

european restructuring monitor *quarterly*

Issue 3 – Winter 2003

The European Restructuring Monitor *quarterly* (ERM *quarterly*) is an information service that analyses data on industrial restructuring in Europe. This issue focuses on information collected from the beginning of October to the end of December 2003.

The European Restructuring Monitor is a project undertaken by the European Monitoring Centre on Change, implemented by Groupe One. ERM is served by a network of correspondents whose task is to register cases of industrial restructuring reported in the press in the 15 EU Member States. Basic information about each case and its employment effects is freely accessible through www.erm.emcc.eurofound.eu.int.

Overview

Country focus – spotlight on Portugal

Sector focus – spotlight on financial services

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Note on methodology

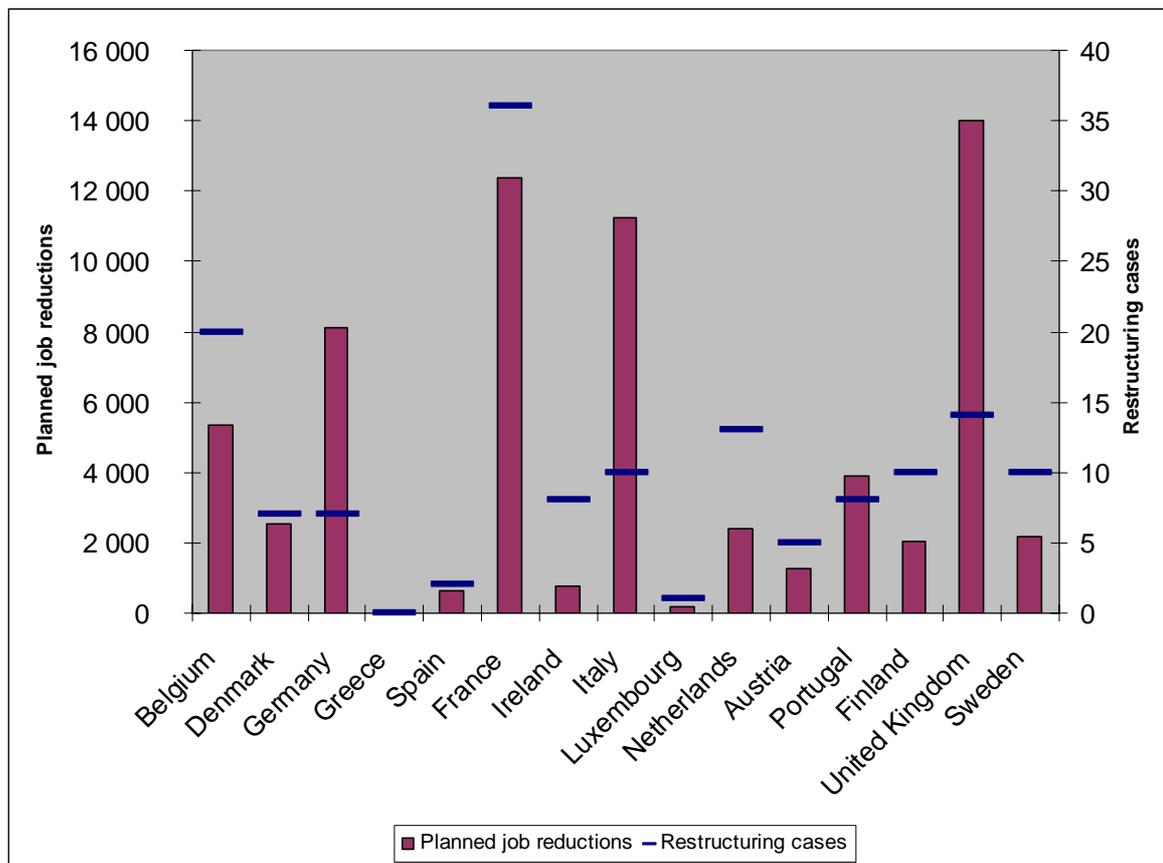
> Overview

For the last quarter of 2003, from 1 October to 31 December, the European Restructuring Monitor (ERM) recorded 151 cases of company restructuring in the European Union. Job losses amounting to 67,058 were announced as a result of these restructuring activities. Despite slightly fewer cases of company restructuring during this period – 151 compared to 166 during the previous quarter – the number of job losses grew from 66,151 to 67,058.

In contrast to the figures for job losses, just 2,785 jobs will be created through restructuring activities as announced by 10 companies and reported in the press.

Figure 1 illustrates the distribution of recorded restructuring cases and job reductions across the 15 EU Member States.

