

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 2005, and refers to statistics drawn from the ERM website on 9 January 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

Country focus – spotlight on Sweden

Sector focus – spotlight on chemicals

Company focus – spotlight on EDF and Hankook Tire

Note on methodology

> Overview

During the fourth quarter of 2005, from 1 October to 31 December, the European Restructuring Monitor (ERM) recorded 360 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 101,698 were announced as a result of 215 of these restructuring cases. This represents a reduction of 0.4 % in announced job losses compared to the previous quarter figure of 102,106 job losses, for a higher number of restructuring cases (242) recorded.

According to press announcements during the fourth quarter of 2005, 146 of the 360 cases of company restructuring resulted in business expansion and thus foresee the creation of 79,219 new jobs. The overall planned job creation for the fourth quarter of 2005 stands at 80,485. This indicates a decrease of 17% in announced job creation compared to the previous quarter in 2005, i.e. 96,557 new jobs for the third quarter of 2005.

Table 1: Breakdown of employment effects by type of restructuring in the 4th quarter

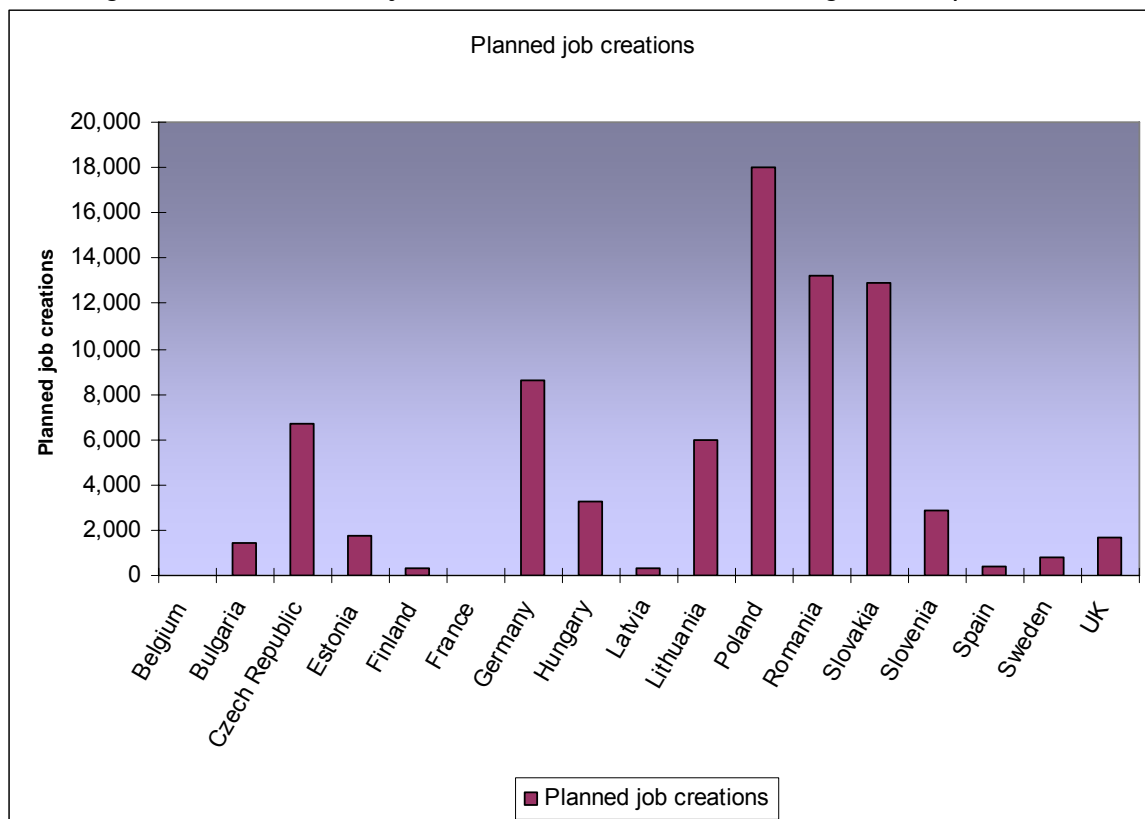
Type of restructuring	Planned job reductions	Planned job creation	Cases
Business expansion	150	79,219	146
Internal restructuring	68,451	300	111
Bankruptcy / Closure	22,567	201*	64
Offshoring / Delocalisation	4,283	0	14
Merger / Acquisition	3,968	695	11
Relocation	991	70	10
Other	750	0	1
Outsourcing	538	0	3
Total	101,698	80,485	360

Note: * As part of a major restructuring, the [BBC World Service](#) plans to close its 10 foreign language services while at the same launching an Arabic television news channel which will create 201 new jobs.

Announced job creation across countries and sectors monitored

As Figure 1 shows, a significant number of these new jobs – 44,126 out of 80,485 – are related to expanding business activity in new Member States or acceding countries, with Poland, Romania and Slovakia attracting 18,002, 13,195 and 12,929 jobs, respectively. Among the EU15 countries, Germany continues to record a decrease in its rate of business expansion, as observed in previous quarters, with six restructuring cases accounting for 8,635 new jobs. The United Kingdom (UK) also recorded a major 91.7% drop in new jobs created through restructuring activities resulting in business expansion, with four restructuring cases accounting for 1,671 new jobs compared to the 20,196 new jobs in the third quarter of 2005 (see [ERM quarterly, Issue 3, Autumn 2005 \(PDF 412kb\)](#)).

Figure 1: Distribution of job creations across the EU during the 4th quarter 2005

