european restructuring monitor *quarterly*

Issue 3 – Autumn 2005

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 July to the end of September 2005, and refers to statistics drawn from the ERM website on 5 October 2005.

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 EU25, Bulgaria and Romania. Basic information about each case and its employment effects is freely accessible through http://www.emcc.eurofound.eu.int/erm/.

> Overview

During the third quarter of 2005, from 1 July to 30 September, the European Restructuring Monitor (ERM) recorded 411 cases of company restructuring across the 27 countries monitored: the former EU15, the 10 new Member States and two acceding countries, Bulgaria and Romania. Job losses totalling 102,106 were announced as a result of 242 of these restructuring cases. This represents a reduction of 28.2% in announced job losses compared to the previous quarter figure of 142,162 job losses, for a significantly higher number of restructuring cases (294) recorded.

According to press announcements during the third quarter of 2005, 169 of the 411 cases of company restructuring resulted in business expansion and thus foresee the creation of 96,081 new jobs. The overall planned job creation for the third quarter of 2005 stands at 99,557. This indicates a decrease of 15% in announced job creation compared to the previous quarter in 2005, i.e. 117,734 new jobs for the second quarter of 2005.

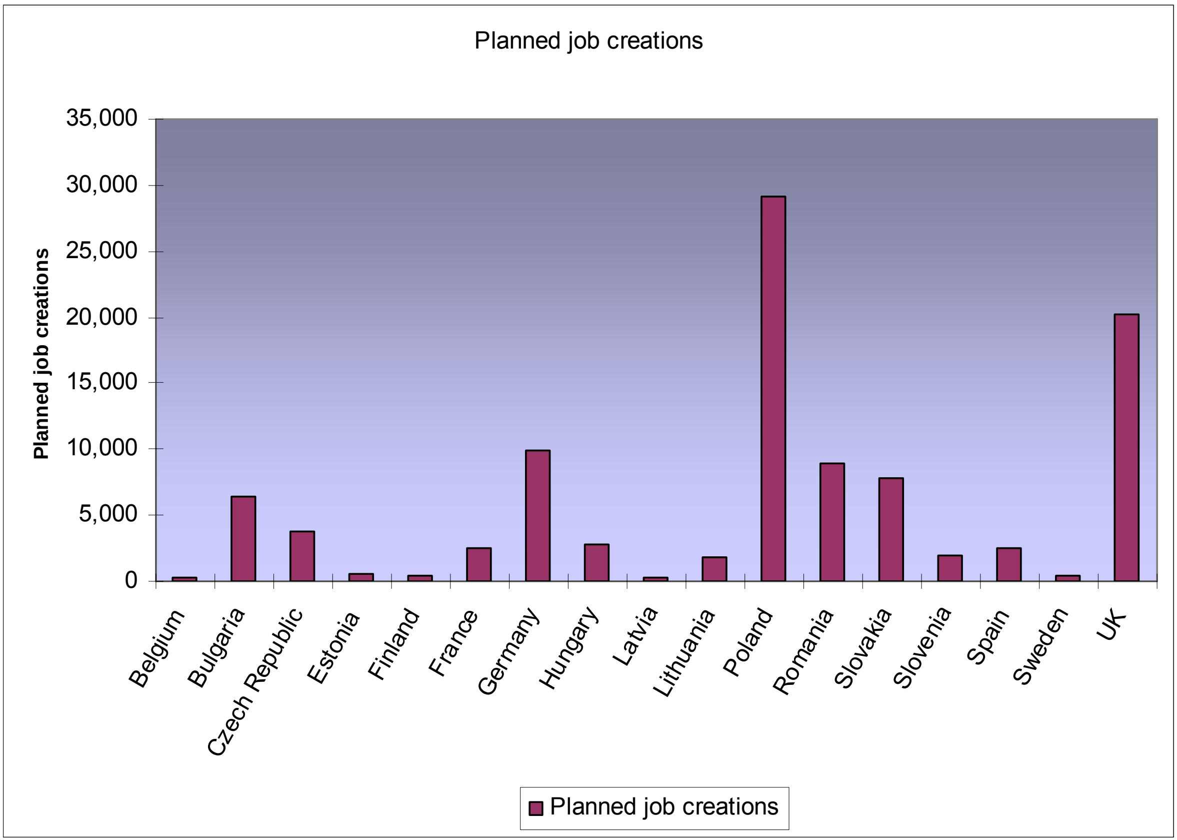
Table 1: Breakdown of employment effects by type of restructuring in the 3rd quarter

Type of restructuring	Planned job reductions	Planned job creation	Cases
Business expansion	0	96,081	169
Internal restructuring	71,478	1,766	134
Bankruptcy / Closure	14,768	0	59
Offshoring / Delocalisation	6,288	0	24
Merger / Acquisition	7,282	1,000	17
Relocation	620	0	3
Other	570	710	3
Outsourcing	1,100	0	2
Total	102,106	99,557	411

Announced job creation across countries monitored

As Figure 1 shows, a significant number of these new jobs – 63,506 out of 99,557 – are related to expanding business activity in new Member States or acceding countries, with Poland, Romania and Bulgaria attracting 29,163, 8,987 and 6,430 jobs, respectively. Among the EU15 countries, the United Kingdom (UK) continues to record a high rate of business expansion, as observed in the last quarterly's overview, with 13 restructuring cases accounting for 20,196 new jobs. Germany recorded a lower rate of restructuring activities resulting in business expansion, with 13 restructuring cases accounting for 9,895 new jobs compared to the 12,096 new jobs in the last quarterly's overview (see Issue 2, Summer 2005 (PDF, 398 kb)).

Figure 1: Distribution of job creations across the EU during the 3rd quarter 2005

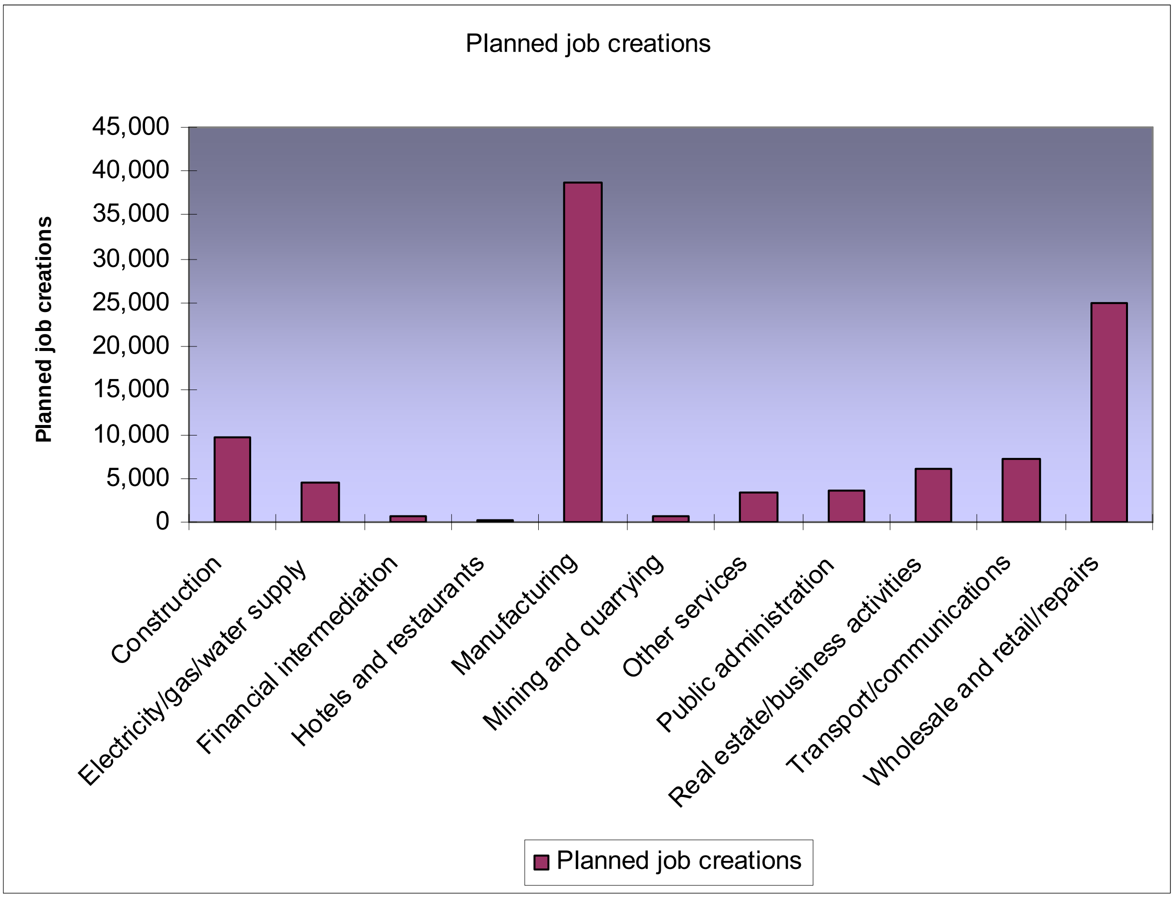


As Figure 2 illustrates, the manufacturing sector continues to expand, as observed in previous quarters. The motor sector in particular profits from increasing business activity and investment in Poland, Slovakia, Romania and the Czech Republic. ERM recorded 20 announcements in the press involving the creation of 9,593 new jobs in this sector in these four countries.

