for the creation of a business	20	20 000	400 000
Integration plan	100	3 000	300 000
<b>Sub total personalised services</b>			<b>2 135 000</b>
<b>Expenditure for implementing EGF</b> (third paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Preparatory activities			2 000
Management			90 000
Information and publicity			2 000
Control activities			1 000
<b>Sub total expenditure for implementing EGF</b>			<b>95 000</b>
<b>Total estimated costs</b>			<b>2 230 000</b>
<i>EGF contribution (65 % of total costs)</i>			<i>1 449 500</i>



23. Portugal confirms that the measures described above are complementary with actions funded by the Structural Funds. Portugal will also ensure a clear audit trail for EGF funded activities, and confirms that no other EU funding is sought or used for these activities.

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

24. Portugal started the personalised services to the affected workers included in the co-ordinated package proposed for co-financing to the EGF on 20 May 2010. 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**

25. The EGF application was presented to the meeting of the IEFP, I.P. Board of Directors on 29 November 2010. The IEFP, I.P, which is the Managing and Paying Authority for the EGF in Portugal, is itself a tripartite body.
26. The Portuguese 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**

27. As regards the criteria contained in Article 6 of Regulation (EC) No 1927/2006, the Portuguese 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**

28. Portugal has notified the Commission that the financial contribution will be managed and controlled by Instituto do Emprego e Formação Profissional, I.P., the public employment service. The overall management is carried out by the Employment Department, and with the help of the Vocational Training Department, Financial and Management Control Department and the Regional Delegations of the Norte and Centro regions. The overall financial management has been taken on by the Financial and Management Control Department. The approval and payment of aids is the responsibility of the Regional Delegations of the Norte and Centro regions. The Job Centres and the Partner Entities, namely Vocational Joint Training Centres of the most affected municipalities will be carrying out most of the active measures. Portugal has confirmed that the principle of separation of functions among and within the relevant entities will be respected.

The Instituto de Gestão do Fundo Social Europeu (IGFSE, I.P.), the European Social Fund Management Institute, will be responsible for auditing and control as regards this EGF application.

### **Financing**

29. On the basis of the application from Portugal, the proposed contribution from the EGF to the coordinated package of personalised services (including expenditure to implement EGF) is EUR 1 449 500, representing 65 % of the total cost. The Commission's proposed allocation under the Fund is based on the information made available by Portugal.
30. 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.
31. 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.
32. By presenting this proposal to mobilise the EGF, the Commission initiates the simplified triologue 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 triologue meeting will be convened.
33. The Commission presents separately a transfer request in order to enter in the 2011 budget specific commitment appropriations, as required in Point 28 of the Interinstitutional Agreement of 17 May 2006.

### **Source of payment appropriations**

34. Amending budget 2/2011 increased EGF budget line 04.0501 by EUR 50 000 000 in payment appropriations. Appropriations from this budget line will be used to cover the amount of EUR 1 449 500 needed for the present application.

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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>5</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>6</sup>, and in particular Article 12(3) thereof,

Having regard to the proposal from the European Commission<sup>7</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 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) Portugal submitted an application to mobilise the EGF, in respect of redundancies in the enterprise Rohde, on 26 November 2010 and supplemented it by additional information up to 19 May 2011. This application complies with the requirements for determining the financial contributions as laid down in Article 10 of

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<sup>5</sup> OJ C 139, 14.6.2006, p. 1.

<sup>6</sup> OJ L 406, 30.12.2006, p. 1.

<sup>7</sup> OJ C [...], [...], p. [...].

Regulation (EC) No 1927/2006. The Commission, therefore, proposes to mobilise an amount of EUR 1 449 500.

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

HAVE ADOPTED THIS DECISION:

*Article 1*

For the general budget of the European Union for the financial year 2011, the European Globalisation Adjustment Fund (EGF) shall be mobilised to provide the sum of EUR 1 449 500 in commitment and payment appropriations.

*Article 2*

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

Done at [Brussels/Strasbourg],

*For the European Parliament*  
*The President*

*For the Council*  
*The President*