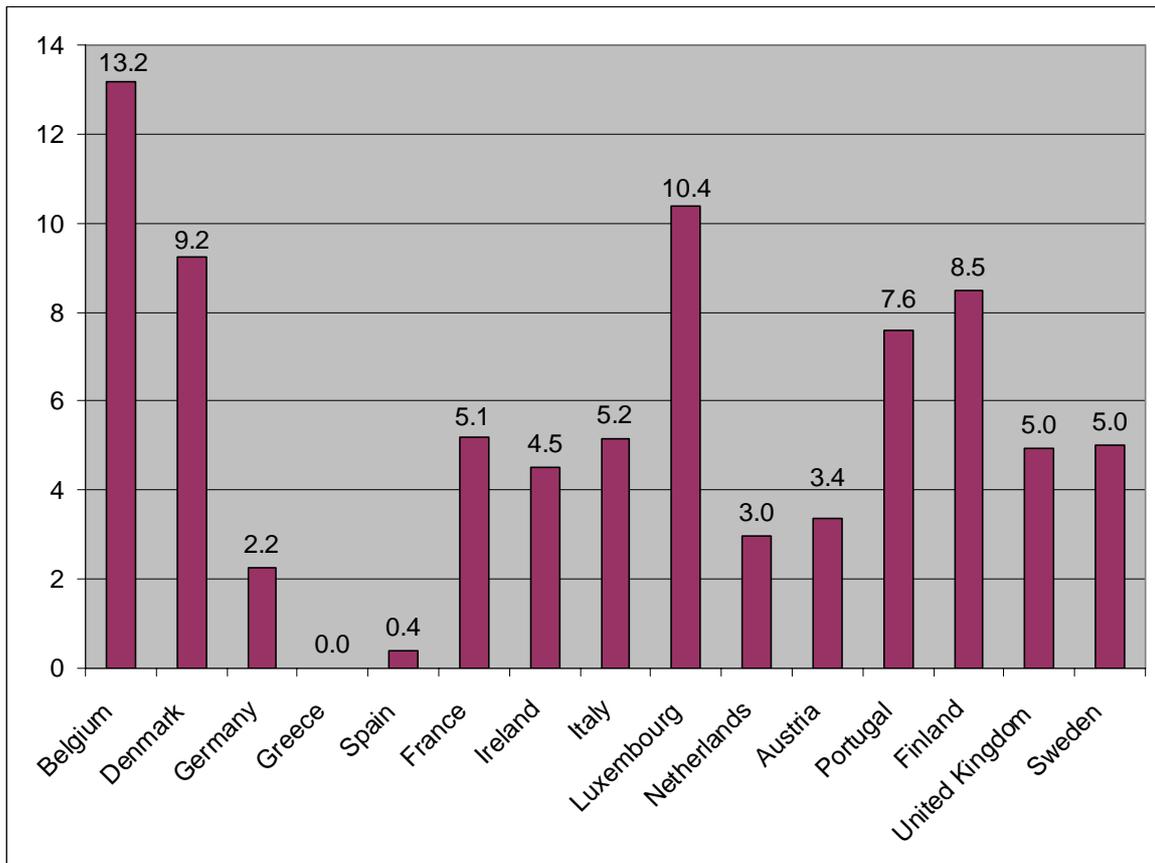
Figure 1: Distribution of recorded restructuring cases and job reductions across the EU



As this figure shows, France records the highest number of restructuring cases (36) and announces a corresponding high level of job losses. This is similar to the pattern of the two previous quarters, when a significant number of restructuring cases were reported in France along with the announcement of extensive redundancies. Overall, planned job reductions caused by restructuring activities are considerable in France, Italy, the United Kingdom and, to a lesser extent, Germany.

However, in order to establish a more meaningful comparison between the Member States, the size of the 15 economies ought to be taken into account. Figure 2 below shows the number of announced job losses per 10,000 people employed in each country.

Figure 2: Announced job reductions due to restructuring (per 10,000 people employed)



This figure illustrates clearly that, consistent with previous findings, it is the smaller economies that experience the most severe employment effects as a result of restructuring activities. Countries with a small active labour force show the highest rate of announced job losses: Belgium with 13.2, Luxembourg with 10.4, Denmark with 9.2, Finland with 8.5 and Portugal (see country focus below) with 7.6 job losses per 10,000 people employed. This has been the trend over the last three quarters. During this period there has been only a very small increase in the EU average from 5.3 to 5.5 job losses announced per 10,000 jobs. The most striking example is Luxembourg, where the impact of 195 job losses at the [Villeroy & Boch](#) (German ceramics and tiles group) production plant on the country's very small active labour force of 285,000 people is enormous. The job cuts were justified by sluggish consumer spending, increasing competition from low-wage countries and new technological developments in the tableware sector.