Growth in construction and woodworking

The construction and woodworking sector shows rapid expansion in Poland, with 11 cases accounting for 5,240 new jobs. This sector benefits from business activity and investment in Poland. More generally, ERM recorded 22 announcements in the press involving the creation of 9,630 new jobs in the construction sector in the EU and the two acceding countries (for further details, see the sector focus on construction and woodworking below). The market situation for the construction sector as a whole is changing, as EU enlargement opens the sector up for competition and new markets in the new Member States. The use of new technologies and organisational changes to adapt to external pressure are the main drivers of change in this sector.

Figure 2: Distribution of job creations across sectors during the 3rd quarter 2005



The real estate developer, Bogi, intends to hire 800 people for the construction of an amusement and shopping centre in the Podkarpackie province at Rzeszow. The company plans to create another 400 jobs in the future. In Romania, the French group Parisot has built a furniture factory in Tărnăveni which is set to start manufacturing in October 2005. By the end of 2005, the factory will have 400 employees and is expected to hire 1,500 workers by the end of 2006.

In manufacturing, Airbus Industries, a commercial aircraft manufacturer, is experiencing a boom in the demand for its aircraft and will therefore hire 1,400 new workers for its German plants.

Announced job reductions across countries monitored

Figure 3 illustrates the distribution of recorded cases and job reductions for the third quarter of 2005 across the EU25 and two acceding countries, Bulgaria and Romania.

Figure 3: Distribution of recorded restructuring cases and job reductions across the EU during the 3rd quarter 2005

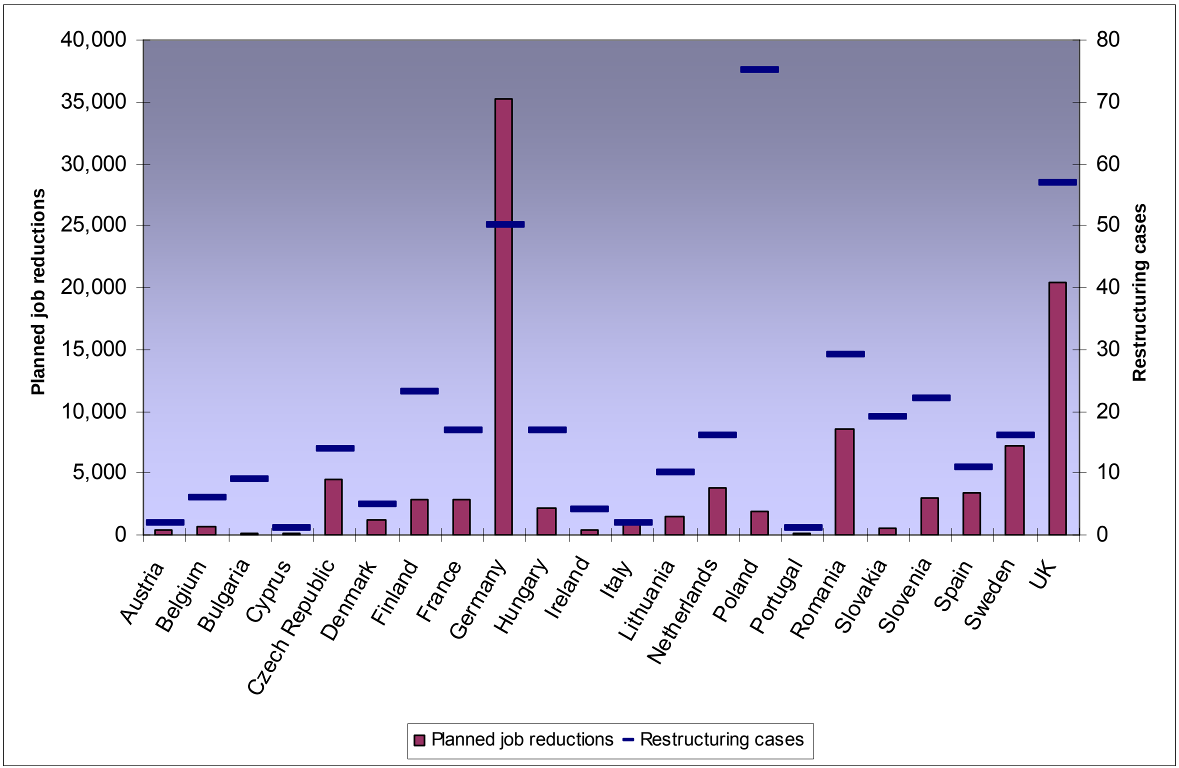


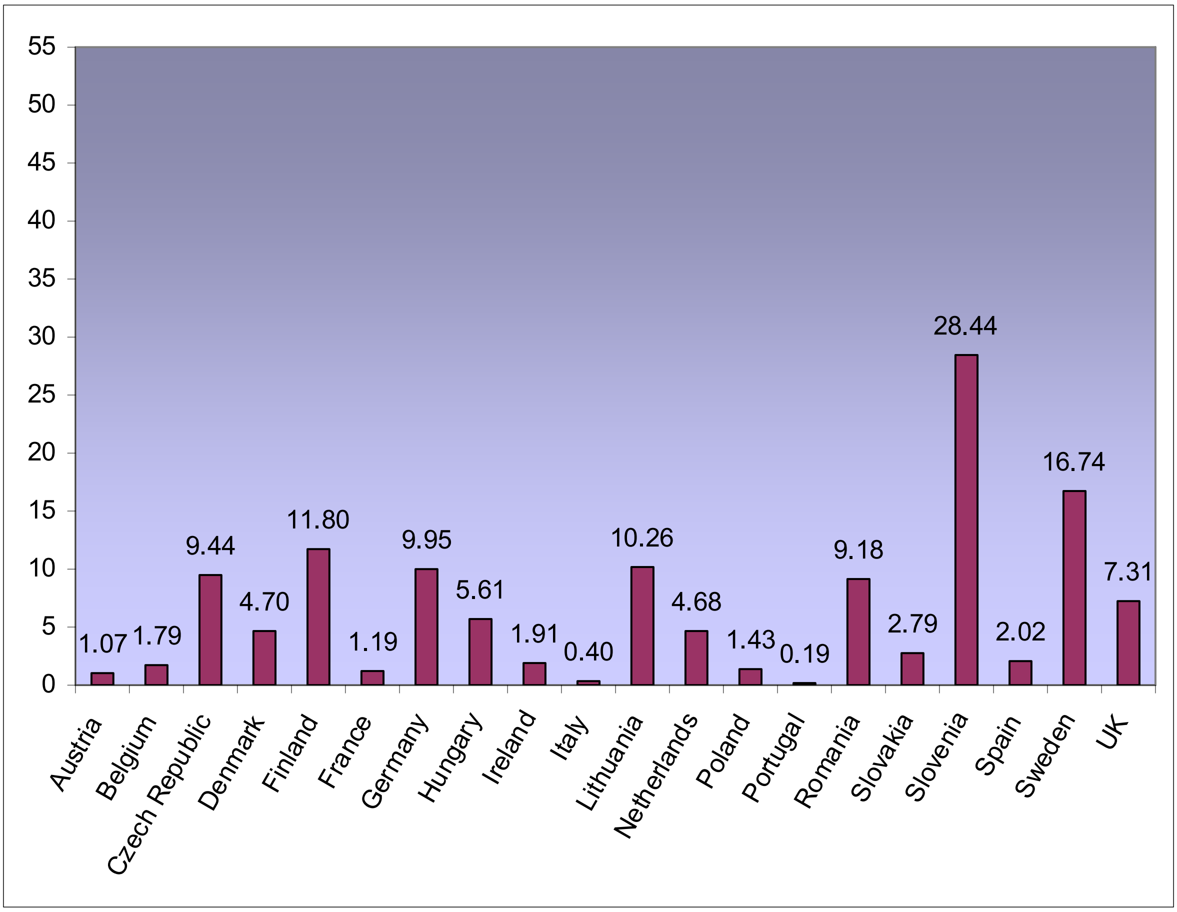
Figure 3 shows that Poland displays the highest number of restructuring cases announced (75), followed by the UK (57 cases), Germany (50), Romania (29), Finland (23) and Slovenia (22). This is a similar picture compared to the one outlined in the previous quarter, in which Poland accounted for 70 restructuring cases, followed by the UK (64) and Germany (63). On the other hand, the overall figure for job losses in Poland is significantly different this quarter, amounting to 1,957 compared to 11,238 job losses in the previous quarter. In Germany, Finland and Slovenia, however, the number of job losses increased to 35,300, 2,812 and 2,690, respectively, while in the UK, the number decreased to 20,420 compared with the previous quarter, which recorded 26,577 job losses. Most of the restructuring cases reported in Poland accounted for a relatively modest number of job losses as compared to the previous quarter, which were also outweighed by the number of announced job creations. The overall figure for job losses in Germany, however, is extremely high this quarter compared with the previous one, with Germany displaying a net job loss of 25,405.