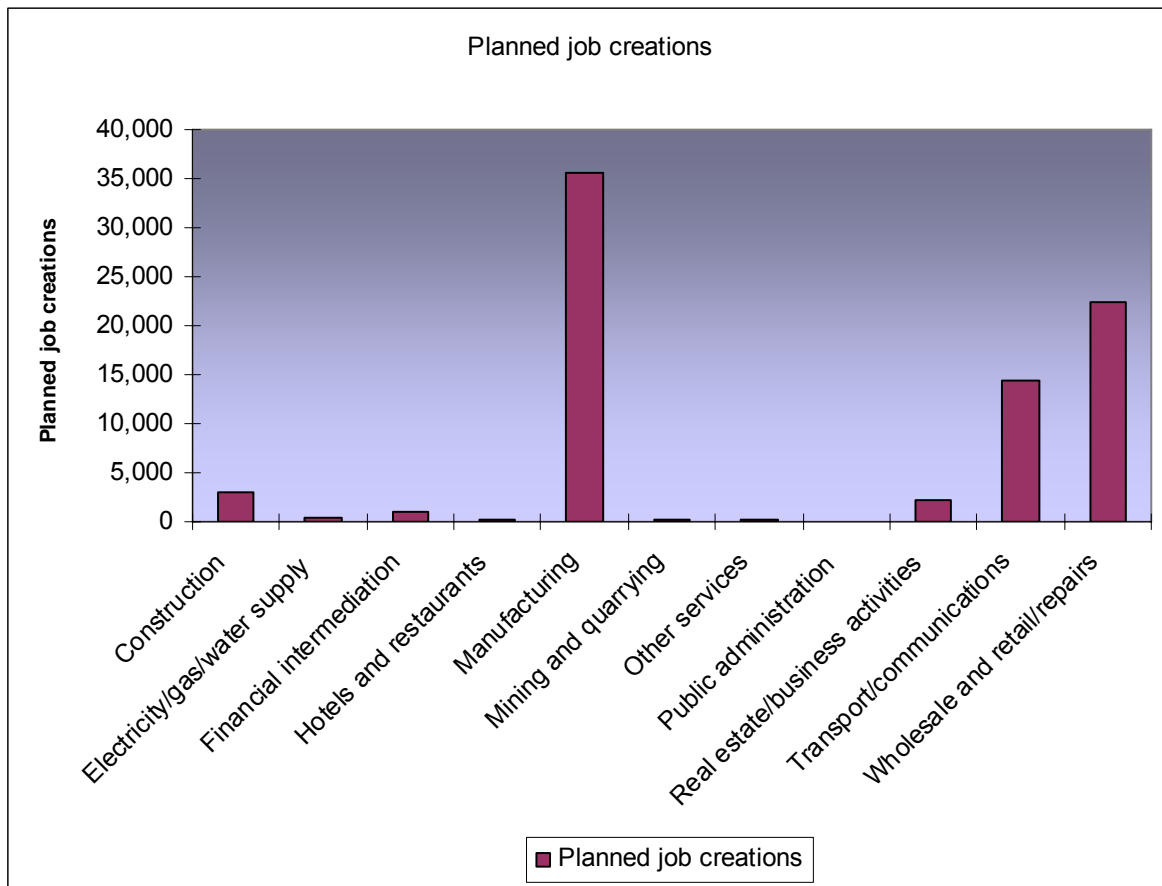


Looking at the sectoral distribution of job creation (Figure 2), the manufacturing sector records with 35,692 the highest number of announced new jobs. Nonetheless, the sector's expansion drive has slowed down compared with previous quarters, i.e. 38,591 new jobs for the third quarter of 2005. For example, the chemicals industry which is part of manufacturing and one Europe's largest and internationally most successful industries¹, monitored 24 restructuring cases during this period, accounting for 3,471 job losses and 5,440 job creations. The industry continues to expand while facing more internal restructuring this quarter compared to the previous one (see [sector focus](#) on chemicals). The wholesale/retail and repairs sector also keeps on growing, with 25 cases announced in the press involving the creation of 22,452 new jobs for the third quarter of 2005.

Growth in transport and communications

The transport and communications sector benefits particularly from increasing business activity and investment. The sector shows rapid expansion in Poland, with 11 cases accounting for 8,694 new jobs. In Germany, [Lufthansa](#) plans to hire 2,400 staff in 2006, including pilots, air hostesses and administrative staff. [LG Innotek](#), a leading Korean electronic components manufacturer, plans to invest €57 million in the development of its operations in Poland and foresees to employ more than 1,000 workers. [Webmedia](#), one of the largest and fastest growing software development companies in the Baltic States, employs currently some 175 people. The company offers IT services in the finance, telecommunications and public sectors and has offices and development units in Estonia, Lithuania and Finland, as well as a development centre in Romania. Webmedia's business plan anticipates a steady growth rate over the coming years. The company thus plans to recruit a further 25 employees by the end of 2005 and aims for a 1,000 people-strong workforce by 2010.

¹ See *Sector Futures* article series by EMCC: [The chemicals sector –what future?](#), Dublin, December 2005.

Figure 2: Distribution of job creations across sectors during the 4th quarter 2005

Job creation in manufacturing and commerce

Most of the job creation in the manufacturing sector has been announced in the chemicals and automotive industries in three of the Member States which joined the EU in May 2004, the Czech Republic, Hungary and Slovakia. In Hungary, the South Korean tyre producer [Hankook Tire](#) plans a green field investment in Dunaújváros in the Dunantul region which will set off 1,500 job creations (see also [company focus](#) below). In addition, the German manufacturer of seals and vibration technology for vehicles and machines, [Freudenberg](#), announced to invest €10 million at its Hungarian manufacturing plants. Currently, the company employs 900 people in the country and seeks to double this number over the next three years.

The French car manufacturer [PSA Peugeot-Citroën](#) has decided to extend its business activities in Slovakia. PSA plans two new production plants in Trnava which will create 3,500 and 1,800 new jobs by 2009. The South Korean [Hyundai Motor](#) company plans to invest CZK 30 billion and build a new plant in Nošovice, which is an industrial area of the city Frýdek-Místek in North Moravia. This manufacturing plant will provide a production capacity of 300,000 cars a year by 2009, creating up to 3,000 jobs within the factory. Experts estimate that further 20,000 people may be hired within the supply industry.

In the commerce sector, [Vilniaus Akropolis](#), which owns a shopping and entertainment centre called *Akropolis* in Vilnius, Lithuania, opened a new shopping centre in Klaipėda on 31 December 2005. According to the centre's administration, *Akropolis* employs about 2,000 new workers. German discount retailer, [Aldi Süd](#), announced an investment of €300 million in Slovenia in the future as to open 10 further supermarkets in the country. In December 2005, the retailer opened a local business subsidiary, [Hofer](#). Overall, the company plans to create up to 2,500 new jobs of which 1,000 in 2006.

Announced job reductions across countries monitored

Figure 3 illustrates the distribution of recorded cases and job reductions for the fourth 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 4th quarter 2005