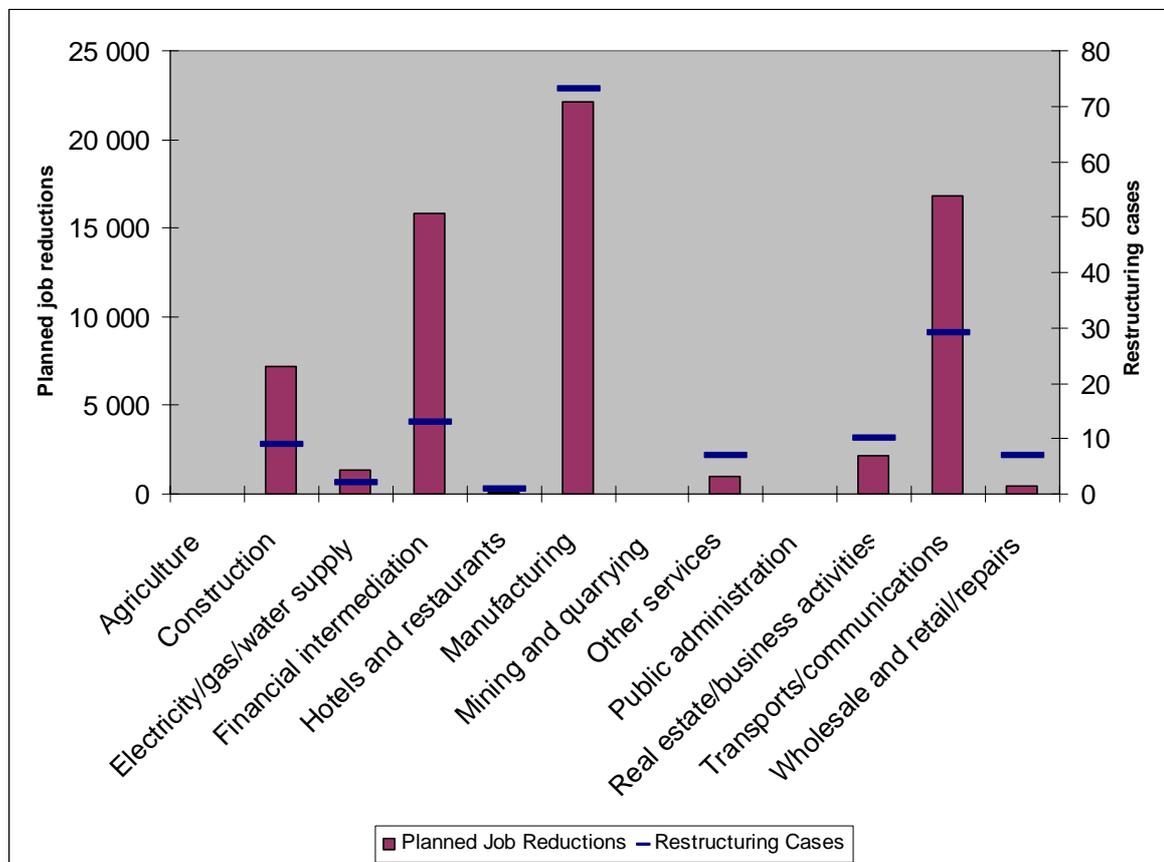
In terms of announced job reductions per 10,000 people employed due to restructuring, Belgium has been propelled for the second time to top position in ERM's quarterly overview. This is related to the announcement by [Ford](#) that it is to close its production plant in Genk, with the shedding of 3,000 jobs by the end of 2004. Finland and Denmark peaked last summer with figures of over 26 and 16 job losses respectively per 10,000 people employed, but for both countries the number of jobs threatened declined to 8.5 and 9.2 jobs lost per 10,000 jobs in the last quarter of 2003. Finland still suffers from the recent restructurings at [Elisa](#), whereas, in Denmark, just two restructurings – [Orskov Yard](#) and [LM Glasfiber](#) – account for two-thirds of the total number of redundancies announced.

In sharp contrast, the employment effects in large economies, such as France, Germany, Italy and the United Kingdom are less severe when the size of the active labour force is taken into account. This is despite these countries showing the highest number of cases in

the reference period. France, Italy and the United Kingdom are just below the EU average with 5.1, 5.2 and 5.0 job losses per 10,000 people employed. In comparison, Germany, one of the largest EU economies and still considered to be in economic crisis and under strong pressure to reform, shows a relatively low level of restructuring activity with only 2.2 job losses announced per 10,000 people employed.

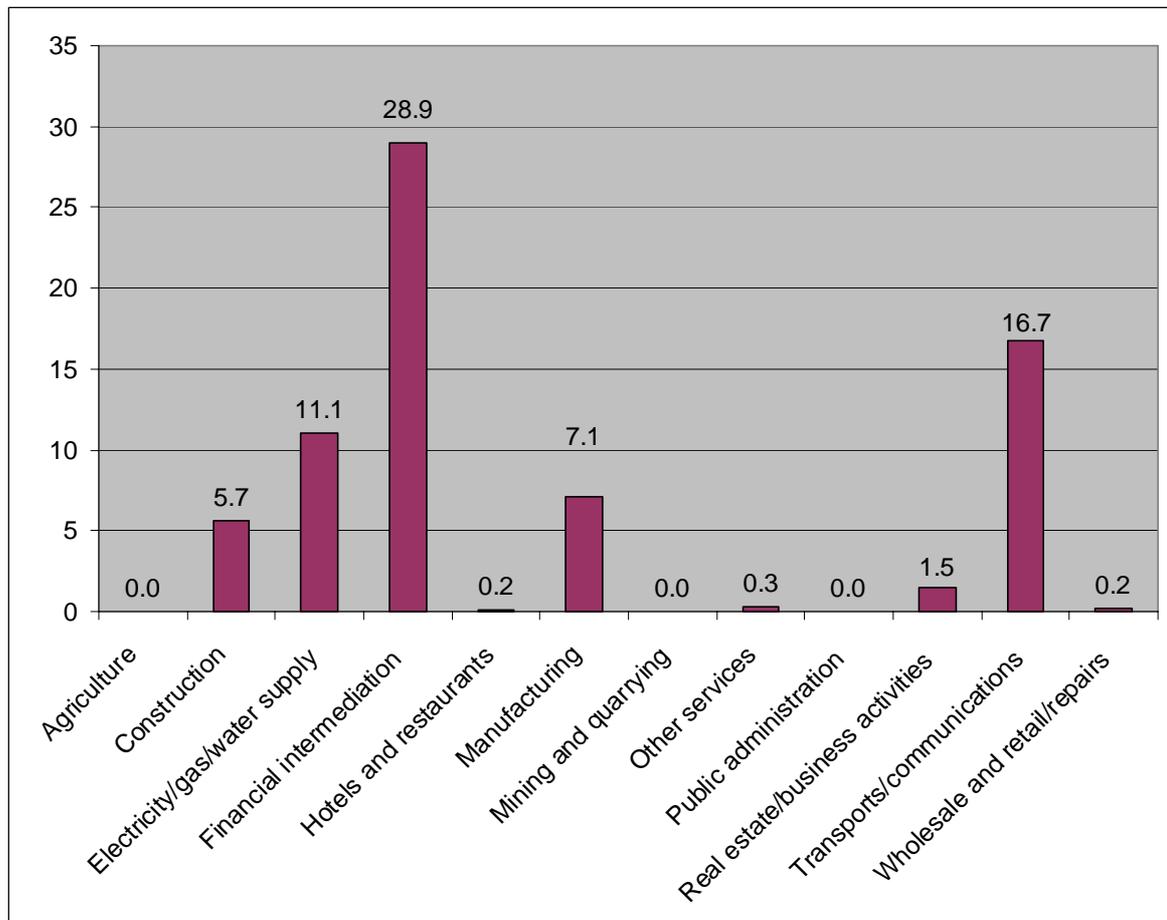
Figure 3 presents the distribution of the 151 cases registered during the reference period across industry sectors, along with the related employment effects. As was the case in previous quarters, manufacturing accounted for the highest number of restructuring cases (73), resulting in a very high number of jobs being threatened (22,085). Comparable figures for the previous quarter were 76 cases and 24,630 planned job reductions. Transport and communications again shows the second highest figures for both restructuring cases (29) and jobs threatened (16,842), followed by the financial intermediation sector, with 13 cases and 15,870 jobs threatened.