In Romania, internal restructuring represents 31% of the cases recorded (29), with a net positive employment effect of 467 jobs (see this quarterly's country focus on Romania). Nevertheless, Romania was one of the countries most affected by restructuring during the third quarter of 2005, with a rate of 18.61 job reductions per 10,000 employees (see Figure 4 below).

Malta, Luxembourg and Greece stand out with no restructuring cases recorded during the third quarter of 2005. However, this is related to the company structure prevailing in these countries, which is based on very small and small and medium-sized enterprises (SMEs). Thus, restructuring activities often lie below the ERM threshold to monitor cases involving an announced or actual reduction of at least 100 jobs, or sites employing more than 250 people and affecting at least 10% of the workforce.

In order to establish a more meaningful comparison between the 27 countries monitored, the respective size of the 27 economies needs to be taken into account. Figure 4 presents the distribution of job losses per 10,000 people employed, illustrating the relative impact of those reductions nationally.

Figure 4: Announced job reductions due to restructuring (per 10,000 people employed) during the 3rd quarter 2005



Job losses in Finland and Slovenia

Compared to previous quarters, the Finnish economy, despite its relatively small labour force, continues to experience increased levels of restructuring activities, with 11.80 job losses per 10,000 people employed. In August, the producer of electrical equipment, PKC group, announced the reduction of 230 jobs in the Kempele and Raak units in Finland. The company plans to move its production mainly to low-cost countries. In early September, the Finnish broadcasting company, YLE, started codetermination negotiations in order to cut 400 jobs by the end of 2007, citing severe losses under its present structure as the main reason for the cuts.

In Slovenia, a high rate of announced job losses – 28.44 job reductions per 10,000 employees – is mainly related to job losses in the internal affairs, defence and finance ministries as well as in regional administration, with 600 announced redundancies in these departments by 2007. Prevent, a leading European manufacturer of car seat covers, also plans to reduce its workforce by 300 people to a total of 430 employees. The company already announced further so-called 'soft' reductions in 2006.

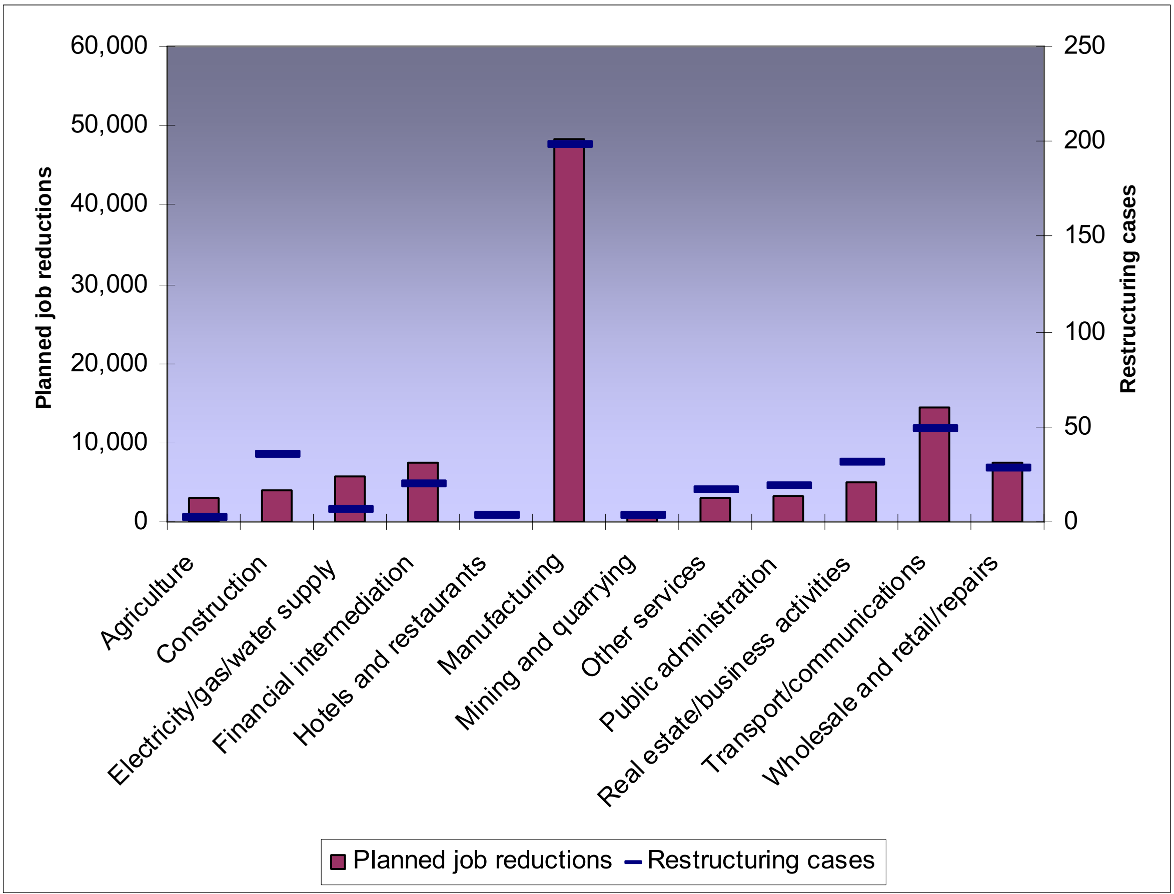
Sweden, with 16.74 job losses announced per 10,000 people employed, has again faced a significant increase compared to the previous quarter. The largest single case reported in Sweden is that of Telia Sonera in the post and telecommunications sector. The company announced that its operations in Sweden would undergo extensive restructuring. The restructuring plan put forward in the interim report January–June 2005 is expected to result in a reduction of approximately 3,000 employees and to reduce annual costs by SEK 4–5 billion (€416–520 million[1]) by 2008.

Distribution of recorded cases and job reductions across sectors

Figure 5 below illustrates the sectoral distribution, along with related employment effects, of the 242 restructuring cases involving job losses recorded by the ERM during the third quarter of 2005, from 1 July until 30 September. During this quarter, the manufacturing sector still records the highest number of job losses (198 cases accounting for 48,397 announced job losses in total), mainly attributable to restructuring in the motor sector (46 cases accounting for 23,290 announced job losses in total).

[1] All euro equivalents are calculated at an exchange rate of € 0.10399 per Swedish Krona.

Figure 5: Distribution of recorded cases and job reductions across sectors during the 3rd quarter 2005



Restructuring in manufacturing

The textile and leather industry continues to be affected by restructuring activities, with no large single case standing out. In 2005 in Romania, the sector signalled massive lay-offs, according to the Institute of National Statistics (INS). However, the Inditex Group, one of the world's largest fashion distribution groups, which specialises in textile design, manufacturing and distribution, has announced the creation of a new logistics and distribution centre in Madrid, creating 1,400 jobs by the end of 2006.