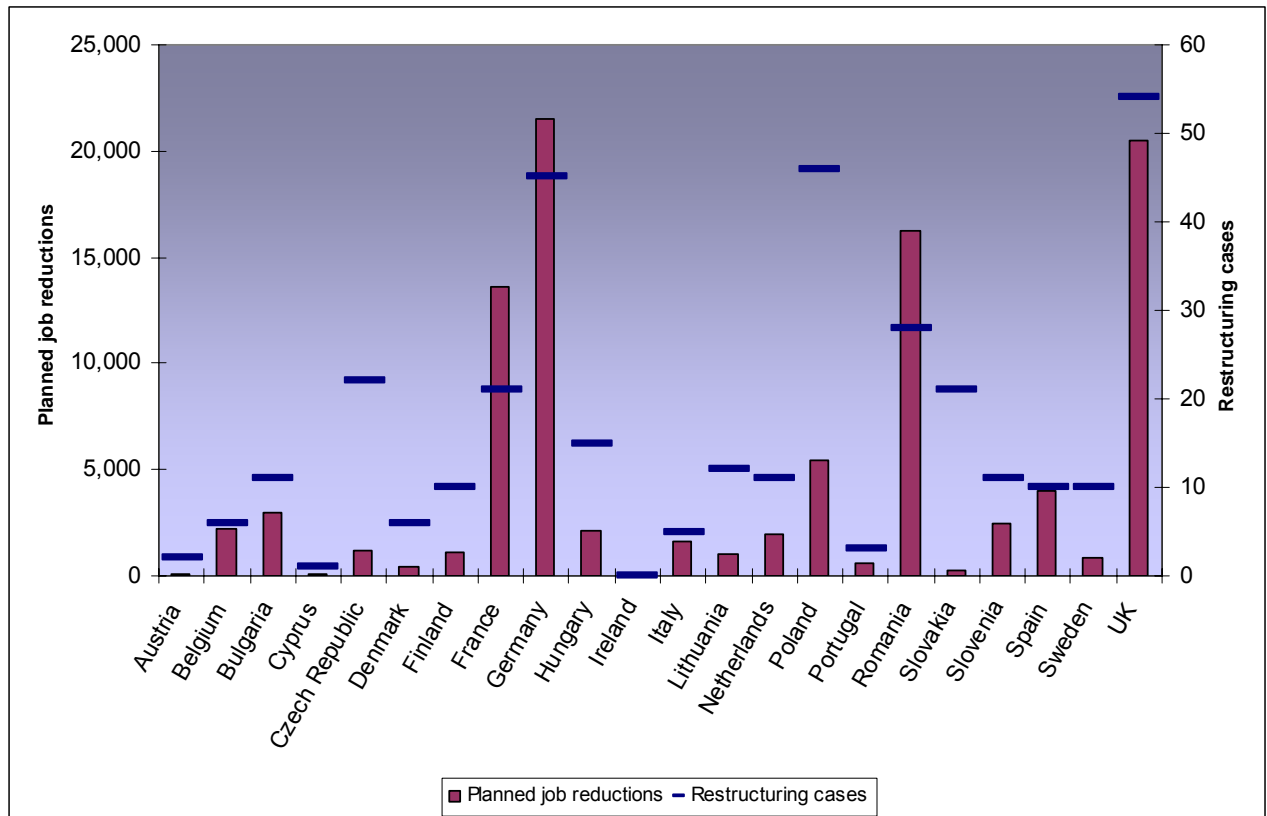
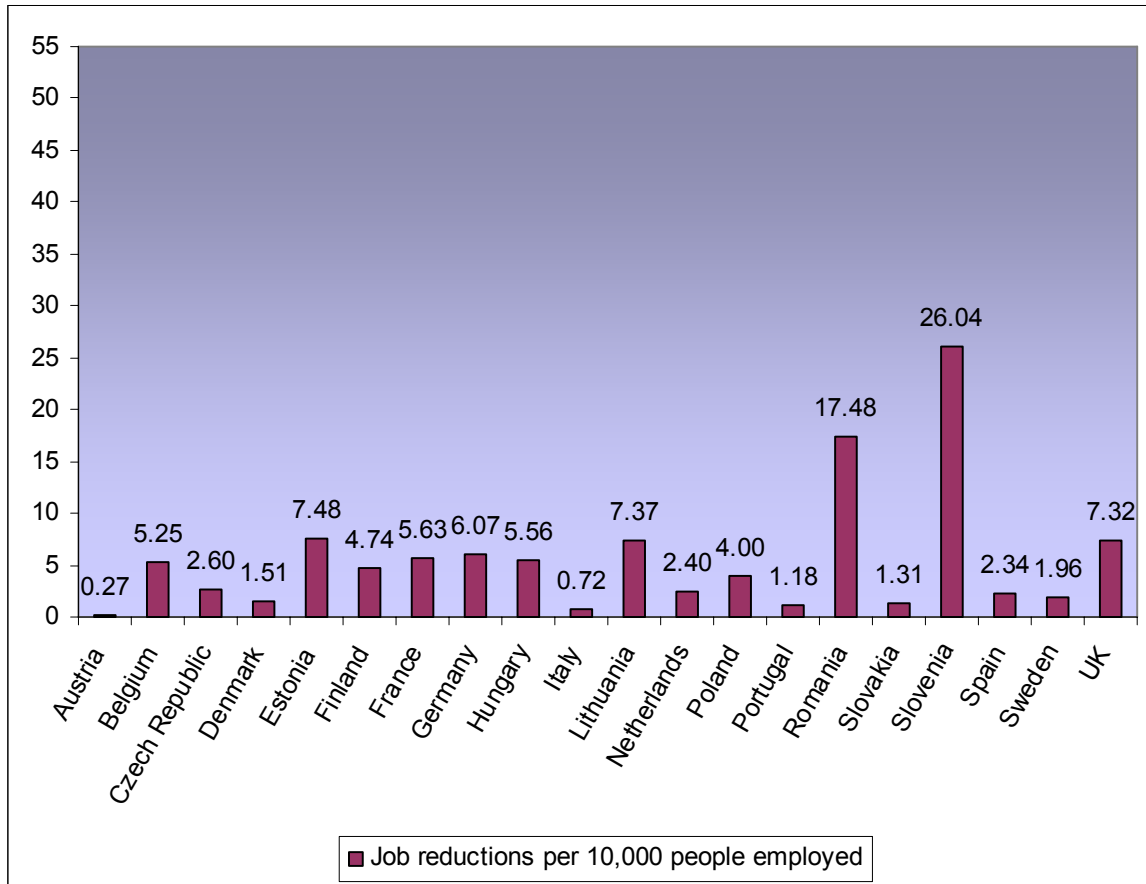


Figure 3 shows that the UK displays the highest number of restructuring cases announced (54), followed by Poland (46 cases), Germany (45), Romania (28), the Czech Republic (22) and France (21). This is a similar picture compared to the one outlined in the previous quarter, in which the UK accounted for 57 restructuring cases, followed by Germany (50) and Romania (29). On the other hand, the overall figure for job losses in Romania is nearly doubled this quarter, amounting to 16,226 compared with 8,585 job losses in the previous quarter. In Germany and the UK, the number of announced job losses remains at a high level, amounting to 21,533 in Germany and 20,456 in the UK. In Poland, the number of job losses has increased this quarter, amounting to 5,470 compared with 1,957 job losses in the previous quarter. In line with previous quarters in 2005, most of the restructuring cases reported in Poland accounted for a relatively modest number of job losses and were outweighed by the number of announced job creations. In Sweden, announcements of job losses and job creation balance out, with 845 jobs lost and 820 jobs created (see [country focus](#) on Sweden).

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 4th quarter 2005



Job losses in Romania and Slovenia

Compared to previous quarters, Slovenia and Romania were the countries most affected by restructuring during the fourth quarter of 2005, with a rate of 26.04 and 17.48 job reductions per 10,000 employees (see Figure 4). Both economies continue to experience an increased level of restructuring activities². In Slovenia, most of the announced job losses are attributable to internal restructuring and offshoring, amounting to 1,313 and 1,000 jobs lost, respectively. The automotive supplier [Prevent Global](#) intends to move for cost efficiency reasons part of the production of automobile seat covers to Bosnia and Herzegovina, Morocco and Moldova. In total, some 1,000 jobs will be cut of which 450 in 2006 and a further 550 by the end of 2008, mostly in the Carinthia region.

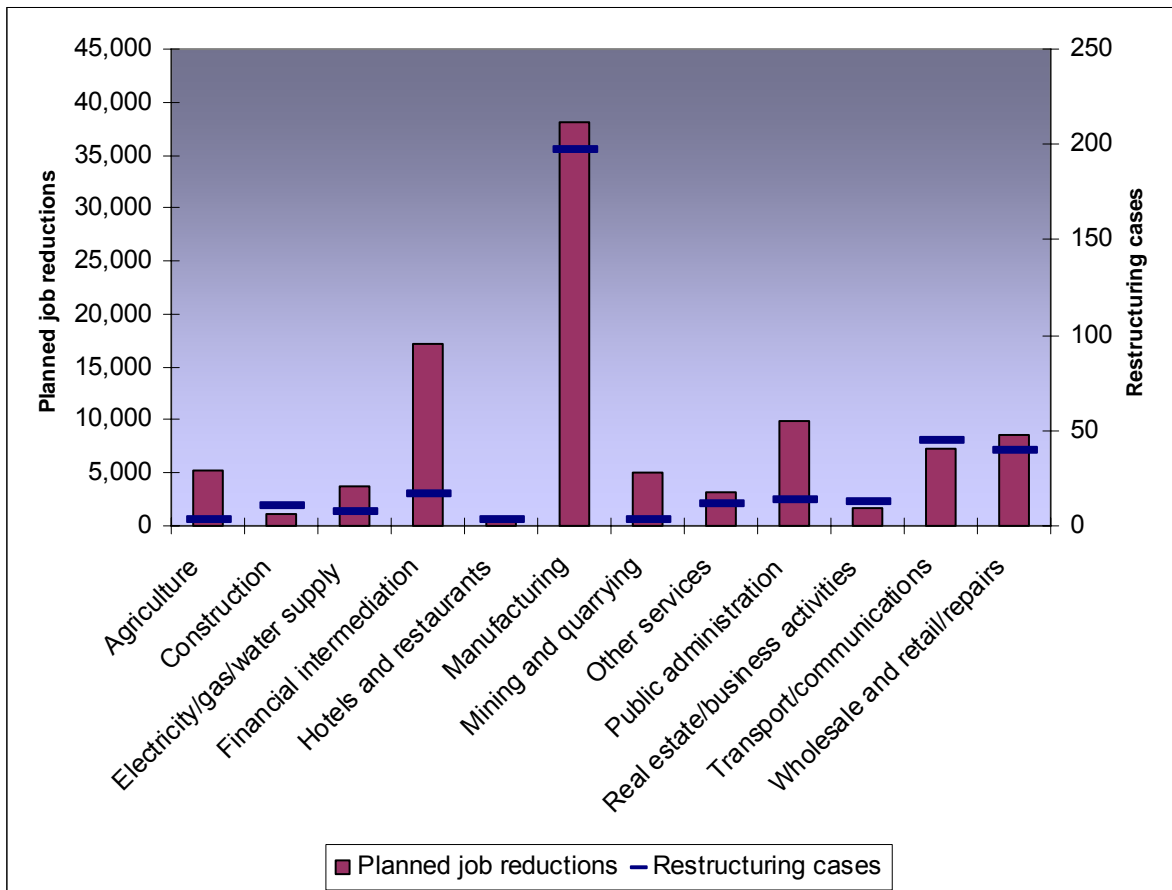
In Romania, the National Forestry Authority (*Regia Națională a Pădurilor*, RNP), which looks after the 4.3 million hectares of state-owned forests, plans to return to its former owners some 2 million hectares of wooded land. As a result, [RNP](#) has announced a redundancy programme set to begin on 30 November 2005. According to the Federation of Trade Unions in Forestry *Consilva* (*Federația Sindicatelor din Silvicultură Consilva, Consilva*), 7,048 people out of the total 27,000 currently employed will find ways out of work by themselves. At the same time, company officials consider that redundancies will not exceed 5,000–6,000 people, stressing, however, that this will depend on the surface of land given back.