Figure 3: Distribution of recorded cases and job reductions across sectors



To allow a more meaningful comparison between sectors, taking sector size into account, figure 4 below shows the announced job losses per 10,000 people employed in the sector in the EU.

Figure 4: Announced job reductions due to restructuring across sectors (per 10,000 people employed)



As figure 4 illustrates, the financial intermediation sector is experiencing the most severe employment effects with 28.9 announced job losses per 10,000 jobs (see sector focus below). The liberalisation leading to the establishment of the European single market for financial services has influenced this increase of job loss within the sector (the last quarter recorded 10.4 job losses). The job losses are the result of several major initiatives to restructure or to relocate off-shore in order to maintain competitiveness. Each of the initiatives involved a significant amount of announced redundancies, e.g. [HSBC](#) (see company focus below) and [Lloyds TSB](#) in the UK, [Banca Monte dei Paschi di Siena](#) in Italy, and [Banque de France](#) in France.

The transport and communications sector continues to be affected by restructuring activities this quarter, due to further pressure on state-owned companies to adapt to the highly competitive global market. Five restructuring cases account for two-thirds of the announced redundancies; three are airline carriers ([Aero Lloyd](#) and [Lufthansa Deutschland](#) in Germany; [Alitalia](#) in Italy), and two provide postal and telecommunication services ([Royal Mail](#) in the UK and [Portugal Telecom](#) in Portugal). The previous ERM *quarterly* issue (autumn 2003) provided an in-depth analysis of the driving forces and restructuring cases in the postal and telecommunications sector.

In terms of sector size, figure 4 shows that employment levels within the energy supply sector, including electricity, gas and water, fell by 11.1 jobs per 10,000 people employed. This is a very small sector in terms of overall employment in the EU, accounting for little more than one million workers, and the number of job losses is due solely to the restructuring of the former Portuguese state-owned [Electricidade de Portugal \(EDP\)](#).

Looking at the manufacturing sector, the high number of cases (73) recorded in the reference period is explained by the very large workforce employed in the sector (31,715,000 workers across the EU in 2001). However, four restructuring cases largely accounted for the 7.1 announced job losses per 10,000 jobs: one in the automotive sector ([Ford](#) in Belgium); two in the pharmaceutical sector ([Aventis](#), France, and [Pharmacia](#), Italy); and one in the steel sector ([Sollac Atlantique](#), France).

> Country focus

This section explores the economic context of company restructuring in Portugal – one of the EU countries most affected during the third quarter of 2003 with 7.6 out of every 10,000 jobs threatened, as reported in the press and recorded by ERM.

>> Spotlight on Portugal

In 2003 the economic and labour market indicators showed a poor performance across Europe, and particularly within the euro-zone, with Portugal being hit harder than most EU countries. Showing the weakest economic growth of all European countries, the last quarter was the fourth consecutive quarter during which Portugal showed a negative growth in gross domestic product (GDP) ([EEO](#), 19 December 2003).

Portugal's coalition government of the centre-right Social Democrat Party (Partido Social Democrata PPD/PSD) and the right-wing People's Party (Partido Popular CDS/PP) implemented a series of actions in order to tackle the country's growing economic and labour market difficulties. These include setting up a Portuguese Agency for Investment (API), commissioning McKinsey and company to draft the *Portugal 2010* report ([EEO](#), 10 October 2003) and establishing the Programme for Recovery of Depressed Areas and Economic Sectors (PRASD). In 2002, the government issued a new Labour Code, which came into force in December 2003 ([eironline](#), 8 May 2003). All these measures focus on more flexibility in employment and regional development – all growth-enhancing factors according to the OECD's economic survey on Portugal (2003). But the main trade unions argue that the emphasis is placed too exclusively on employment flexibility, which they do not consider to be a long-term solution to ensure competitiveness for Portuguese companies in the global marketplace. Furthermore, the unions believe that parts of the Labour Code are unconstitutional and should be reviewed.