In the pulp and paper sector, the Swedish company SCA will implement an extensive efficiency enhancement programme and will cut 3,600 jobs. All business areas will be affected by the plan, which is expected to result in annual savings of SEK1,550 million (€161 million) by the end of 2007. Some 75% of the planned job reductions will be in Europe. Jan Åström, CEO of the company, said in an interview that paper mills would be closed in Denmark, Germany, the Netherlands and the UK.

The transport and storage sector also reported a high number of planned job losses. The largest single case (and the second most important one in terms of job reduction) concerns the Romanian public transport company, Regia Autonomă de Transport Bucureşti, RATB. The programme includes the loss of 2,300 jobs out of 14,300 by the end of 2005. But there is also job creation in the sector – Senec Real will build a logistics and commercial centre

(Senec Cargo Centre) in Slovakia, which will be the biggest one in the country. A €250 million investment will be realised by the end of 2006, creating 2,000 jobs.

Figure 6 below provides a more realistic comparison between sectors, as it takes the sector size into account. It outlines the sectoral breakdown of announced job losses per 10,000 people employed in each sector in the 27 countries monitored.

Figure 6: Announced job reductions due to restructuring across sectors (per 10,000 people employed) during the 3rd quarter 2005

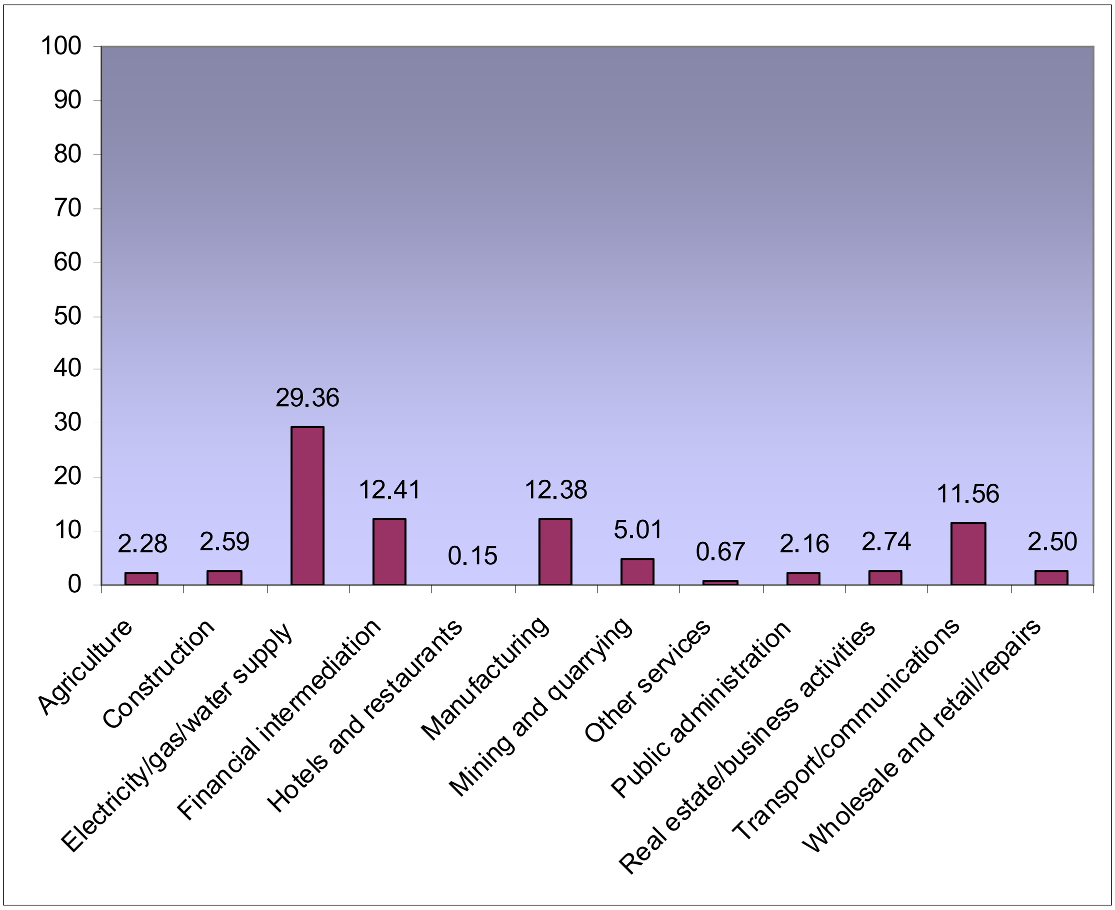


Figure 6 illustrates a sharp contrast in relation to previous quarters. In the mining and quarrying sector, the level of job losses per 10,000 people employed decreased significantly. In comparison to the second quarter of 2005, the electricity sector remained strongly affected by job losses, while other sectors (financial, manufacturing, telecommunications) follow the same trend.

Job losses in the electricity sector

The electricity, gas and water supply sector is still showing high redundancy activity, with 29.36 job losses per 10,000 people employed. Also heavily affected is transport and telecommunications, with 11.56 announced job losses per 10,000 jobs. The new chairman of Siemens AG, Klaus Kleinfeld, has announced a restructuring of the group in order to raise productivity and profitability. The IT services sector, SBS and the communications department will be the worst affected. More than 5,000 jobs will be lost. Siemens has already launched several restructuring efforts in its various business lines in 2005.

> Country focus

This section explores the economic and labour context of company restructuring in Romania, one of the countries most affected by restructuring during the third quarter of 2005, with a rate of 18.61 job reductions per 10,000 employees.

>> Spotlight on Romania

After a decade of decline, Romania's economy is finally on its way towards recovery, after economic development initiated during the first years of the 21st century. The country has recorded one of the best performances in terms of economic growth in 2004, despite the jolt of local, parliamentary and presidential elections and some external and local market difficulties. In 2004, GDP increased by 8.3%, exceeding the previous year's figure by 3.1 percentage points and the original target by 2.8 percentage points. In industry, gross added value climbed to 6.2% – 9% in construction, 6.1% in services and 22.2% in agriculture, the highest rate in the past 15 years thanks to bumper grain crops.

According to the data released by the Institute of National Statistics (*Institutul National de Statistica*, INS), the first half of 2005 witnessed a slowdown in development, with GDP still up by 4.9% (all sectors included) and a growth rate of 3.6% in industry, 3.9% in construction and 6.9% in services.

Macroeconomic developments

For the first time since 1990, the inflation rate reached a one-digit figure in 2004 (9.3%) and continued to diminish during the first half of 2005 (8.9%). Due to higher external prices, exports of goods recorded a high growth rate in 2004 (21.3%), rising to €18.9 billion, while imports grew even faster (by 24%) to €24.3 billion. The €5.3 billion trade deficit recorded in 2004, whose share in GDP rose to 9% compared to 7.8% in 2003, weighed heavily on the current account deficit, which rose to 7.6% of GDP compared with 6% in 2003.

The target set for 2005 is a 1% budget deficit. Despite the introduction of the 16% flat tax rate as of 1 January, during the first eight months of 2005 the budget recorded revenues in excess, but at the expense of postponing some major spending for the fourth quarter.

The lei appreciated by almost 9% against the euro in 2004 and by another 9.1% during the first six months of 2005. This development affected some vulnerable exporters, such as textiles and clothing and furniture manufacturers. Several major steps were taken in the process of capital liberalisation during 2005 – the domestic currency was redenominated as of 1 July 2005 (so that 10,000 old lei, in circulation on that date, can be exchanged for 1 new leu), restrictions were lifted on non-residents' access to national currency deposits in Romania, as were those regarding residents' rights to open accounts with credit institutions abroad. The energy market was 83.5% liberalised as of 1 July 2005.

Three international rating agencies (Standard & Poor's, Fitch IBCA and Japan Credit Rating Agency) upgraded Romania's ratings for long-term debt in 2004. According to a KPMG press release, the total value of mergers and acquisitions reached €834 million, surpassing the figure for the entire year of 2004 by more than €100 million.

In 2004, Romania saw the adoption of its first Fiscal Code, which included simplified regulations and may also have contributed to the increase in foreign investors. Social contributions on payroll paid by employers were lowered by three percentage points in 2004. Moreover, 2005 saw further fiscal relaxation, especially regarding corporate tax; due to the introduction of a 16% flat tax rate as of 1 January 2005, the profit tax dropped by nine percentage points.

The latest forecasts for 2005 indicate a 5.7% real increase in GDP and a 7.5% annual inflation rate. The number of employees may rise by 130,000 people (2.8%), real wages could go up 12.3% and the unemployment rate might reach 6% by the end of 2005. Agricultural output would be most affected, since floods have damaged about 620,000 hectares of cultivated land this summer.