² See also country focus on Romania in previous [ERM quarterly, Issue 3, Autumn 2005 \(PDF 412kb\)](#).

Distribution of recorded cases and job reductions across sectors

Figure 5 below illustrates the sectoral distribution, along with related employment effects, of the 215 restructuring cases involving job losses recorded by the ERM during the fourth quarter of 2005, from 1 October until 31 December. During this quarter, the manufacturing sector still records the highest number of announced job losses (197 cases accounting for 38,130 announced job losses in total), mainly attributable to restructuring in the metal and machinery sector (48 cases accounting for 9,017 announced job losses in total).

Figure 5: Distribution of recorded cases and job reductions across sectors during the 4th quarter 2005



Restructuring in the automotive and financial intermediation sectors

Restructuring continues to affect the motor industry, with 38 cases accounting for 5,911 announced job losses, outweighed by a high rate of announced new jobs at 13,616 (see [Job creation in manufacturing and commerce](#)). In Germany, the American carmaker [Ford](#) will cut 1,300 jobs at its manufacturing plant in Cologne because the Ford Premier Auto Group (PAG) is suffering huge losses. So far, employees have received offers for early retirement or compensations, and no direct dismissals are foreseen. Ford's move is to increase the Cologne factory's competitiveness.

The financial intermediation sector reported a high number of planned job losses, accounting for 17,200 job losses compared with 7,279 in the previous quarter. The largest single case, which is also the second most important one in terms of job reduction, concerns the Germany insurance giant [Allianz AG](#). According to sources in the insurance industry, the insurer plans to cut every fifth job to increase its efficiency and profitability. Indeed, more than 7,000 and up to 8,000 jobs will be lost. [Dresdner Bank](#), which belongs to

Allianz AG and is the second largest German bank, will also reduce its workforce by 2,000 to 3,000 employees. This new cost-cutting effort is part of a so-called 'profitability and growth programme'.

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 4th quarter 2005

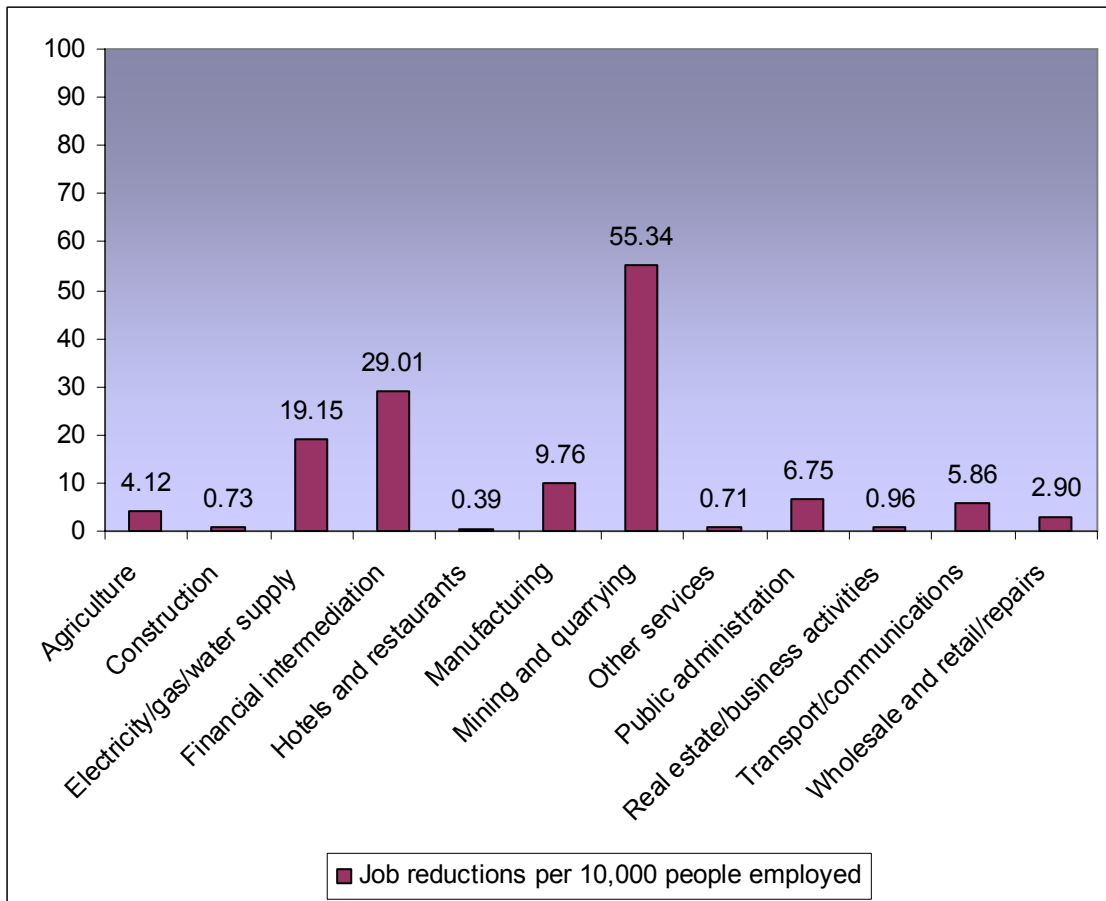


Figure 6 illustrates a sharp contrast in relation to the previous quarter. In the mining and quarrying sector, the level of job losses per 10,000 people employed increased significantly, amounting to 5,080 job losses compared with 460 job losses in the previous quarter. [Petromservice](#), the main provider of upstream and downstream services for the oil and gas industry in south east Europe, announced a redundancy plan affecting a quarter of its total workforce, 5,000 out of the total 20,000 employees will have to go. The company's main client, Petrom, was privatised in 2004 and bought by the Austrian gas and oil group OMV. The latter concluded a new service provision agreement with Petromservice, involving the gradual reduction of services over the next few years.

The financial intermediation and electricity, gas and water supply sectors also continue to show high redundancy activities, with 29.01 and 19.15 job losses per 10,000 people employed, respectively.

> Country focus

This section explores the economic and labour context of company restructuring in Sweden, one of the countries slightly affected by restructuring during the fourth quarter of 2005, with a rate of 1.96 job reductions per 10,000 employees.

>> Spotlight on Sweden

The Swedish economy is continuing its upswing after the temporary slowdown in the last quarter of 2004 and first quarter of 2005. The gross domestic product (GDP) increased by 2.6% in 2005, which is lower than in 2004 when it grew by 3.0%.³ Forecasts suggest that the GDP growth will continue to increase up to 3.9% in 2006. This is partly due to growth in domestic demand. Sweden's position relative to the rest of the world is favourable. The *Global Competitiveness Report 2005–2006* ranked Sweden third out of 117 economies in competitiveness. The other Nordic countries are all in the top ten, and the characteristics they share creating a competitive atmosphere are healthy macroeconomic environments and highly transparent and efficient public institutions. An important reason for Sweden's position in the world economy is large current account surpluses.

