



European restructuring monitor *quarterly*

Issue 2 – summer 2009

Summary

Current macroeconomic trends and prospects

Overview of ERM statistics April–June 2009

**State aid for companies affected by the crisis –
the case of Germany**

**Recent news on restructuring from the European Industrial
Relations Observatory**

Collective redundancy data: Spain

Restructuring in Malta and Cyprus

Note on ERM methodology



Country codes

EU27

AT	Austria	LV	Latvia
BE	Belgium	LT	Lithuania
BG	Bulgaria	LU	Luxembourg
CY	Cyprus	MT	Malta
CZ	Czech Republic	NL	Netherlands
DK	Denmark	PL	Poland
EE	Estonia	PT	Portugal
FI	Finland	RO	Romania
FR	France	SK	Slovakia
DE	Germany	SI	Slovenia
EL	Greece	ES	Spain
HU	Hungary	SE	Sweden
IE	Ireland	UK	United Kingdom
IT	Italy		

Other countries

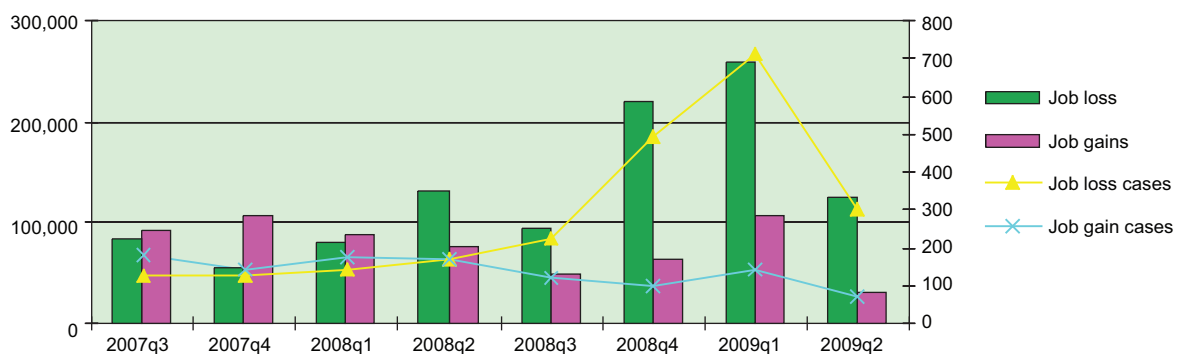
NO	Norway	JP	Japan
		US	United States of America

According to the most recent DG-ECFIN quarterly report, the euro area remains ‘deep in recession mode’: unemployment is rising in all Member States; inflation is negative, consistent with a rapid fall-off in demand; and government finances are stretched, in particular from dealing with the consequences of the banking crisis. While there are tentative signs of recovery – including recovering stock markets and improving business confidence indicators – the consensus appears to be that the current recession may last longer in Europe than in the other major developed economies.

There are some signs of recovery: unemployment is rising less sharply in some countries, the banking system is stabilising, and business confidence is increasing. Consistent with these more promising signs, the surge in restructuring-related job loss captured by the European Restructuring Monitor (ERM) in the previous two quarters has abated in the most recent three months. Given that the ERM reports announced job losses and that the employment impacts of announced job loss may take many months to materialise, this fall-off is additional evidence that the situation may be stabilising.

Over the last quarter (1 April 2009 to 30 June 2009), the ERM reported 370 cases of restructuring¹ – around half of that in the previous quarter. Of these, 301 were cases of restructuring involving job loss. Announced job losses totalled 125,000 in the quarter as against announced job gains of 31,000. As recently as the first quarter of 2008, the ERM was reporting more announced job gains than job losses, as Figure 1 illustrates.

Figure 1: *ERM job losses and gains over the last eight quarters*



Source: ERM

The largest cases of announced restructuring registered during the quarter were by **Education Nationale**, which announced cuts of 16,000 teaching jobs throughout France in June 2009, while telecoms company **BT group** announced 15,000 job cuts in May, the majority of which will affect UK-based jobs.

¹ Additionally, there were 40 world and EU cases of restructuring. The total case count for the quarter was 410. Job loss and gain totals do not include world and EU cases in order to avoid double counting.