Restructuring and the labour market

The current abrupt restructuring process in the labour market is not new in Romania, as the country has witnessed wide job cuts during transition. The process has been conducted by means of early retirement and massive redundancies followed by redundancy pay, which were generally not accompanied by job-creation processes of similar magnitude. Thus, between 1990 and 2003, total employment fell by 23.7% and the number of employees dropped by 43.7%, with the most dramatic cut occurring in industry (almost 2 million jobs lost, representing 52% of the initial number of employees). Employees' shares in total employment fell from 75.2% to 55.3%, while increased shares belong to other categories of employment (self-employed, unpaid family workers, employers and members of an agriculture holding or cooperative).

The Romanian labour market has some atypical features – while unemployment figures are particularly low (5.5% unemployment rate by the end of June 2005, down from 6.2% in 2004 and 7.4% in 2003), the activity rate of the working-age population was only 60% in 2003 and is still far from the 70% targeted by the European Union. The number of pensioners almost doubled between 1990 and 2003, outpacing the number of employees by 1.35 times. During the last decade many redundant people chose to go back to their native villages and start working in agriculture. Romania has a 34.8% share of agricultural employment, the highest among all current and future EU members.

After the statutory unemployment benefits period has expired, many unemployed people no longer register themselves to the National Employment Agency (Agentia Nationala pentru Ocuparea Fortei de Munca, ANOFM). Thus, official unemployment figures do not exactly match with reality. Many long-term unemployed people either become inactive or become working emigrants (estimations of legal and illegal work migration abroad suggest between 1 and 2 million people). The category made up of redundant employees and the rural and inactive population is considered a reservoir for future labour demand.

However, during the first half of 2005, the registered number of employees increased by 4.3% to almost 4.6 million people. This development is partly due to normal fluctuations between different quarters within one year, but economic recovery coupled with the slow downtrend of the grey market (a consequence of the introduction of a flat tax rate) is also an essential factor.

Low wages are generally considered to be the main driving force in attracting foreign investments, which is certainly true for Romania, currently ranked lowest amid new Member States and South-East European countries. Furthermore, the *Global Competitiveness Report 2005–2006* ranked Romania eighth out of 117 countries in terms of quality of technical and scientific training of the workforce and twelfth as regards foreign direct investment (FDI) and technological transfers.

Reported restructuring cases

In the third quarter of 2005, from 1 July to 30 September, ERM recorded 29 cases of company restructuring in Romania. Job losses totalling 8,520 were announced in the press, primarily in Adevarul, Economistul and Ziarul Financiar, but also in others reputable outlets.

As Table 2 shows, 17 of those cases (about 59%) were driven by business expansion and involved the creation of 8,987 new jobs. This therefore represents a net job creation of 467 jobs. Looking at the various figures for job losses, internal restructuring represented nine of the cases (31.03%) and had the largest contribution to job losses (90%) by far. Two cases of bankruptcy/closure were recorded, which resulted in 317 jobs being cut. The only case in the 'Other' category refers to the Bechtel group. In 2004, Bechtel concluded an agreement with the Romanian government to build a motorway, but the project is currently under-funded since the new elected government prefers to focus on developing the Pan-European IV Corridor and the two parties opened the negotiations again. The absence of all other types of possible restructuring cases mainly reflects the current phase of economic development in Romania. For example, domestic companies lack the power and resources to act as global competitors and join the offshoring/delocalisation processes, and only a few have managed to take off.

Table 2: Breakdown of employment effects by type of restructuring in the 3rd quarter 2005

Type of restructuring	Planned job reductions	Planned job reductions %	Planned job creation	Planned job creation %	Cases	Cases %
Business expansion	0	0%	8,197	91.62%	17	58.62%
Internal restructuring	7,633	89.59%	750	8.38%	9	31.03%
Bankruptcy / Closure	317	3.72%	0	0%	2	6.9%
Other	570	6.69%	0	0%	1	3.45%
Offshoring / Delocalisation	0	0%	0	0%	0	0%
Relocation	0	0%	0	0%	0	0%
Outsourcing	0	0%	0	0%	0	0%
Merger / Acquisition	0	0%	0	0%	0	0%
Total	8,520		8,987		29	

The sector most affected by job reduction was agriculture and fishing, due to the redundancy programme launched in the state-owned company of land development, Societatea Nationala de Imbunatatiri Funciare (SNIF). As a result, 2,800 people were made redundant across the country, most of them at their own request, since redundancy pay seemed preferable to a low-paid and insecure job. Transport and storage recorded the second largest job reduction due to 2,300 job losses in the public transport company in Bucharest, RATB. The opening of the first Rynart subsidiary in Romania compensated for this only to a small extent; Rynart is active in logistics and has decided to enter the local market at the request of its traditional suppliers (multinationals active in retail).

The remaining job reductions were caused by three other sectors (glass and cement, food, beverage and tobacco and hotel, restaurant and catering), which together totalled 647 redundant people. However, the press also revealed several cases of business expansion in those sectors, but they fell below ERM standards of creating more than 100 new jobs.

According to data released by the Ministry of Public Finances (Ministerul Finatelor Publice, MFP), foreign retailers in Romania (Metro, Selgros, Carrefour, Cora, Profi, XXL Megadiscount, Gima, Praktiker, Bricostore, Intermarché, Mega Image) have boosted turnover from €254 million in 1999 to €2.1 billion in 2004 and are set to further expand their network, especially in larger towns across Romania. Starting this autumn, nine foreign retailers are planning to invest about €220 million in opening 40 new units across the country. Commerce also witnessed two ERM cases of business expansion in the third quarter of 2005, resulting in the creation of 1,100 new jobs, though actual figures might be even higher, considering that even domestic companies are now setting up national networks. This is also backed up by an accelerating growth rate of household final consumption, up 11.2% in real terms during the first half of 2005, starting from a 10.8% annual growth rate in 2004.

Table 3: Breakdown of employment effect by NACE sectors in the 3rd quarter 2005

Sector	Planned job reductions	Planned job reductions %	Planned job creation	Planned job creation %	Cases	Cases %
Metal and machinery	400	4.69%	720	8.01%	5	17.24%
Construction and woodworking	811	9.52%	2,500	27.82%	5	17.24%
Motor	922	10.82%	2,800	31.16%	4	13.79%
Transport and storage	2,300	27%	300	3.34%	2	6.9%
Glass and cement	370	4.34%	0	0%	2	6.9%
Commerce	0	0%	1,100	12.24%	2	6.9%
Electrical	0	0%	1,100	12.24%	2	6.9%
Information technology	0	0%	177	1.97%	1	3.45%
Hotel, restaurant and catering	123	1.44%	0	0%	1	3.45%
Post and telecommunications	0	0%	100	1.11%	1	3.45%
Food, beverage and tobacco	194	2.28%	0	0	1	3.45%
Chemical	0	0%	150	1.68%	1	3.45%
Textiles and leather	600	7.04%	0	0%	1	3.45%
Agriculture and fishing	2,800	32.86%	0	0%	1	3.45%
Total	8,520		8,987		29	

The electrical sector also saw two business expansion cases: Zumtobel and Kromberg&Schubert, the latter set to create 1,000 jobs, with plans to double employment over the next few years. The factory will become a supplier of cable and wires for the motor industry. Two sectors ranked joint first regarding the number of cases, each recording 17.2% of all cases announced in the third quarter. One is construction and woodworking, where the lay-offs generated by Bechtel and Stratusmob (a domestic furniture factory in the Centru region) were surpassed by the number of new jobs to be created by the newly arrived European players Parisot, Barlinek and Ada Möbel, currently expanding their businesses. The other sector, metal and machinery, displays a similar situation. Two cases in this sector were driven by the need to conduct internal restructuring and thus generated some 200 redundancies each: Termoserv Turceni in the Sud-Vest region and UM Cugir in the Centru region. Both companies are state owned and are set to improve their efficiency indicators. In contrast, three multinationals are currently expanding and have generated 720 new jobs in total: Stabilus (manufacturing gas springs and hydraulic dampers for ergonomic seats, used in the car industry), Cord (manufacturing metallic cord to be used in the production of tyres) and Irsap (manufacturing steel radiators).