Reported restructuring cases

The post and telecommunications sector has been the most badly affected by job losses in the fourth quarter of 2003, due to the continued restructuring of former state-owned [Portugal Telecom](#) (PT). As part of its objective to become the country's largest company, PT announced in November 2003 that further job cuts are planned for 2004. Up to 1,600 jobs will have to go in addition to the 6,000 jobs which were cut since the privatisation process of PT started in 1996 ([eironline](#), 2000). This means that PT will have reduced its former 16,000-strong workforce by more than half by the end of the year. The workforce reduction programme primarily affects the fixed communications and IT departments, with many employees either leaving voluntarily or accepting early retirement packages. According to a number of organisations representing workers, the lay-offs since 1996 have been accompanied by the recruitment of new workers under precarious contracts: 80% of the employees working in on-line customer services, for example, are on temporary contracts.

Meanwhile the energy supply sector has also been adversely affected. In October 2003, Portuguese utility company [Electricidade de Portugal \(EDP\)](#) announced it would be cutting its workforce by up to 2,000 workers in the period 2003 to 2007. Six hundred employees accepted EDP's proposal to quit the company by December 2003, of which 569 terminated their contract by mid-December. Some 1,360 of the job cuts will occur in the electricity distribution sector and will be made redundant progressively until the end of 2006; the remaining jobs will be cut in 2007. This restructuring plan is supported by a decision of Portugal's energy watchdog, Entidade Reguladora dos Servicos Energeticos (ERSE), which authorised the personnel-restructuring budget for 2003 and 2004. According to this decision, EDP is able to pass on a total of €485 million in restructuring costs, including staff reduction costs, to its customers over a 20-year period beginning in 2005 (Diário Económico, 2003).

Another sector under pressure is Portugal's textile and leather sector where three restructurings involving a total of 840 job losses were reported in the last quarter of 2003. Two textile manufacturing companies, [Baiona](#) and [Fino's](#), declared bankruptcy. A third company, [Melka](#) (see company profile below), announced the relocation of its production plants to eastern European countries. In the case of [Baiona](#), which closed its production plant in Porto in October without prior notice, the 200 workers laid off did not receive their pay for September 2003. The closure of Fino's will affect 260 workers, who will be dismissed on a collective basis. The main reason given by the companies' management is the drop in sales in the face of rising production costs. Most of the workers in Portugal's textile production are low-skilled workers. Unskilled labour is available at far lower cost in eastern Europe, the Middle East or Asia. An additional difficulty for the export-oriented Portuguese textile and leather industry is the strong euro which penalises companies focused on exports.

Similar circumstances have led to the closure of a production plant of the national metallurgic company [Cometna](#) based in Olivades where 161 workers will be made redundant on a collective basis. Cometna's declaration of bankruptcy is the result of severe economic difficulties over the last years.

In the performing arts sector, private television broadcaster, [Sociedade Independente de Comunicacao \(SIC\)](#), announced a restructuring plan concerning 100 employment contracts, of which 40 will be direct dismissals. Economic difficulties, related to the slowdown in the advertising industry, are cited as the reason for this measure. SIC was established in 1992 and was previously Portugal's leading television channel. In recent years, it has suffered from competition with the country's other private channel, TV 1. A first restructuring initiative, affecting 100 jobs was announced in November 2002.

Present framework and employment outlook

Industrial restructuring, relocation and bankruptcies have generated an increase in unemployment of 6.5% ([Eurostat](#)). Bankruptcy procedures in Portugal have increased by 42% in 2003 (Coface Mope, 2003). The case of the Portuguese textile and leather industry illustrates quite clearly the impact of EU enlargement and globalisation on a country with a relatively low-skilled workforce and increasing labour costs. According to a Commission study, Portugal is the country with the highest percentage of low-skilled workers throughout the EU Member States and the acceding countries (European Commission 2003). Raising average competence levels in both school leavers and in existing employees could help raise productivity levels and increase pressure on prices, thereby strengthening Portugal's potential to catch up with the other euro-zone countries (OECD, 2003).

In a document addressing the present economic and employment situation, the General Confederation of Portuguese Workers, CGTP, links the deterioration of Portugal's economy to the government's main policy objective of balancing the state budget to comply with the

3% deficit limit of the euro-zone. According to CGTP, the government's policy has sacrificed public investment, reduced the confidence of investor companies and families, halted pay increases and reduced pensions ([eironline](#), 14 April 2003).

Prospects for the future are mixed. On the one hand, consumer confidence indicators since May 2003 have shown a positive evolution, which could contribute to an economic recovery and enhance economic growth in 2004 ([EEO](#), 18 September 2003). On the other hand, according to the Secretary General of the Workers' General Union, Joao Proenca (quoted in *Jornal de Notícias*, 2004), the still weak economic growth forecast, the restrictive wages policy and the deregulated Labour Code will not contribute to boost economic growth in 2004 and, hence, the employment situation will not improve.

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> Sector focus

This quarter the spotlight is on the financial services sector. The sector showed a high level of restructuring activities during the fourth quarter of 2003, with 13 restructuring cases and 15,870 planned job reductions. There are also details on the most important cases in the sector, as reported in the press and recorded by ERM.

The reference data for employment in EU industrial sectors is taken from Eurostat¹ which refers to financial services as 'financial intermediation'.

>> Spotlight on financial services

During the last quarter of 2003, the financial services sector was hit by a large number of announced job losses (15,870), which are concentrated in a relatively low number of restructuring cases (13). So far, very few financial service providers have undertaken restructuring initiatives. However, some of these initiatives will impact considerably on employment, involving up to 4,000 job losses in one instance.

The rise in job losses related to restructuring activities within the sector comes at a time when Europe's objective of creating a single European financial market is well under way. Rapid changes in the framework of financial markets, such as the introduction of the single currency and the launching of new products as well as progress in information and communication technologies, all underscore the potential of Europe's financial markets. However, these also generate serious competition among financial services providers, forcing banking and insurance institutions to fight for their share in the global marketplace.