Current macroeconomic trends and prospects

The headline data underscore the seriousness of the economic downturn in the EU: GDP in the eurozone contracted faster in the first quarter of 2009 than it has at any time since the 1970s (falling by 2.5%). This was the fourth successive quarter of reduced output. The most recent unemployment figures, for May, show unemployment rising in the EU27 to 8.9%. Meanwhile, the euro area is experiencing negative inflation year-on-year (-0.1%, according to a June flash estimate from Eurostat) and unemployment is at its highest rate since the inception of the common currency 10 years ago (9.5%). Perhaps the most alarming data relate to the contraction of international trade, with EU exports down 27% and imports down 24% year-on-year (Eurostat figures, April 2009).

The signs of recovery include a significant stock market rally, a deceleration of several negative trends (such as unemployment in the US and Spain), rising soft indicators such as those of business confidence and the novelty of economic forecasts being revised upwards. In its recent *Economic Outlook*, the OECD hailed the avoidance of the worst-case scenarios envisaged in the immediate wake of the Lehman Brothers collapse as ‘a major achievement of economic policy’.

However, all of the above noted, momentum in the stock markets – generally a good lead indicator – has stalled in recent weeks. Also, the latest phase of the recent oil price rollercoaster has seen a price dip, where dips have become synonymous with lack of confidence in future global economic growth. And it should be noted that some recent revised forecasts of a more optimistic hue apply mainly to the US and Asia and not to the EU. The IMF continues to revise downwards GDP projections for the euro area for 2009 (from 4.2% in April 2009 to 4.8% in July) and warns that ‘much of the adjustment in the [EU] labour market still lies ahead’. All the signs are that the recovery, when it comes, will come later in Europe than elsewhere and will be sluggish in all major developed economies.

Public finances have taken a fair measure of the pain in the wake of the financial crisis. Sizeable financial rescue packages and economic stimulus packages have been agreed at national and EU level. These appear to have inspired some confidence and have helped to stabilise the banking system. They have done so, however, at a significant cost. The debt-to-GDP ratio for the euro area is projected to rise to 84% in 2010 – much higher than the 60% Maastricht threshold that allowed Member States to qualify originally for entry to the euro area. Given population ageing, declining employment and tax takes, and rising social security costs – in addition to the extraordinary one-off costs of the financial bailouts – public spending will be subject to greatly increased constraints in coming years.

Table 1: *GDP growth first quarter 2009, compared with previous quarter, seasonally adjusted*

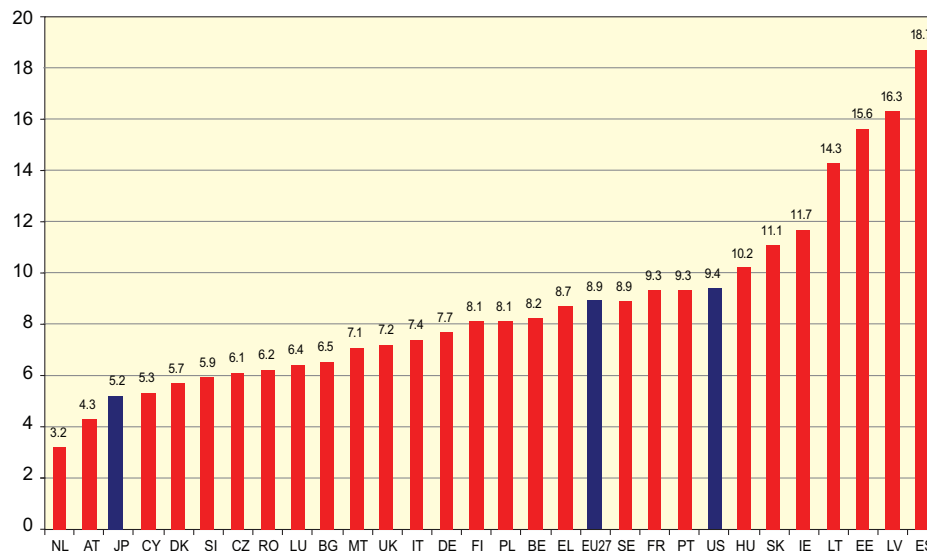
Austria	-2.6	Germany	-3.8	Luxembourg	-1.5	Spain	-1.9
Belgium	-1.7	Greece	-1.2	Malta	-1.3	Sweden	-0.9
Cyprus	0	Hungary	-2.5	Netherlands	-2.8	United Kingdom	-2.4
Czech Republic	-3.4	Ireland	-1.5	Poland	0.4		
Denmark	-1.1	Italy	-2.6	Portugal	-1.6	Japan	-3.8
Estonia	-6.1			Romania	-4.6	United States	-1.4
Finland	-2.7	Latvia	-11.2	Slovakia	-11.4	EU (27 countries)	-2.4
France	-1.2	Lithuania	-10.5	Slovenia	-6.4		