The automotive industry has become the major driving force in Romania's economic growth by attracting many foreign investors and developing various clusters of firms. This sector created the most new jobs (2,800, or 31.2% of total job creations). The industry, including the motor sector's suppliers, recorded eight restructuring cases (almost 28% of all cases), with some others still highly related. It began with Renault's investment in the Dacia plant in Pitesti in southern Romania. In June 2005, after announcing a long-term and time-consuming process of recruiting 3,000 new people over the next three years at the Dacia plant, Renault started two new restructuring processes during the third quarter of 2005. One involved 922 lay-offs due to internal restructuring at Dacia and the other consisted of setting up a gearbox unit, also in Pitesti. The gearboxes will be installed in every brand of the Renault-Nissan group, namely Nissan, Renault and Samsung, and will be exported in full to France, Japan, Mexico, Turkey, the United Kingdom and South Korea. The factory is set to start production by 2008 and will create 650 new jobs.

Motor industry suppliers are also multiplying their subsidiaries and diversifying their activities. For example, in July 2005 Pirelli and Continental launched a €40 million joint investment project for a metallic cord plant used in tyre manufacturing. The Cord Romania factory is a joint venture owned by Pirelli (80%) and Continental (20%) and both groups are planning further business expansion in Romania, with Continental announcing a change in strategy in 2004 with the opening of a research centre in Sibiu (the Centru region, Sibiu county).

Despite the long-lasting and relatively fast pace of labour market adjustments, the restructuring process is far from ending or slowing down in Romania, at least in the short term. On the one hand, some large state-owned companies in energy, post and telecommunications, manufacturing and the banking sector are yet to be privatised and the process might also involve job reductions. The same outcome may result from the restructuring of other medium-sized enterprises, especially those in textiles and clothing or furniture manufacturing, which seem to be the sectors most affected by opening the economy to competitors from abroad. On the other hand, given the still-low levels of per capita FDI inflow and stock and the increased attractiveness which the current trend of economic growth may induce, as well as future EU integration, many multinationals would like to expand or set up a new business in Romania, hence some positive effects on the domestic employment market are also likely to occur.

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> Sector focus

For this quarter, the spotlight is on the EU construction and woodworking sector, a sector significantly affected by restructuring activities during this period (35 cases, accounting for 4,038 job losses and 9,630 job creations). This section also provides details on the most important cases in the sector, as reported in the press and recorded by ERM.

>> Spotlight on the construction and woodworking sector

The construction sector is the leading industrial employer in Europe and is a strategically important sector for the European Union. The gross domestic product (GDP) of the sector is estimated at between 4% and 9% in the EU Member States, while the annual turnover reaches over €900 billion. The sector accounts for 14 million operatives, of which more than 12 million employees are located in the former EU15, representing 7.5% of total European employment and 28.1% of industrial employment in the European Union. Most of the remaining employment is in the building installation (25%) and completion (19.2%) subsectors, followed by site preparation (2.9%) and renting of equipment (0.5%). Nevertheless, due to the nature of construction activities, the scope for mechanisation and automation, the sector's productivity is low compared to other manufacturing sectors. As a result, the construction sector is very labour intensive.

Another characteristic of the sector is the high number of small enterprises in the 25 EU Member States. According to the European Construction Industry Federation (FIEC), 97% of the 2.4 million construction companies in the former EU15 countries are small and medium-sized enterprises (SMEs) with less than 20 employees, whereas 93% have less than 10 employees. Within the new Member States, the situation is similar – the majority of the 766,356 companies are small enterprises with less than 10 employees, and in some countries such as the Czech Republic, Malta or Slovakia, between 65% and 90% of the enterprises have no employees (self-employment). A study by the European Foundation for the Improvement of Living and Working Conditions highlights the strong home-oriented market structure, the high number of very large international companies (but decreasing number in a global comparison) and a very low level of R&D investment, especially when compared to Japan, as specific particularities of the sector.

Regarding the European woodworking industry, the furniture manufacturing sub-sector constitutes 54% of global production (2003). Far behind come the building components

(17%), sawmilling, planning and impregnation (12%), wood-based panels (9%), packaging (3%) and other activities (5%). As far as the European woodworking industry production value per EU Member State (except Malta and Cyprus) is concerned, the global value (which represents €165,497 million) is particularly distributed amongst Italy (19.7%), Germany (19%), the UK (12.3%), Spain (8.5%), France (7%) and Sweden (5.1%). In 2003, 89% of the production value emerged from the former EU15, while in 2003 Poland (4.5%) and the Czech Republic (2.4%) had the highest production value within the current new EU Member States.

The challenges for the European social partners in the construction sector are strongly influenced by some of the industry's particularities: low productivity; weak industry image among customers and potential new workers; SMEs' lack of marketing, ICT and management skills and low level of R&D investment among these companies; subcontracting relationships; temporary and mobile nature of worksites; high level of worker mobility; large proportion of 'undeclared work' (between 5–20% of the European GNP), especially in the new Member States; low wages; skills shortages; little interest in further education and training among small construction companies; and problems with health and safety in terms of accidents and physical strain on employees. These issues are notably those approached right from the 'official' start of the sectoral social dialogue process in the European construction industry in 1992. On the other hand, competition in the sector is increasing and dependence on economic growth and public finance is unabated, making the European social dialogue particularly important.

In the third quarter of 2005, some of these forces driving change in the sector impacted several European construction and woodworking companies. The ERM database reported 35 restructuring announcements, signaling the creation of 9,630 jobs and the loss of 4,038 jobs in the sector. In most cases, these jobs result from booming, expanding markets in the East rather than from company relocations in the strictest sense of the term, where existing activities are being transferred.

There are several attractive reasons for firms to relocate to or expand in central and eastern Europe for their most labour-intensive activities. They include economic, legal and organisational aspects, as labour costs are cheaper, e.g. lower wages than in Western Europe, which greatly exceed differences in productivity; cost and availability of raw materials; lower price of capital, especially due to tax benefits; profitable legislative clauses; lower social protection; and more generally, proximity of expanding markets.

On the other hand, another type of relocation could be carried out, especially within the construction sector: 'on-the-spot relocation', where workers from countries with particularly low labour costs are brought to Western Europe in order to replace the local workforce. In both cases, some workers lose their job for a while when the building activity is finished.

Table 4: Breakdown of employment effects in the construction sector in the 3rd quarter per type of restructuring

Type of restructuring	Planned job reductions	Planned job reductions %	Planned job creation	Planned job creation %	Cases	Cases %
Business expansion	0	0%	9,630	100%	20	57.14%
Bankruptcy / Closure	2,476	62.61%	0	0%	7	20%
Internal restructuring	792	16.93%	0	0%	6	17.14%
Other	570	15.15%	0	0%	1	2.86%
Merger / Acquisition	200	5.31%	0	0%	1	2.86%
Offshoring / Delocalisation	0	0%	0	0%	0	0%
Relocation	0	0%	0	0%	0	0%
Outsourcing	0	0%	0	0%	0	0%
Total	4,038		9,630		35	

This impressive figure of a net job creation is attributed to the fact that the vast majority of companies are undertaking a business expansion (20 out of 35), while 13 companies were involved in bankruptcy or internal restructuring. Thirteen countries are affected by restructuring cases in the sector, but most of them occurred in Poland (11), with only job creation. The former EU15 had 13 cases of restructuring (+1,300 jobs only in France; -2,952 jobs), while the new Member States and acceding countries had 22 cases (+8,330 jobs; -1,086 jobs). As far as the sub-sectors are concerned, 11 of the 35 cases reported concerned the manufacture of furniture; four impacted on the building of complete constructions or parts thereof and civil engineering; and four cases involved the manufacture of wood and of products of wood and cork, except furniture and the manufacture of articles of straw and plaiting materials. Finally, it is worth noting that the major movement of personnel occurred within the manufacture of furniture (+3,020 jobs; -2,111 jobs); building of complete constructions or parts thereof and civil engineering (+2,350 jobs); construction (+850 jobs); the manufacture of wood and of products of wood and cork, except furniture and manufacture of articles of straw and plaiting materials (+750 jobs; -170 jobs); the manufacture of veneer sheets and manufacture of plywood, laminboard, particle board, fibre board and other panels and boards (+690 jobs); the manufacture of other furniture (sofas) (+600 jobs); the construction of motorways, roads, airfields and sport facilities (-570 jobs); site preparation (+450 jobs) and sawmilling and planning of wood and impregnation of wood (+400 jobs).

Restructuring cases

As reported, Poland is the country (just ahead of Romania) which profited from the highest number of job creations (5,240).