¹ European Commission, *European social statistics – Labour force survey results 2001*, Luxembourg, Office for official Publications of the European Communities, 2002.

As a result, companies in the financial sector have resorted to different strategies ranging from mergers and acquisitions, downsizing and outsourcing to internal restructuring measures in a bid to maintain their competitiveness.

Mergers and acquisitions

In September 2003, the Finnish exchange operator [Hex](#) and the Swedish service provider [OM Technology](#) merged to form [OMHEX](#), becoming the largest securities market operator in northern Europe. As part of the merger activity, [OMHEX](#) announced in October a restructuring of [OM Technology](#)'s Finnish operations with 60 jobs at stake out of 372. Rationalisation negotiations were initiated and are expected to be concluded by March 2004. The job cuts are sought on productivity grounds as well as the reorganisation of tasks and the need to reduce overlap due to the merger between [HEX](#) and [OM](#). Cross-border mergers of this kind only happen when linguistic and cultural differences can be easily overcome. The aim is to consolidate and secure the sustainability of financial markets within one region. Another such example is the merger of the home and accident insurance business of Norwegian [Storebrand](#) and Swedish [Skandia](#) to form [IF \(EMCC\)](#), (2003).

However, cross-border European consolidation has been slow as countries pursue national reforms and attempt to consolidate their domestic markets first. The recent alliance between the [Banca Popolare di Cremona](#) and the [Banca Popolare di Lodi](#) in Italy follows this trend. The merger was sealed in November 2003 to form one of the biggest banking groups in Lombardy, an economically advantaged region. Management proposes cutting 800 jobs without any direct dismissals – offering mainly early retirements, voluntary leave and redeployment to sales activities. The latter will entail the opening of 20 new agencies with the creation of some 60 jobs.

Downsizing

Downsizing is also a common strategy within the financial services sector to both consolidate and secure market shares. It involves focusing on core activities and engaging in cost-cutting measures, leading to the closure of branches.

In the fourth quarter of 2003, the most striking downsizing initiatives were the cases of the [Banca Monte dei Paschi di Siena \(BMPS\)](#) in Italy and the [Banque de France](#) in France. The business plan for the former (2003-2006) clearly stated that it will focus on its main business areas, i.e. medium- to long-term credit, leasing, factoring, merchant banking, intermediate brokerage of stocks and shares. The plan foresees a loss of 3,600 jobs in central structures, back-office activities and foreign operations. These measures will allow a labour cost reduction of 1.9 % a year. At the same time, [BMPS](#) will redeploy 1,900 jobs towards its sales activities as they plan to open 150 new outlets in Italy by the end of 2004.

The introduction of the euro and the establishment of the European Central Bank have altered the mission of the national central banks in the 12 EU Member States of the 'euro-zone'. Some, in Spain and Belgium for example, have already embarked on restructuring activities. In October 2003, the [Banque de France](#) announced its plan to rationalise the institution's structures, missions and activities. The plan aims to reduce the workforce by 2,300 employees and close down 96 out of 211 branches throughout France.

Furthermore, several other banks announced plans to downsize in order to work in a more cost-efficient way. The Belgian bank [Fortis](#) intends to reduce its service support by up to 230 jobs. The [ING bank](#) in France will lay off 150 employees and close 19 agencies. [Skandia](#) in Sweden also plans to cut 300 jobs to implement annual cost reductions of approximately SEK 200 million. [Friends Provident](#), a UK insurance company, has announced its decision to close down its door-to-door sales force, with 500 jobs at stake.

Online banking is widespread in Scandinavian countries, particularly in Finland, compared to southern European countries such as France Italy and Spain, which count very few users

of online banking ([Schaaf](#), 2003). Stronger consumer uptake of phone and Internet services for their banking needs motivated the Finnish bank [Pohjola](#) to cut its workforce by 150 employees. Talks between employer and employee representatives concluded in December 2003 and job reductions will be achieved by means of attrition, retraining, job rearrangements and support packages. Twenty-eight people have taken up a new job with [Pohjola](#) while 116 people have chosen a support package.

Outsourcing

Streamlining the organisation is also achieved through outsourcing. The Austrian group [BA-CA](#) has announced its intention to cut 1,600 jobs by 2006 through outsourcing. This is not a new practice within the EU financial services sector, specifically regarding call centre services ([Marginson](#), 2003). A company requiring more flexibility to provide, for example, 24-hour call centre services, is likely to resort to outsourcing. Unions are concerned about such practices, which, they fear, could represent a management strategy to bypass sectoral agreements, which tend to be relatively restrictive regarding working hours.

The most striking case for the reference period is the one concerning [HSBC](#), which plans to outsource 4,000 call centre and back-office jobs to Asia (see company focus below). Nevertheless, it is not an isolated case but rather marks a trend. This practice is often referred to as 'offshoring'. Within three months, three other companies announced similar measures: [Lloyds TSB](#) intends to transfer 1,000 jobs to India; the UK insurer, [Norwich Union](#), will move 3,500 jobs; and [Barclays](#) which, following rumours of outsourcing for 1,000 jobs, announced in January that only 250 roles will be affected.

Offshoring will lead to 8,750 job losses in the UK alone. British unions reacted immediately to the announcements and achieved some compromises, including an agreement with [Barclays](#). Only 40 workers will lose their jobs (see fact sheet for more details). [Norwich Union](#), for its part, declared it would try to avoid compulsory redundancies. After months of negotiations, [Lloyds TSB](#) promised to offer a job to any call centre worker who wishes to stay with the bank.