Source: Eurostat EuroIndicators, 8 July 2009

Note: No data for Bulgaria

The most recent GDP data, presented in Table 1, indicate that in the first quarter of 2009, the EU27 witnessed a 2.4% quarter-on-quarter contraction in output. The recession continues as virtually all developed countries suffer output falls. GDP also declined in both Japan (-3.8%) and the US (-1.4%). In Europe the largest declines were in new Member States – Slovakia (-11.4%), the Baltic countries (Latvia -11.2%; Lithuania -10.5%; Estonia - 6.1%) and Slovenia (- 6.4%). Poland, with a GDP growth of 0.4%, was the only exception.

Figure 2: *Seasonally adjusted unemployment rates, May 2009 (%)*



Source: Eurostat. Data for EL, IT, RO, UK from March 2009.

The seasonally adjusted unemployment rate for the EU27 has gone up to 8.9%, according to the latest Eurostat data (Figure 2). Unemployment level in the US (at 9.4% in May 2009) has remained above that in the EU.

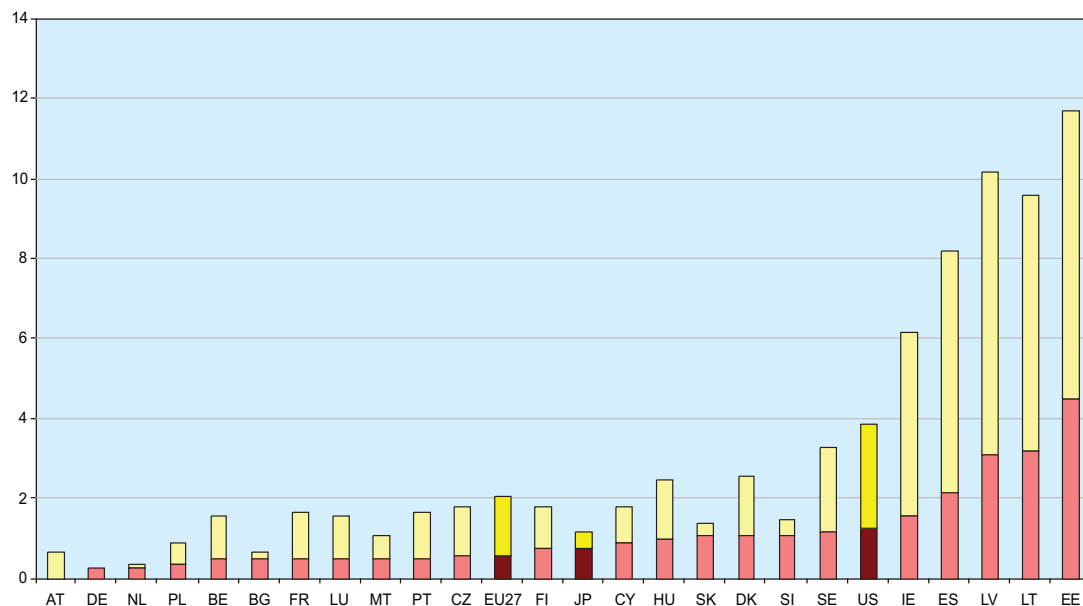
As in the previous quarter, the lowest unemployment rates were recorded in the Netherlands (3.2%), Austria (4.3%) and Cyprus (5.3%). Spain, on the other hand, has suffered a sharp rise in unemployment over the last year – up 8.2 percentage points to 18.7%. Over the last 12 months, unemployment has also jumped in most of the other Member States – particularly in the Baltic countries (up between nine and 12 percentage points) and Ireland (6.2 percentage points).