Table 5: Breakdown of employment effects in the construction sector in the 3rd quarter 2005 per country

Country	Planned job reductions	Planned job reductions %	Planned job creation	Planned job creation %	Cases	Cases %
Poland	0	0%	5,240	54.41%	11	31.43%
Romania	811	21.55%	2,500	25.96%	5	14.29%
France	181	4.81%	1,300	13.50%	3	8.57%
Netherlands	380	10.10%	0	0.00%	3	8.57%
Germany	346	9.19%	0	0.00%	2	5.71%
Slovenia	275	6.81%	0	0.00%	2	5.71%
United Kingdom	1,800	47.83%	0	0.00%	2	5.71%
Finland	125	3.32%	0	0.00%	2	5.71%
Slovakia	0	0%	190	1.97%	1	2.86%
Bulgaria	0	0%	100	1.04%	1	2.86%
Latvia	0	0%	150	1.56%	1	2.86%
Lithuania	0	0%	150	1.56%	1	2.86%
Sweden	120	3.19%	0	0.00%	1	2.86%
Total	4,038		9,630		35	

Eleven companies announced job creations during the third quarter of 2005; almost 50% of the new jobs have been created by four building companies. The first one, Bogi, will hire 800 people for the construction of an amusement and shopping centre in the Podkarpackie province and expects to create another 400 jobs to staff the centre. Next, Budimex and Polimex Mostostal Siedlce announced that they will create 500 jobs, respectively, the latter planning further expansion of the workforce due to a growing portfolio of orders. The last building company which claimed to create jobs in Poland is Chemobudowa (+200). The fifth case concerns Europol-Meble, a furniture manufacturer which has started the production of wooden racks and upholstered furniture in the Economic Zone Kostrzynsko; 1,000 jobs were created in the process. In the same geographical zone, 600 more workers have been hired thanks to the building of a new factory complex by Topdrew, a company processing wood and producing wooden garden elements. The producer of fibre boards, KRONOTEX BIS, announced the generation of 500 jobs in the Slupsk Special Economic Zone, while Nowy Styl (+300), a producer of furniture, wants to build a new factory in the Tarnobrzeska Special Economic Zone. The next case regards Instal Systems, a building installation company founded on the assets of bankrupted Instal Rzeszów, which recently hired 80 workers and wants to increase the number of employees in its Lezajsk (Podkarpackie) factory to 200, or even 250. Finally, a manufacturer of furniture, Black Red White, and a manufacturer of plastic-made windows, Budvar Centrum, created 120 jobs each in Lodzkie, a central region of Poland.

In Romania, the French group Parisot has built a furniture factory in Târnăveni (the Central region) and is expected to hire 1,500 workers by the end of 2006. The project includes the construction of two furniture factories in Târnăveni and the modernisation of the Mobilux factory, which the French group already holds in Bucharest. The output of the two new factories is intended for sale in markets in France, Romania and other European states. Regarding land rates, the City Hall has announced that the plant will be tax exempt until 2008. In the beginning of August 2005, the European Bank for Reconstruction and Development, EBRD, announced it would grant the Parisot group a loan to finance the project. On the other hand, the Austrian company Ada Möbel has started the construction of a furniture factory in Salonta (the North-Vest region) and will grow to 500–600 employees as production expands and diversifies by December 2005. At the same time, local authorities in Arad (the Vest region) declared that the Polish producer of floor boards and parquet flooring, Barlinek, intends to buy annually over a 10-year period and will create at least 400 new jobs; as the wooden material would probably be acquired locally, the investment will also contribute to the economic development of the region.

Some 1,300 workers have been hired, first in France by the Dumez group (850) thanks to the building of a tourist resort during a five-year construction period, and second by the British company Gazeley in collaboration with the Dunkerque's harbour administration (450) to develop a logistics centre whose objective is to strengthen links between Britain and continental Europe.

Kronospan Company plans to extend its production in Prešov (Slovakia) and hire 190 workers. According to the Kronospan director for the Central European region, the company management has asked the Slovak government for investment stimulus, which was previously provided for investments, especially in regions with a high unemployment rate.

Bulgarian company ORT, one of the leaders in the furniture manufacturing sector, will build a fully computerised factory, resulting in a fourfold productivity increase. 100 new workers will be hired for the construction of the factory, starting in the spring of 2006; production is planned to start at the beginning of 2007.

150 jobs have also been planned in Lithuania and in Latvia, respectively, in the first case by the Lithuanian company Jovaine and in the second case by the Baltic Timber Industry, a Free Economic Zone enterprise with 100% US stock which will produce glueboards for the US market, at the industrial park of Liepaja (the Vest region).

On the other hand, the United Kingdom accounted for almost 45% (1,800) of the job losses of the third quarter of 2005, mainly due to the bankruptcy of the furniture makers Christie Tyler in Wales, the West Midlands and Lincolnshire, which announced the loss of 1,600 jobs. Christie Tyler's problems seem to be in line with increasing international competition and, more recently, the weakness of retail sales in the UK which fell to a record low in June. 200 additional jobs have been lost at the former Cambria furniture factory in Treforest near Pontypridd. The factory, now part of Brand International, was sold when Christie Tyler went into receivership. The redundancies account for around half of the present workforce.

In addition to the 1,000 jobs created in Salonta and in Arad, 811 jobs were lost in the Central and North-Vest regions of Romania. 570 employees of the North American Company Bechtel have left the company due to the abandonment of a project to build a motorway between the Central and North-Vest regions. This project had been concluded in 2004 by Bechtel and the former Romanian government. Because of the depreciation of the exchange rate between the euro and the national currency and the resulting heavy losses reported in 2004, 241 employees of Stratusmob, a furniture manufacturer, will find themselves jobless. These developments negatively affected the financial situation of the factory, whose output is mainly for export.

Germany was also affected by both kinds of restructuring during the third quarter of 2005. Indeed, because it has not found an investor after filing for insolvency, the producer of sun protection systems for buildings, Hüppelux, announced the closure of its factory in Oldenburg and the redundancy of 220 employees. Danish producer of toys, Lego, will close its operations in Hohenwestedt, with the loss of 126 jobs. Lego's figures have dipped into the red in recent years and the company has cut employment, mainly at its subsidiaries abroad. Many functions have been centralised at Lego's headquarters in Billund, Denmark.

After its turnover decreased significantly in 2004 and the beginning of 2005 and due to the series of cost-cutting programmes in the last years, Dutch company Tulp Keukens, owned by Keukengroep Beheer, announced the loss of 180 jobs. The general slowdown of the Dutch economy and the shrinking of the kitchen decoration market seem to be the causes of its bankruptcy. On the other hand, an internal restructuring took place in the Dutch construction and installation company TBI in Rotterdam. Some 150 of the 900 jobs will be cut at its subsidiary HVL and trade unions will negotiate a social plan. The job cuts are also a consequence of decreasing results over the last years due to the worsened market conditions.

Two internal restructurings took place in Slovenia. After failing to remain a supplier for the Ikea corporation, Tomos, a furniture manufacturer, lost a third of its yearly revenues and a third of the company's current employers are jobless. Out of 155 redundant workers, 32 are 'protected employees' (handicapped, older workers), 19 will be retrained and 10 will be relocated within the company. Lesna TSP Radlje, a furniture company whose notoriety during the last 10 years was the epitome of 'wild privatisation' and which suffered from a lack of ownership legitimacy, has closed and laid off 120 people. Creditors lost faith in a successful outcome of the restructuring of the company, which had lasted for years.

Finally, the last three cases of restructuring affect France, Finland and Sweden with a reduction of 181, 125 and 120 jobs, respectively. Three closures are behind these restructurings. In France, Saint Gobain has announced the closure of two sites, Montreuil (Seine Saint Denis) and Courtenay (Loiret) following the end of its plumbing activity due to strong competition from Asia and Central Europe, while in Sweden, the parquet floor company Tarkett will close down its production unit in Broby (South of Sweden) in July 2006. In the same way, internal restructuring is planned for the manufacturer of furniture Incap Furniture ltd, which started negotiations with its personnel in order to cut 70 jobs. The company, localised in Finland, is adapting to competition from Poland, Romania and China and is preparing to reduce the overproduction in the sector.

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> Company focus

This section presents data concerning the cases of two companies. Hewlett-Packard has announced its second large-scale restructuring in three years, involving up to 4,443 job losses across Europe, and Ikea has announced business expansion plans, foreseeing the creation of 5,280 new jobs.