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> Company focus

This section presents data concerning the cases of two companies which recently announced restructuring plans: the British [Hongkong and Shanghai Banking Corporation \(HSBC\)](#) and the textile company [Melka](#).

>> Spotlight on HSBC – United Kingdom

The [Hongkong and Shanghai Banking Corporation WO/UK \(HSBC Holdings plc\)](#) is registered in the United Kingdom (UK), and has its head office in London. The British bank has over 9,500 offices worldwide and employs 218,000 people in 79 countries and territories.

In October 2003 the [HSBC](#) Group announced that they plan to move 4,000 customer service jobs from the UK banking arm to other sites primarily in India, Malaysia and China. The plan is to transfer the jobs progressively over the next two and a half years. All of the jobs will be lost in the UK at different locations, in Birmingham, Brentwood, Essex, Sheffield and Swansea. The intention is to close these five back-office processing centres; staff losses will thus occur mainly in the 'Operations and customer telephone service' units. The restructuring plan is expected to proceed in three stages: 1,500 in 2004, 2,000 in 2005 and the final 500 by mid-2006.

Such a move is an example of corporate 'offshoring' where companies seek to reduce their labour costs by hiring workers at substantially lower costs in other countries. Company strategies of this kind are increasing in the information technologies and financial services sectors in the US and the UK. Indeed, 'HSBC joins a line of firms, including insurer [Aviva](#), telecoms firm [BT](#) and supermarket sector leader [Tesco](#) in switching jobs to Asia to take advantage of a relatively cheap, skilled, English-speaking workforce there' ([J. Treanor](#), 2003).

[HSBC](#) puts forward a rationale emphasising the labour savings involved, with the average Indian call centre salary being £2,500 per annum against £15,000 in the UK. For [HSBC's](#) chief executive, Bill Dalton, 'the moves were the next step in a process, which began three years ago, of moving UK-related work to the Group's service centres in Asia'. He makes the point that 'as one of the world's largest financial services companies, [HSBC](#) has a responsibility to all its stakeholders to remain efficient and competitive' (*ibid*).

There are additional advantages in moving to Asia since the bank will be able to offer 24-hour banking using Asian and other centres to give the necessary time coverage. At the same time, according to Andrew Armishaw, head of [HSBC's](#) Global Service centre, the bank will profit from a highly educated Indian and Chinese workforce which is numerate, enthusiastic and as efficient as its UK counterpart. For Armishaw, the arguments in favour of outsourcing do not begin and end with cost, but also include quality and the ability to do the job: 'So long as there is no compromise on quality. There isn't. The error rate is seven in every 10,000 calls in the UK and India' ([J. Fitch](#), 2003).

Unifi, the UK finance union, has reacted strongly to [HSBC's](#) announcement of site closures and the inevitable compulsory redundancies. They have begun campaigning for what they call a 'Globalisation Charter' to control staff losses. This Charter ([Unifi HSBC](#), 2003) puts forward a number of key demands:

- There must be no compulsory redundancies.
- [HSBC](#) should give UNIFI a minimum of 12 months' notice of any plans to globalise UK jobs.
- [HSBC](#) and UNIFI should jointly manage the process of change arising from plans to globalise UK jobs.
- UNIFI's network of lifelong learning union representatives must be extended across the bank to develop transferable skills and enhance employability.
- [HSBC](#) must adopt ethical employment practices in all their global sites.

In addition, Unifi encourages banks in the UK to sign 'offshoring agreements' which provide a framework for dealing with a bank's strategic options regarding outsourcing jobs overseas. One such landmark agreement ([Unifi Barclays](#), 2003) was achieved with [Barclays](#) on 5 January 2004 to guard against the type of unregulated transfer of jobs seen at [HSBC](#).

In this context, the U.K. Secretary of State for Trade and Industry, Patricia Hewitt MP, initiated a government inquiry into offshoring and its implications ([DTI](#), 2003). It is also

planned to carry out a sectoral study, focusing on call centres. Furthermore, unions and businesses are invited to take part in a national debate on offshoring.

It seems, however, that 'offshoring' will continue on a large scale within the financial services sector. The British trade union, Amicus, forecasts that 200,000 call centre jobs will be wiped out in the coming years. Deloitte Research is far more pessimistic, reckoning that two million of the 13 million jobs in financial services in developed economies will move to India by 2008. They predict that 'some 730,000 of those jobs will be in Europe and most of those from the UK, because, with just a few exceptions, this jobs revolution applies only to those who speak English' ([J.Fitch](#), 2003).

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>> Spotlight on Melka – Portugal

The Swedish group [Melka Confeccoes](#) was set up in Portugal in 1960, at a time when labour costs were still very low in Portugal compared to Sweden. The group established its own brand, as well as strong markets in the Scandinavian and Benelux countries, and in Portugal. In 1996, it employed around 1,100 people in Portugal in the production of high quality clothing.

[Melka](#) has progressively closed its production sites at Evora (200 redundancies), Palmela (200 redundancies) and [Sulim](#) (100 redundancies) over the past number of years. [Cacem](#), the company's last site in Portugal, will be the next to go in February 2003, despite the restructuring it underwent a few years ago, which led to 300 job losses. This last closure brings its 43 years in the Portuguese market to a close. [Melka](#)'s departure, however, is not a surprise given the restructurings and site closures that have taken place recently. According to trade union officials, however, its departure does represent a heavy loss to the textile industry in Portugal because it was a prestigious brand.