Most recent data confirm that the situation in European labour markets keeps deteriorating. All the Member States, with the exception of Austria, recorded an increase in unemployment over the last three months.

As Figure 3 illustrates, the employment effects of the recession have varied from Member State to Member State. The Baltic countries have been particularly severely impacted, as have Ireland and Spain (both of which are suffering the collapse of construction booms). The impact in Denmark and Sweden also appears to be increasing in the recent quarter. Combinations of working time flexibility, short-time working and temporary layoffs have clearly cushioned labour markets from the standard recessionary impacts in countries such as Austria, France, Germany, and the Netherlands. The fact that other countries – Hungary and Slovenia – have adopted publicly supported short-time working schemes recently and that companies in other Member States – notably in the UK and Ireland – have devised other inventive approaches of adapting working hours rather than dismissing employees is indicative of a preference for trying other forms of flexibility first and treating numerical flexibility as a last resort.²

² And, indeed, public administrations – see <http://www.irishtimes.com/newspaper/ireland/2009/0622/1224249264491.html> for example.

Figure 3: Changes in seasonally adjusted unemployment rates, in the three months and the year leading up to May 2009



Source: Eurostat. No data for EL, IT, RO, UK.

Overview of ERM statistics April–June 2009

The ERM recorded a total of 370 cases of restructuring between 1 April 2009 and 30 June 2009.³ These cases involved 124,888 announced job losses and 31,718 announced job gains. The five most prominent instances of job reduction are listed below in two separate tables featuring national (Table 2a) and international (Table 2b) cases of job reduction, while the top five cases of job creation are listed in Table 2c.

Table 2a: Top five cases of announced job reduction (national)

Company	Jobs	Location	Restructuring type	Nace code (sector)
Education Nationale	16,000	France	Internal restructuring	80 (Education)
Woolworths	5,000	Germany	Bankruptcy/closure	52 (Retail trade)
Heideldruck	3,000	Germany	Internal restructuring	29 (Manufacture of machinery and equipment)
New World Resources (NWR)	2,500	Czech Republic	Internal restructuring	10 (Mining and quarrying)
Lloyds	2,100	United Kingdom	Merger/acquisition	65 (Financial intermediation)

Source: ERM, 1 April–30 June 2009

³ Additionally, there were 40 world and EU cases of restructuring. Total case count for the quarter was 410. Job loss and gain totals do not include world/EU cases in order to avoid double counting.

Table 2b: *Top five cases of announced job reduction (international)*

Company	Jobs	Location	Restructuring type	Nace code (sector)
BT Group	15,000	World	Internal restructuring	64 (Post and telecommunications)
Hewlett Packard	6,400	World	Internal restructuring	72 (Computer related activities)
Heideldruck	5,000	European Union	Internal restructuring	29 (Manufacture of machinery and equipment)
Mahle	4,900	World	Internal restructuring	34 (Manufacture of motor vehicles and trailers)
Linde	3,000	World	Internal restructuring	24 (Manufacture of chemicals)

Source: ERM, 1 April–30 June 2009

The largest national case of restructuring involved **Education Nationale**, the French Ministry of National Education and Vocational Training, which announced on 24 June that it would cut 16,000 teaching jobs in French secondary schools across all regions. The measure will be included in the 2010 budget and will take effect from January 2010; it will target mainly trainee teacher posts that will not be renewed in the context of a national programme of reform of teacher training. The plans are also consistent with earlier government pledges on the non-replacement of one out of every two civil servants who retires from service.

New World Resources (NWR), a Dutch mining company that owns OKD, the largest Czech producer of hard coal, announced the cutting of 2,500 jobs (out of a total of 20,000) by the end of 2009. This announcement follows a previous announcement by OKD regarding the closure of a coke plant in Ostrava and the cut of 500 jobs.