>> *Spotlight on Hewlett-Packard*

Hewlett-Packard was founded in 1939 by Bill Hewlett and Dave Packard, two Stanford graduates, as a manufacturer of test and measurement instruments. HP is acknowledged to be the producer of the world's first personal computer in 1968. The acquisition of Compaq computer made HP the world's largest manufacturer of personal computers. In 1999, HP became the first company included in the Dow Jones Industrial average to be headed by a woman. Consequently, on the corporate Equality Index, HP receives a 100% rating. Like the rest of the industry, HP suffered from companies' slowing IT investment in the wake of the boom at the turn of the millennium. During the financial year 2004–2005, HP made net profits of $3.5 billion.

Restructuring at HP

From 1999 until February 2005, HP was headed by Carly Fiorina. She was forced to resign after differences about the company's strategy between her and the supervisory board became too big to ignore. Analysts are divided over performance, but HP's share price trailed those of its main competitors, Dell and IBM. According to *The Economist*, 'IBM does well in part because most of its revenues come from services, and Dell because it knows how to take the cost out of making hardware. HP, with 70% of its revenues from hardware, is more like Dell, but stuck with costlier distribution channels and supply logistics'.

In order to improve HP's performance, the new CEO, Mark Hurd, has introduced tough measures. In July 2005, HP announced that it would cut 14,500 jobs globally over 18 months in order to save more than $2 billion a year. Hurd said that the measures were needed to remain competitive and catch up with its rivals in terms of profitability and productivity. The cuts are the largest at HP since 15,000 jobs were lost after the takeover of Compaq computer in May 2002.

In September 2005, the company announced the breakdown of its cost-cutting measures by regions: HP's EMEA (Europe, Middle East and Africa) region will hence suffer disproportionately, losing almost 15%, or 5,900 employees, of its 44,000-strong labour force. The region is the source of 40% of HP's turnover. Hardest hit are Germany (1,500 jobs out of 9,250), France (1,240 jobs out of 4,800) and the UK (968). HP Belgium is to shed 145 jobs, HP Spain 140 and HP Netherlands 350. Restructuring will mainly affect administrative units.

In France, Grenoble is the most affected unit. However, the head of HP France, Serafini, said that 'the management of HP France has a mandate to determine, through negotiation with workers' representatives, the most appropriate means to conduct the reorganisation of jobs within HP France over the next two years'. The French Prime Minister, Dominique de Villepin, demanded that HP pays back received subsidies if it is to proceed with its plans. The French government also demanded compliance with its social cohesion law, which stipulates that a company of over 1,000 employees is bound to help with measures supporting the qualification and redeployment of the labour pool while proceeding with a restructuring.

In Germany, it is yet unclear where the job losses occur, said the head of HP Germany, Holdenried. The management has entered negotiations with trade unions. However, since HP Germany is headquartered in Böblingen, near Stuttgart, the Stuttgart region will probably bear the brunt of the job losses. German trade union officials criticised the measures sharply, saying that HP was highly profitable and that the measures in individual countries would blindly follow the headquarters' guidelines. A spokesman for HP's German unit said that the company wanted to manage the job losses in a socially acceptable way.

In the United Kingdom, HP has seven UK sites, at Bracknell, Birmingham, Bristol, Glasgow, London, Reading and Warrington, but would not say where the jobs are to be lost. The same goes for HP Belgium/Luxemburg, where HP only runs distribution units in Brussels (two sites), Strombeek, Zwevegem and Luxemburg. In Spain, Barcelona and Madrid will be affected, while in the Netherlands, jobs will be lost in Utrecht and Amstelveen.

On top of making HP's restructuring an item of the national political agenda, the French government has also called on the European Commission to investigate the case. The Commission, however, has no legal means at its disposal. The French newspaper *Le Monde* sees two possible avenues of action for the Commission. A Directive that was issued after the 1997 closure of Renault's factory in Vilvorde has strengthened workers' rights for consultation and information prior to large-scale restructuring. On the financial level, the EU could help through its European Social Fund, which helps people improve their skills and find work.

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>> Spotlight on Ikea

Founded in 1963 in Sweden, Ikea was the first high-volume furniture retailer to adopt a low-cost, aesthetic and functional concept. Although the group was first developed in Scandinavia, it soon started to expand across western Europe. The first Ikea shop was opened in Switzerland in 1973; Germany followed suit in 1974 as well as France in 1981. Today Ikea places itself as the number one furniture distributor in the world, with 84,000 employees in 44 countries and 186 shops in 23 countries. Ikea's turnover is rising fast, from €3.8 million in 1994 to €12.8 billion in 2004.

Ikea expansion in Germany and eastern Europe

Despite general stagnation in the German retail sector, Swedish home furnishings company Ikea expanded its business in Germany throughout 2004 and 2005. Turnover grew positively during the 2004 business year, which ended on 31 August, by 12% to €2.49 billion. And although Ikea did not reveal exact figures in 2005, Ikea Germany head, Werner Weber, announced a very profitable year. Crucially, 81% of Ikea's financial turnover has been realised in Europe for the last decades. With the three new stores opened in 2005 in Siegen, Duisburg and Osnabrück, Germany remains Ikea's biggest market in the world today, realising a total of 21% of the company's sales and bringing the number of total stores in Germany to 37. These openings are well received by the local population, as Ikea managed to create over 4,000 jobs in the past number of years. The Swedish furniture retailer has announced that it will continue to grow in Germany in an effort to expand its market share. It explains that four new markets shall be opened each year in the foreseeable future and a further 1,000 jobs should be created until 2010.

This expansion strategy inscribes itself in a logical process of progressively investing in the eastern European and Russian markets. The German market represents a strategic location for further development to the eastern regions, which have been developing slowly. For several years Ikea has been opening between 10 and 15 new shops in the world each year, completing its network by penetrating new markets such as eastern Europe. A similar strategy was adopted in August 2005, when Ikea opened its sixth Belgian shop in Sterpenich, but the first trans-border one at the frontier with Luxembourg. At the time Luxembourg still had legislation, today abolished, which forbid the construction of all new large shops on its territory. Ikea managed to counteract this legislation by settling at the border between Belgium and Luxembourg, thereby acquiring the high purchasing power custom of Luxembourg's population. Although it was faced with several environmental claims, Ikea managed to implant itself in less than a year, thereby creating 280 jobs and guaranteeing a provisional financial turnover of €60 million for the first year. This is foreseen to enable the creation of a new generation industrial zone around this new Ikea shop and thereby foster many jobs for the local population in the near future.

Following the fall of the Communist regime in 1990, Ikea opened 14 new shops in four of the new European Union Member States (the Czech Republic, Hungary, Poland and Slovakia) and five in Russia. By implanting itself in these new countries, Ikea has contributed to developing their market economy as well as creating new jobs in the region. However, it is crucial to note that the expansion strategy adopted by Ikea not to study the local market before implantation has sometimes led to furniture prices being badly adapted to living standards. Ikea's primary concern to provide modern low-cost furniture in western Europe is not as efficient in the eastern region. Different studies reveal that Ikea's prices in eastern Europe are sensibly the same as the ones found in western European Ikea shops, whereas salaries can sometimes be four to five times lower. Ikea's low-price policy seems to fail in this context.

However, it is interesting to see that although Ikea prices are much higher for the population living in eastern Europe, Poland still places itself in second place for total sales, with 12%.

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> Note on methodology

The European Restructuring Monitor (ERM) is a tool that 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 EU25 and Bulgaria and Romania.

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 by identifying those with the highest number of restructuring cases and examining the associated employment effects. In order to provide a more meaningful comparison of trends, statistical data are weighted to take into account the size of the active labour force in the countries covered 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 the present edition of the ERM *quarterly* may differ slightly from the statistics available on the ERM website. This is due to the fact that data on the website are updated whenever new information becomes available, particularly regarding numbers of planned job reductions. Once the ERM *quarterly* has been uploaded, the information 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 Eurostat.[2] 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 18 EU Member States covered by the ERM.

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
Transport and communications	Post and telecommunications; Transport and storage
Financial intermediation	Financial services
Real estate/business activities	Information technology; Consultancy business services
Public administration	Public sector; Education
Other services	Publishing and media; Maintenance and cleaning; Health and social work; Hair and beauty care; Performing arts

[2] European Commission, *European social statistics – Labour force survey results 2002*, Luxembourg: Office for Official Publications of the European Communities 2003.

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.

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