Macroeconomic developments

The slowdown in the national economy in late 2004 was due to a global economic decline, which was mainly related to higher oil prices. The economic upswing beginning in 2003 was driven by rapidly growing exports. These decreased at the end of 2004 because the global slowdown hit the Swedish export markets hard. Despite a recovery in the second quarter of 2005, exports in Sweden were growing at 4.2% in 2005 compared with 10.5% the year before. The world demand for products of which Sweden is a relative large producer, such as telecommunications equipment and motor vehicles, increased in 2004. Telecommunications continues to increase as prices are going down, while demand for motor vehicles stagnated in 2005 and has decreased its share of total exports since 2004. Several factors such as high productivity growth have led to lower unit labour costs in manufacturing. This, combined with a weaker krona, suggests stronger export growth in the time ahead.

Imports grew strongly in 2004 as a result of growth in import-dependent exports. In November 2005, the krona reached its weakest level against the euro since 2002. A weaker krona as well as the decrease in exports held back the high import growth in 2005 but as investment and consumption increase, the slowdown will be milder than for exports. Housing investment rose from 16 to 20% between 2004 and 2005. Overall investment is predicted to continue its increase in 2006 and 2007 although growth in investment peaked in 2005. Household consumption was up by 0.8% in the second quarter of 2005 and several conditions favour a continued rise, such as low interest rates, high saving and the strong net wealth position of households. Due to the slowdown at the beginning of 2005, the appreciation of the Swedish krona was interrupted. However, it is expected to increase in value again beginning of this year as the economy picks up again, returning to stronger growth with domestic demand and demand for export goods rising.

Investment is expected to continue to grow at a rapid rate as it did in 2004. In 2005, the upswing came from increased investment in manufacturing and an upsurge in housing investment, which rose by almost 20% in 2005. The high level of investment, particularly in construction, can be explained by the low interest rates that will continue to be low but are expected to increase in the future. Inflationary pressure remains low, due partly to low

³ Calendar adjusted GDP from the Swedish National Bureau of Economic Research.

resource utilisation but will gradually grow in 2006. The strong growth in productivity in recent years has led to a weak labour market and limited wage increases, which is the main reason for the low inflation.

Labour market and employment

Since the second half of 2003, the Swedish labour market has performed weakly. Employment continued to fall in 2004 and was unchanged for the first half of 2005. However, the labour market situation is slowly improving and employment is forecasted to increase by 0.1% in 2005 and 1.3% in 2006. Unemployment is expected to decrease from 5.9% in 2005 to 4.8% in 2006, as a result of domestic demand and expanded labour market policy programmes, which increased from 92,000 places in 2003 to 121,000 places in 2005. Consequently household consumption will be expected to grow at an even quicker rate.

One of the explanations behind the weak performance of the labour market is the high productivity growth in recent years. The labour market lags behind GDP growth as companies are able to increase output without augmenting the number of hours worked. As productivity growth in the business sector has slowed down, the potential for rationalisation is believed to be smaller. In addition, the robust investment policy, rising local government employment, and an expansionary monetary policy have a positive impact on the labour market. Furthermore, the labour market continues to improve as the average of hours worked rose in 2004 and is forecasted to continue to do so in 2005 and 2006. During the economic recovery, companies initially choose to increase working hours without employing more people while absenteeism due to sickness began to fall. The number of hours worked is expected to grow on average by 0.4% in 2005 and 1.1% in 2006. Employment will grow weakly by 0.1% in 2005 but the regular employment rate is still expected to be below the target of 80% in 2007.

The relatively high unemployment rate combined with a low inflation has resulted in a slow growth of the nominal wages in the last three years. At the same time, real wages are growing strongly, by 3.3% in 2005. In 2004, the inflation measured by the consumer price index was 0.4% while the underlying inflation was 0.8%. In 2005, inflation was even lower. This is related to a weak growth in demand combined with rising competition as well as an increase in low wages and high productivity growth. The contribution to inflation from import prices has also been negative since 2003. However, the increasing oil prices are expected to have a positive contribution to inflation.

Restructuring in Sweden

Over the last decade, Swedish companies have been restructuring their businesses to a greater extent than ever before. According to a report by Edström and Sabel (2005), the driving forces have been market deregulation, developments in technology, globalisation, and changes in consumer values. In fact, the business environment became more dynamic and, for the first time, companies were forced to cut down on employees. Traditionally, employees profit from high protection in Sweden. At the beginning of the 1990s, restructuring initiatives leading to employment reduction seemed to be a temporary solution, and the workers laid off were well compensated under the conditions of their contracts and pensions. Towards the end of the decade, however, restructuring with negative employment effects became very frequent. As a result, companies changed their approach and focused on retraining their employees instead of dismissing them.

In Sweden, like in most advanced industrial countries, there is a clear shift from manufacturing to more knowledge-based work. A lot of work tasks in manufacturing can be automated, outsourced or rationalised, thus companies have to refocus and adjust their competency base.

Reported restructuring cases

In the fourth quarter of 2005, from 1 October to 31 December, ERM recorded 10 cases of company restructuring in Sweden. In these cases job losses totalling 845 were announced, as shown in Table 2. During the same period, 820 jobs were created. This represents a net job loss of 25 jobs.

Table 2: Breakdown of employment effects by type of restructuring in the 4th quarter 2005

Type of restructuring	Planned job reductions	Planned job reductions %	Planned job creation	Planned job creation %	Cases	Cases %
Internal restructuring	738	87.34	0	0	5	50
Business expansion	0	0	820	100	4	40
Relocation	107	12.66	0	0	1	10
Offshoring / Delocalisation	0	0	0	0	0	0
Other	0	0	0	0	0	0
Outsourcing	0	0	0	0	0	0
Merger / Acquisition	0	0	0	0	0	0
Bankruptcy / Closure	0	0	0	0	0	0
Total	845		820		10	

Internal restructuring was the main reason for job losses in this period, followed by relocation. Five cases of internal restructuring were reported and they were responsible for almost 90% of the job reduction. This is in line with the analysis of the Swedish Institute for Growth Policy Studies (ITPS) which indicates that, in Sweden, 90–95% of the job losses are due to internal changes and only 5–10% due to production moving to other countries, i.e. offshoring/delocalisation. According to ITPS, the sectors most affected by offshoring and delocalisation are manufacturing, financial intermediation, business services, construction, and transport and communication. During the last quarter of 2005, however, a relocation within the country accounted for almost 13% of the job losses. On a more positive note, the announced job creations resulted of companies expanding their businesses, representing 33% of the total of restructuring cases.

Metal and machinery is the sector that is worst affected by restructuring (see Table 3), followed by the motor, chemicals, and food, beverage and tobacco sectors.

Table 3: Breakdown of employment effects by NACE sectors in the 4th quarter

Sector	Planned job reductions	Planned job reductions %	planned job creation	planned job creation %	Cases	Cases %
Motor	278	32.9	0	0	2	20
Metal and machinery	407	48.17	0	0	2	20
Commerce	0	0	200	24.39	2	20
Chemical	100	11.83	0	0	1	10
Food, beverage and tobacco	60	7.1	0	0	1	10
Financial services	0	0	500	60.98	1	10
Extractive industries	0	0	120	14.63	1	10
Total	845		820		10	

The Finnish steel producer [Outokumpu](#) is the company most affected in the metal and machinery sector by an internal restructuring. A cost-cutting plan aiming for a 10% reduction in fixed costs, half of which is coming from personnel costs, affects about 700 employees out of a 13,000 people strong workforce. Of the 3,000 employees in Sweden, some 300 employees will be dismissed due to this internal restructuring, mainly in Avesta, in the mid-region, and in Trollhättan, outside Gothenburg.