After the collapse of the UK-retailer **Woolworths** in December 2008, with 27,000 job losses, its Germany subsidiary filed for bankruptcy in April 2009. The stores are still operating, since wages are paid by an insolvency fund and the company – or parts of it – may yet be sold to an investor. On 25 June, the works council approved plans to transfer 9,300 employees in July to a transfer agency for six months. Less than half of all jobs are to be saved by re-establishing 142 Woolworths stores under a new legal framework. Some 169 small stores out of a total of 311 will be either closed or sold. The administrator plans to bundle the surviving stores in a new transfer company, called Neue Woolworth Deutschland. The stores of Neue Woolworth Deutschland are expected to employ 20 to 30 persons each.

In Germany, **Heideldruck**, the leading German manufacturer of printing machines, employing about 20,000 workers, is the first company to receive public guarantees from the steering council of the German ‘Economy Fund’, the fund for large company cases set up as part of the national economic stimulus packages. Management and works councils have started to work on a restructuring plan that currently includes the cutting of 5,000 jobs, of which 3,000 jobs are in Germany.

Of the large transnational restructuring announcements in this quarter, particularly noteworthy was the announcement by **BT Group** that it would cut 10% of its total workforce (or 15,000) jobs worldwide. The company committed to implement the redundancies through voluntary means and early retirement and to keep to a minimum the number of permanent staff who will be affected.

Table 2c: Top five cases of announced job creation

Company	Announced job gains	Country	Nace code (sector)
Véolia Environnement	5,000	France	37 (Recycling)
Electricity Supply Board	3,700	Ireland	40 (Electricity, gas, steam and water)
Stocznia Szczecin	3,000	Poland	35 (Manufacture of other transport)
Stocznia Gdynia	2,000	Poland	35 (Manufacture of other transport)
Volkswagen Slovakia	1,500	Slovakia	34 (Manufacture of motor vehicles and trailers)

Source: ERM, 1 April–30 June 2009

Of the 31,718 job gains in the quarter, the majority are in manufacturing. Qinvest, the largest investment bank in Qatar, has taken a stake in the **Stocznia Szczecin** and **Stocznia Gdynia** shipyards in Poland, where the creation of 3,000 new jobs (Szczecin) and 2,000 new jobs (Gdynia) by the end of 2009 was announced. It is not clear to what extent the new jobs will be offered to those who lost their jobs in both shipyards during the major voluntary redundancies reported in January 2009.

Two of the more significant job-creation announcements relate to investments in ‘green jobs’. The French recycling company **Véolia Environnement** is planning to recruit between 5,000 and 9,000 permanent workers by the end of the year. In Ireland, the **Electricity Supply Board** announced the creation of up to 3,700 jobs over the coming years in what constitutes an expansion of ‘green jobs’ devoted to clean energy technologies.

Table 3: Job reduction, by type of restructuring

	Q4 2008– Q2 2009 (three quarters)			
	Cases	Announced job loss	%	%
Bankruptcy/closure	306	138,924	23.1	14.5
Internal restructuring	1,094	426,538	70.8	72.6
Merger/acquisition	21	16480	2.7	4.3
Offshoring/delocalisation	49	15,032	2.5	5.5
Other	8	2,334	0.4	0.4
Outsourcing	3	399	0.1	1.2
Relocation	18	2,422	0.4	1.5
Total	1,504	60,2129	100	100