Since employment protection legislation is very strict in Portugal, the textile group had to come to an agreement with the trade union on how the next collective redundancy, affecting 280 people, will be implemented. The agreement stipulates that all workers will benefit from a 3% salary increase in January, allowing higher levels of compensation when they lose their job. These increases will be based on the total pay, including production bonuses, [Melka](#) pays to its employees. This agreement also states that the compensation to be given to the workers will be increased to the equivalent of two months' pay.

Lack of competitiveness and a decrease in the number of sales orders are the chief reasons given by the company for its move. The company's management emphasised the fact that production costs in Portugal are higher than those in other countries around the world, in particular in eastern Europe and Asia. In addition, the management refers to a drop of 40% in sales over the last five years. This, however, can be linked to the general slowdown in trade volume of the textile and clothing industry since the 1980s.

According to the Workers' Union for the Textile, Wool and Clothing industry in the south of Portugal, the main reason for relocating to eastern Europe and Asia is to take advantage of lower labour costs. '[Melka](#), whose turnover reached 35 million euros in Portugal, is currently in the process of relocating to Indonesia, China, Vietnam and Poland, in order to increase its profits because the workforce in these particular countries is cheaper', states the leader of the workers' union António Marques (2004). The union is appealing to [Melka](#) to maintain

its production at Cacem. It is also asking the Portuguese government to play a more active role in the protection of jobs throughout the country, particularly in the textile industry.

The restructuring of [Melka](#) is not an isolated case in the Portuguese textile industry. Earlier in 2003, another major multinational, shoe manufacturer [C&J Clark](#), also decided to leave Portugal, following a very similar pattern. After a series of restructurings and site closures, the UK group announced its departure from Portugal because of 'the need to cut costs as well as the drop in orders'. Clark relocated to Romania and India. It should be noted that this multinational received financial backing from the Portuguese state to set up its businesses in Portugal, and gave assurances at the time that they would stay (J. Ribeiro e Castro, 14 August 2003).

The crisis in the textile industry in Portugal is ongoing and the industry faces great challenges in the form of globalisation and European enlargement ([eironline](#), 2003). Over the last decade, 100,000 people have lost their jobs in the textile and clothing industry, according to union leader António Marques. Recent figures published by the National Institute of Statistics indicate that a further 10,000 jobs were lost to the sector in 2002, representing a 4% drop in employment (A. Ferreira, 2003). A study by the Portuguese Federation of the Workers' Union for the Textile, Wool, Clothing, Shoe and Leather sectors (FESETE) reports the closure of 206 businesses between 2000 and April 2003 (FESETE, 2003). The multinational companies, which have closed their plants in Portugal, have left behind numerous micro and small textile companies – 53% of Portuguese textile companies have less than 10 workers (McKinsey&Company, 2003). These businesses still suffer to some extent from poor management and lack the organisational capacity to adapt to international competition.

However, Manuel Freitas of the FESETE believes that there are viable companies, especially those which have modernised and applied new management strategies. Despite the overall negative picture, the president of the Textile and Clothing Industries Federation, Jose Robalo, says that the crisis has climaxed, and that bankruptcies in the sector will not increase.

References

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> Note on methodology

The European Restructuring Monitor is a tool which records industrial restructuring cases as reported in the press. 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. The cases are identified through a review of daily papers and the financial press in the 15 EU Member States.

ERM enables the compilation of statistics based on the information available in the database on each restructuring case. A comparison between countries and sectors is

possible, identifying those with the highest number of restructuring cases and associated employment effects. In order to provide a more meaningful comparison of trends, statistical data will be weighted to take into account the size of the active labour force in the 15 EU Member States and the number of people employed in the sectors covered by the ERM. Only those fact sheets in the ERM database which refer to a specific country are included in the statistical analysis. Fact sheets referring to European or worldwide restructuring activities are not considered in order to avoid double counting.

The statistics provided in each edition of the ERM *quarterly* may differ slightly from the statistics available online at the ERM website. This is due to the fact that data on the website is updated whenever new information becomes available, in particular with respect to the number of planned job reductions. Once it has been uploaded, the information in the ERM *quarterly* is not updated and hence does not reflect those adjustments.

The reference data for employment in EU Member States and industrial sectors is taken from Eurostat². Since Eurostat does not provide data for all 26 sectors covered by the ERM, sectors had to be regrouped to match the sectors listed by Eurostat. The reference for sectoral data is employment figures for the sector across all 15 EU Member States.

Eurostat sectors	EMCC sectors
Agriculture	Agriculture and fishing
Mining and quarrying	Extractive industries
Manufacturing	Glass and cement; Electrical; Chemical; Food; beverage and tobacco; Textiles and leather; Motor; Pulp and paper, Metal and machinery
Electricity/gas/water supply	Energy
Construction	Construction and woodworking
Wholesale and retail/repairs	Commerce
Hotels and restaurants	Hotel, restaurant and catering
Transports/ communications	Post and telecommunications; Transport and storage
Financial intermediation	Financial services
Real estate/business activities.	Information technology; Consultancy business services
Public administration	Education
Other services	Publishing and media; Maintenance and cleaning; Health and social work; Hair and beauty care; Performing arts

If you would like more information on the European Restructuring Monitor, you can visit the website at www.erm.emcc.eurofound.eu.int or send a request to the e-mail address erm@eurofound.eu.int.

www.erm.emcc.eurofound.eu.int

² European Commission, European social statistics – Labour force survey results 2001, Luxembourg: Office for Official Publications of the European Communities, 2002