The other four cases of internal restructuring affect manufacturing companies in the motor, chemicals, and food, beverage and tobacco industries. [Volvo Cars](#), manufacturer of motor vehicles and part of the Premier Auto Group (PAG), laid off 180 blue-collar workers in Gothenburg as part of a cost-cutting programme announced earlier in 2005. The aim of this cost-cutting programme is to become more competitive. The other company in the motor sector affects [Valeo](#), which manufactures parts and accessories for motor vehicles and engines. Valeo cut 89 blue-collar jobs and 9 white-collar jobs in Mjällby, in the south of Sweden, where the company is one of the biggest employers with 500 employees. Earlier in 2005, 99 redundancies were made due to reduced orders and tightening competition. Part of the production will be offshored, but further information is not yet available. Both companies, Volvo Cars and Valeo, account for 22% of the cases and 33% of the job losses. The redundancies affect mainly blue-collar workers as greater competition forces manufacturing companies to rationalise their businesses by achieving a more effective work organisation and streamlining their production processes. Indeed, simple and mechanical work tasks can easier be automated and replaced than knowledge-based tasks.

The Finnish chemicals company [Kemira](#), which manufactures paints, varnishes and similar coatings, printing ink and plastics, announced to cut 100 jobs out of 525 at its plant in Helsingborg in the south of Sweden. Some of the redundancies will be direct dismissals while others may be through early retirement measures and voluntary resignations. The company has been struggling with low profitability for a few years and is trying to increase profits again via workforce reduction and decreasing energy costs by investing in a new turbine in their energy central.

The only restructuring case which leads to job reductions and is not related to internal restructuring is the case of [ABB](#). The company, which produces robot-based arc welding equipment, moves its plant from Laxå in the central region to Västerås near by Stockholm. According to the company, rising competition in the global robot industry forces ABB to improve its capacity use and to simplify administration and logistic processes in order to remain competitive. Some 70% of the 107 workers concerned will be offered work in Västerås. Over the last decade, ABB has continuously restructured, focusing on cost efficiency and concentrating its main activities.

As Table 2 illustrates, the announcement of four business expansions will lead to the creation of 820 jobs. Some 500 new jobs, representing 61% of the job creations, come from the financial service company [Nordea](#). The company aims to strengthen its advisory capacity over the next two-year period by increasing the number of advisers and specialists. In addition, Nordea plans to gradually open new branches and venues in the future. Two of the three business expansions come back to Ikea. At the end of the year, the high-volume furniture retailer declared that it will open two new stores, one in [Kalmar](#) in 2006 and one in [Karlstad](#) in 2007, creating 100 jobs in each store (see also [ERM quarterly, Issue 3, Autumn 2005 \(PDF 412kb\)](#)). The fourth expansion relates to [LKAB](#), a company involved in the mining industry, which will invest SEK 6 million in Kiruna in the north of Sweden. The investment includes several plants, haulage and terminal facilities as well as environmental improvements. The new plants will be built adjacent to the existing processing plants and become operational in spring 2008. Some 120 jobs are expected to be created (30 in mining, 80 in processing and 10 in quality assurance and infrastructure). More than 800 people will be involved in the project until 2008.

References

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> Sector focus

For this quarter, the spotlight is on the EU chemicals sector, a leading industry significantly affected by restructuring activities during this period (24 cases, accounting for 3,471 job losses and 5,440 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 chemicals sector

Industries in chemicals, pharmaceuticals, medicinal chemicals and botanical products are driven by different forces. Because of this difference, the major companies have in recent years been separating their chemicals and pharmaceuticals businesses. They do now concentrate on one or the other, but not on both. For this reason, this sector focus deals with chemicals and not with pharmaceuticals.

The chemicals industry is one of the largest and internationally most successful European industries. It is also a capital-intensive industry and has thus traditionally enjoyed a comparative advantage in mature industrialised countries. In 2004, the value of EU25 chemicals production amounted to €417 billion, providing a major input to the EU's economy. European enterprises produce 31% of the world's chemicals while American competitors hold 28% of the market. The chemicals industry is responsible for a value-added of €179 billion, a share of just under 12% of total manufacturing.

Between 1995 and 2000, output of this industry grew strongly at an average rate of 3.2% per year at constant prices. After 2000, growth slowed down to an average of 1.4% per year. Output share is closely related to the size of the Member States' economies which is valid for both the EU15 and the 10 new Member States.

In terms of output, the largest product groups embrace speciality chemicals, which can be divided into fine chemicals and performance chemicals, accounting for about 45% of the sector's output, and petrochemicals, accounting for about 40% of chemicals output. According to Eurostat (2004), manufacturing of basic chemicals and plastic products both account for roughly one third of the value-added of the chemicals industries at EU level. By contrast, the share of the manufacture of man-made fibres, pesticides and other agro-chemical products is marginal in terms of value-added at EU level. The higher share of value-added in the EU than employment reflects the relatively high level of productivity per employee.

European chemicals enterprises represent Europe's third largest manufacturing industry, providing 1.45 million jobs. Indirect employment reaches a further 3 million people, which represents almost 9% of the total number employed in the European manufacturing industry, a larger proportion than in the US (5.5%), but slightly smaller than in Japan (9.3%). The majority (55%) of them are working in the manufacture of rubber and plastic products.

According to Eurostat, over 89,000 enterprises were registered in the chemicals sector (excluding pharmaceuticals) in the EU in 2001. Around 5% of all enterprises manufacturing chemicals and chemical products belonged to the larger category (more than 250 employees).

However, globalisation represents a great challenge for the European chemicals industry. According to Cefic, the European Chemical Industry Council, a slowdown has been experienced in 2005, especially in production growth. External demand for chemicals was less dynamic due to a deceleration in global economic activity. Domestic demand in Europe could not compensate for the fallback in foreign demand. High crude oil prices had put pressure on private consumption. Therefore, industrial production was weak. The different chemicals sub-sectors have suffered to varying degrees by the weaker economic situation in 2005. For example, production increased considerably of basic chemicals, especially petrochemicals and inorganic substances in 2005 while, after having performed very well in 2004, production decreased of specialty and fine chemicals. This was a result of weaker global demand, intensive international competition and cost increases (e.g. oil prices). Some countries like Italy put forward an industrial policy to re-launch the chemicals industry, which is presently undergoing a serious crisis.

Today, the objective is twofold for the sector: policymakers must help it prosper in an increasingly competitive world, while ensuring the highest safety standards for human health and the environment. At the end of 2005, the European Commission welcomed the Council's political agreement on a comprehensive new and stricter system aimed at ensuring greater safety in the manufacture and use of chemical substances. REACH (Registration, Evaluation and Authorisation of Chemicals), which is expected to become operational by 2008, will ensure that the gaps in existing information on the hazardous properties of some 30,000 chemicals are filled, and that necessary information on the safe use of substances is transmitted along the industrial supply chain leading to reduced risks for workers, for consumers, and for the environment. This system will reverse the burden of proof so that industry, both producers and importers of substances, rather than the public authorities, will have to assume greater responsibility for providing the necessary information and taking effective risk management measures.

On the other hand, as Cefic President Peter Elverding confirmed in October 2005, the 'TrUST' (Trust Us) theme aimed at gaining public trust is a major overall objective for the European chemicals industry. In addition, the chemicals industry proposes a project called 'CHANGE' (Chemicals Advisory Network Group for Europe) which embraces EU representatives and executives of the industry. CHANGE aims at initiating a constructive dialogue at EU level on the political, economic and environmental challenges which the industry faces. Chemicals is the largest of the energy-intensive industrial sectors, accounting for around 12% of the EU total energy. These initiatives should result in a clear and shared longer-term vision for the European chemical industry.

In November 2005, European chemicals sector organisations have unveiled areas for future research and technology developments, including: white biotechnology; materials technology; and reaction and process design.

With regard to globalisation, European companies have to exploit the advantages of production locations anywhere in the world to maintain their strong position in the face of growing competitive pressures. In the last quarter of 2005, the ERM database reported 24 restructuring announcements signalling the creation of 5,440 jobs and the loss of 3,471 jobs in the sector.

Table 4: Breakdown of employment effect by type of restructuring in the 4th quarter

Type of restructuring	Planned job reductions	Planned job reductions %	Planned job creation	Planned job creation %	Cases	Cases %
Business expansion	0	0	5440	100	11	45.83
Internal restructuring	2,890	83.26	0	0	10	41.67
Bankruptcy / Closure	381	10.98	0	0	2	8.33
Offshoring / Delocalisation	200	5.76	0	0	1	4.17
Other	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	3,471		5,440		24	

The large majority of the cases referred to business expansion (11 cases) or internal restructuring (10 cases), while only three companies indicated bankruptcy or delocalisation.

Twenty-four restructuring cases

Germany and Poland are the two countries showing the highest rate of restructuring cases in the chemicals industry, with four cases each accounting for 1,007 jobs lost in Germany and 770 new jobs in Poland. Nevertheless, in terms of jobs, Hungary and Slovakia are the first countries which profit from the high number of job creations (2,400 and 1,700 respectively) during this quarter, while Romania faces the biggest lost in the number of workers (1,313).

Table 5: Breakdown of employment effects by country in the 4th quarter

Country	Planned job reductions	Planned job reductions %	Planned job creation	Planned job creation %	Cases	Cases %
Germany	1,007	29.01	0	0	4	16.67
Poland	0	0	770	14.15	4	16.67
Romania	1,313	37.83	100	1.84	3	12.5
Slovakia	181	5.21	1,700	31.25	3	12.5
United Kingdom	320	9.22	0	0	2	8.33
Hungary	0	0	2,400	44.12	2	8.33
Czech Republic	0	0	100	1.84	1	4.17
Spain	0	0	370	6.8	1	4.17
Sweden	100	2.88	0	0	1	4.17
Finland	100	2.88	0	0	1	4.17
Belgium	200	5.76	0	0	1	4.17
Slovenia	250	7.2	0	0	1	4.17
Total	3,471		5,440		24	

In Hungary, two business expansions will create 2,400 jobs (representing more than 44% of the total number of job creations), of which 1,500 will occur within the manufacture of rubber

tyres and tubes and 900 in the manufacture of rubber and plastic products. The South Korean tyre producer [Hankook Tire](#) announced one of the largest expansions during the last quarter of 2005, accounting for 1,500 new jobs (see also [company focus](#)). Another 900 jobs will be created by Germany's [Freudenberg](#) from 2009. The firm, which currently employs 900 people at its Hungarian factories, plans to double its workforce over the next three years.

In Slovakia, the Czech Kordárna company which is part of the biggest European producer of technical fibres, Kord, decided to extend the production of [Slovkord](#), a joint-venture with the Slovak company Slovenský Hodváb. Kordárna will build for this purpose a new industrial zone close to Slovenský Hodváb facilities. The investment amounts to CZK 2 billion and will create 1,000 new jobs in the region of Zapadne Slovensko. Furthermore, the Spanish company [Cikautxo SK](#), producing plastic parts for the automotive and the white goods industry, plans to establish its first subsidiary in Zapadne Slovensko and will thus create 700 jobs.

In Poland, 770 job creations have been announced in the chemicals industry during the last quarter of 2005; some 400 of these will stem from the expansion of the American [Colgate-Palmolive](#) group. The firm intends to construct a facility producing oral care products in a Special Economic Zone (SEZ). Moreover, [Becker Powłoki Przemysłowe](#) will build a new manufacturing plant in Kraków SEZ, creating 150 jobs by the end of 2006. [Artis ID](#), which is a joint venture between ID Data systems, Ortis, and Argo Cards, will provide a card manufacturing plant, creating 120 jobs. The [3M](#) company announced the creation of 100 jobs for a new manufacturing plant in Wrocław producing optical foil for LCD screens.

The Spanish Consortium [Repsol-YPF](#), which specialises in refined petroleum products, will launch an industrial plan investing €3.2 million in its refining plants in Cartagena (Murcia) and Muskiz (Vizcaya, Vasque country). The measure will increase the company's total workforce by 10%, representing 370 new jobs.

Some 100 new jobs are planned in the Czech Republic and Romania, respectively. [Primasil Silicones](#), the largest manufacturer of silicone rubber compound and finished products in the UK, decided to build a new factory in Mikulov (Czech Republic). The Japanese company [Sol-Plus](#) opened a plastics injection factory in the Vest region of Romania, which represents the company's second investment in Romania.

On the other hand, more than 3,400 job reductions are planned in the chemicals sector. In Romania, employment loss in the chemicals industry represents almost 40% of the total losses of the quarter. [Terom](#), a manufacturer and provider of synthetic products for the textiles industry, announced a reduction of 1,113 jobs. The restructuring is the outcome of a programme drawn up in agreement with the Administration Board and the measures are in line with the economic objectives set by the governance plan for 2005–2008. Some 200 more employees will be laid-off by [Moldoplast](#), a company with 35 years experience in manufacturing plastics (plates, sheets, tubes and various other profiles). The government decision underpins the commitments Romania made to international bodies, namely to reduce the number of employees in state-owned companies.

The situation is similar in Germany where more than 1,000 jobs will be lost, due to the restructuring of the British oil company [British Petroleum \(BP\)](#). These cuts are part of a company-wide restructuring effort. The Swiss producer of chemicals, [Clariant](#), also announced a cost-cutting programme, involving the loss of 177 jobs. Aggressive price competition by Asian suppliers was given as the reason for the company's cost-cutting measures. [Bayernoil](#), a refinery in Bavaria, will reduce the number of factories from three to two, while increasing the capacity of the remaining factories. Some 130 jobs will be cut until 2010, though the company intends to avoid direct dismissals. Among the 1,100 jobs which [Beiersdorf](#) plans to cut across Europe, some 100 of these are planned to be lost in

Germany. The producer of consumer goods embarks on a Europe-wide restructuring and thus plans to close several factories in Europe.

The closure of an explosive manufacture and the internal restructuring of a basic chemicals will generate the loss of 320 jobs in the United Kingdom. Two munitions plants owned by [BAE Systems](#) are to close with the loss of 200 jobs. The former Royal Ordnance site in Bridgewater, Somerset, will shut by 2007 and a site in Chorley, near Preston, Lancashire, will shut by the end of 2006. In January 2005, BAE had already announced a restructuring involving the loss of 1,400 jobs. Furthermore, Eaglescliffe-based [Elementis Chromium](#), a Teesside chemical plant, announced that 120 jobs cuts are needed as part of a restructuring process at the site.

In the last quarter of 2005, Slovakia where 1,700 jobs are planned to be created within the sector also faces the final step of the [Slovenské lúčobné závody \(SLZ\)](#) bankruptcy which involves the dismissal of 181 employees. Around two third of them may get a job in the nearby SLZ Chémia Company.

Furthermore, some 250 employees will be laid-off in Slovenia, 200 in Belgium, 100 in both Finland and Sweden where no job creation has been announced between October and December 2005 in the chemicals industry.

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> Company focus

This section presents data concerning the cases of two companies. EDF has announced its second large-scale restructuring in three years, involving up to 6,000 job losses across Europe, and Hankook Tire has announced business expansion plans, foreseeing the creation of 1,500 new jobs.

>> Spotlight on EDF

Employing 161,310 people in 2004, [Électricité de France \(EDF\)](#) is Europe's largest electricity utility and supplies 22% of the European Union's power needs. EDF is the top producer of civilian nuclear energy in the world, generating nearly three-quarters of its output from nuclear power plants, of which 19 are based in France.

State-owned since 1946, EDF's 15% float in November 2005 attracted more than 4.85 million small investors in one of Europe's biggest stock market flotation. The group plans to allocate the €7 billion raised to its ambitious expansion programme in France and Europe as it prepares for the full liberalisation of the energy market in 2007.

Unions have fiercely protested against what they perceive as a financial project, expressing concerns about capital expenditure underinvestment that might impact on the security of supply of the European power system. They also denounce EDF's failure to act to prevent the degradation of employment conditions and workers rights.

Privatisation strategy

As a state monopoly, it embarked on a large scale acquisition campaign, buying stakes or businesses in other parts of Europe, as well as in the Americas, Africa and China throughout the 1990s while private rivals struggled to protect their share of the market. Although the announcement of EDF's privatisation process takes place against the backdrop of apparent strong financial results for the group – EDF announced on 5 December 2005 a €2.13 billion benefit in the last semester – the group still carries a €19.7 billion debt as a result of its aggressive international expansion. In 2005, the group's financial turnover progressed by 6.6%, due to an increase in prices in Germany and the UK. This progression is foreseen to continue in order to pay off the remaining debt load.

EDF restructuring procedure

During this privatisation process, and for the purpose of increasing yearly benefits, EDF plans to reduce its total workforce until 2007. About 6,000 jobs will go by replacing only 'one in four' of the 9,000 employees retiring in the next two years. The group will propose early retirement measures to workers close to retirement age whose activity is not considered as a priority. This will affect between 250 and 500 people in 2006. This initiative is a result of the 2004 internal programme *Altitude 7500* which planned to replace only one retirement out of three over the period 2005–2007.

In this period, EDF intends to reduce its personnel costs by €1.5 billion, including €1 billion within France. According to the figures communicated to the trade unions, some 3,054 positions will be left vacant through natural attrition in 2006, and further 3,630 in 2007. This accounts for a total of 6,684 jobs lost in EDF. Three positions out of eight will be replaced in the production and engineering units (including workers in the nuclear power stations) and two employees out of seven in the retail services. So far, the sales branch is not affected by these measures. In this way, EDF hopes to renew the group's competency base, focusing on nuclear maintenance and control, new customer approaches, online sales, or skills relevant to the electrical supply network exploitation.

In addition, EDF foresees an internal redeployment of 2,000 to 3,000 people. The trade union *Force Ouvrière* (FO) stresses that this internal mobility programme comes on top of the 8,000 'forced migrations' of EDF-GDF employees, called to integrate the sales management of one of the two companies before 2007. As a result, 10 % of the workforce based in the group's head office will have to change their position in the two years to come.

Following the statement by EDF's General Director, Pierre Gadonneix, that 'these measures should help the company to adapt to the full liberalisation of the energy market', EDF's share price increased from €23 to €32.30.

The General Labour Confederation (CGT) which is largely represented among EDF's 161,310 employees, emphasises that 'these declarations aim at satisfying shareholders in reaching high dividends which the French government and EDF management had promised'. The CGT took various actions in the run up of EDF's flotation in November 2005, including numerous protest blackouts across the country and street demonstrations. Anxious to respond to this labour unrest, the French government recently stated that 'at least 85% of EDF's capital' will remain state-owned. It also stressed that a public service contract signed between the government and EDF would ensure that the utility will endeavour to respect the following 'three rules': ensure suitable rates, maintain a similar pricing policy across the country and provide electricity for the poor.

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>> Spotlight on Hankook Tire

[Hankook Tire](#) was founded 65 years ago, in 1941 in the Korean capital of Seoul. In 1942, production begins with a capacity of 110,000 tyres per year while currently it reaches 50 million tyres per year. In 1968 the company changes its name to Hankook Tire Manufacturing and became listed on the stock exchange. Hankook opened its first sales branch in the United States(US) in 1981. Nowadays, the company is represented in 16 countries and in Europe since 1996. The company produces tyres for cars, buses and trucks which are available in 170 countries. Since 1991 it is ranked among the 10 largest tyre manufacturers worldwide with a market share close to 6%. In 2003, Hankook Tire total sales reached €1,286 million, 43% of which was realised through export activities (€556 million); the company made €96 million earnings. The company employs 4,422 people worldwide.

Hankook Tire moves to Hungary

Hankook Tire Manufacturing Company, selling 38% of its product in Europe, chose Hungary as the location to build its first European manufacturing plant. Poland, Slovakia and Hungary competed to attract the investment of €500 million creating 1,500 workplaces. The construction works is to begin in March 2006, while the tyre production is expected to start in 2007. By 2010, the plant is supposed to reach its full production capacity, producing 10 million tyres per year. For a long period, Slovakia seemed to be the most successful candidate. In July 2005 however, the Slovakian government refused to sign the contract proposal, stating that it would be too expensive for Slovakia as the amount of the governmental subsidies would reach 21.3% of the total investment value.

Hungary, a leading country of FDI (Foreign Direct Investments) inflows in the central and eastern European region during the 1990s has experienced a significant decrease of FDI inflows since 2000. In this respect, new large investments are considered as crucial. With Hankook's investment, Hungary may become a regional centre in the tyre manufacturing sector with other tyre manufacturers also investing in the country: In 2004, the global market leader Michelin invested €60 million to build a new plant in Nyíregyháza while Bridgestone, the leading Japanese tyre manufacturer, recently established his new plant near to Tatabánya, an investment worth €190 million. In 2003, Hankook concluded a strategic alliance with the former company.

The investment is important not only for the country and the sector but also for the regional development of Dunaújváros city where the plant will be set up. The town which is located 65 km from the Hungarian capital Budapest was established in 1951 around the country's biggest steel manufacturer, Dunafer, employing more than 8,000 people. In order to decrease the monolithic structure of the regional economy, the city, the College of Dunaújváros and Dunafer Group jointly founded the Innopark Non-Profit Company which operates as an industrial park since 1997. Innopark played an important role in the contract preparation.

According to Hankook representatives, the primary reasons for choosing Hungary were the skilled labour force (assured by the industrial tradition of the region), the proximity to the major European markets and strong government incentives. As for the latter, government incentives can be divided in three major elements: In addition to the unknown amount of cash-contribution, the company will receive a tax allowance of 80% (instead of 16%) for a duration of 10 years Hankook will thus pay 3.2% company tax only. The Hungarian

government will also provide a 50% contribution to the vocational training costs. Overall, governmental subsidies are estimated to reach €62.8 million, representing 12.6% of the total investment value which is far less than the original Slovakian proposal of 21.3%. The proximity to the major European markets (and the Hankook research and development (R&D)centre in Germany) is ensured by the new motorway between Budapest and Dunaújváros, set to be opened in 2006. The existing infrastructure also gives an exceptional logistical advantage to the town. Moreover, the government will offer a faster and exclusive administrative procedure by the Hungarian offices and authorities. Seung Hyung Lee and J. W. Kim, both managers from the corporate business planning team, visited the College of Dunaújváros and met with the management of the higher education institute in order to harmonise the future demand and supply side of education in the region and to review the possible R&D capacity of the College.

A key role in the development of the region

Hankook, the world's eighth largest tyre manufacturing company with an annual production capacity of more than 50 million tyres, expects to become one of the top five players in the market with this Hungarian investment. In a long run, the company aims to become the second largest company in the sector.

István Illéssy, the Managing Director of the Dunaújváros Industrial Park, believes that, by establishing a new industry and creating a considerable number of working places, Hankook's investment plays an important role in the development of the small region. There is also a good chance that Hankook's sub-contractors will establish themselves in the region. As a result of the large infrastructure developments the region's logistic potential grows considerably. Further areas have been prepared to accept additional large green-field investments.

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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.⁴ 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

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

⁴ European Commission, *European social statistics – Labour force survey results 2002*, Luxembourg: Office for Official Publications of the European Communities 2003.