Source: ERM, 1 April–30 June 2009

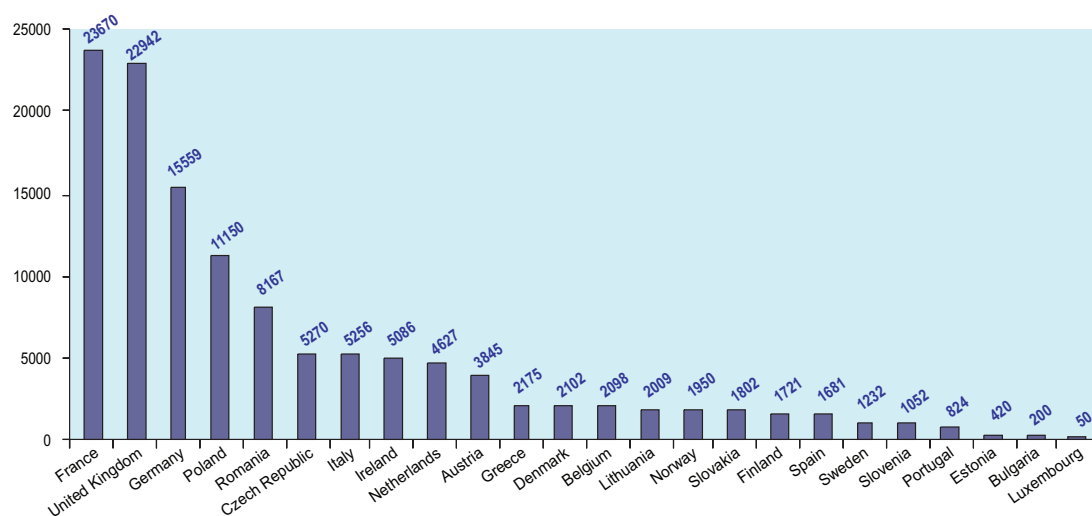
Table 3 shows the reported job losses by type of restructuring. Overall, since October 2008, bankruptcy has accounted for a higher than customary proportion of job losses –23.1% – compared with 14.5% of all previous ERM job losses. Since October 2008, the categories of merger/acquisition, offshoring/delocalisation, outsourcing and relocation account for less than half of their previous ERM job losses.

Restructuring across countries

Job reduction

Figure 4 shows the distribution by country of restructuring cases that resulted in announced job losses in the second quarter of 2009. France features top of the list, with 23,670 announced job losses ahead of the UK, which recorded 22,942 announced job losses. It should be noted, however, that in the UK the pace at which jobs are lost appears to have substantially slowed compared with the two previous quarters (70,266 reported job losses in winter 2008 and 63,314 in spring 2009). The two other countries with the highest number of announced job losses are Germany (15,559) and Poland (11,150).

Figure 4: *Job reduction, by country*



Source: *ERM, 1 April–30 June 2009*

Most of the job reductions in France relate to 15 cases of internal restructuring and – to a much lesser extent – bankruptcy or closure (five cases). As in most of the countries, cases of relocation and offshoring are the exception rather than the rule, with only three cases in France.

By a considerable margin, the most significant case of job reduction is that announced by **Education Nationale** with the loss of 16,000 teaching jobs in secondary schools. The job losses, which are blamed in part on a reduction in the number of pupils, will be implemented during 2010.

The second largest instance of job reduction is that of the French tyre maker **Michelin**, which announced the loss between 1,700 and 3,000 jobs – mainly in Tours (Indre-et-Loire), Montceau-les-Mines (Saône-et-Loire), Noyelles-lès-Seclin (Nord). According to the French media, the job cuts will be carried out by the end of 2010 as part of a voluntary programme. Although Michelin has been negotiating for the last six months with the Indian authorities to open a plant in south-eastern India within the next three years, the CEO of Michelin said that France would continue to be the group's 'strategic hub and innovation centre'.

In the UK, also, most of the job reductions are the consequence of internal restructuring. It should, however, be noted that there has been a significant decrease in the number of cases of bankruptcy or closure in the last three months compared with the previous quarter (15 as against 39).

The biggest case – accounting for over 27% of the total announced job losses in the UK – is that of **Lloyds banking group**, which announced 6,332 cumulative job losses. In the last three months, Lloyds – formed in late 2008 by the merger of Halifax Bank of Scotland (HBOS) and Lloyds TSB – has announced thousands of job losses at regular intervals. Trade unions have lamented the lack of clear information about the restructuring plan and the present piecemeal approach adopted by the bank. The first job cut announcement was made by the bank at the end of April 2009; this involved the loss of 985 full-time and part-time positions. On 19 May, the bank announced 625 job cuts across the UK due to the merging of its corporate and small lending business units, while another 210 job cuts were announced on 21 May as a result of combining the digital banking services of Lloyds TSB and HBOS. On 3 June, the bank revealed plans to cut a further 530 jobs by the end of 2009, including 210 at a customer service unit in Kent and 320 jobs in other retail operations, as well as sales, mortgages and network support units. A week later, on 9 June, the company said that 1,660 jobs would be cut with the closure of all Cheltenham and Gloucester (building society) branches. At the end of the month, the number of job losses jumped to the current 6,332 with two consecutive announcements – 242 new cuts affecting staff in offshore finance in Jersey, Guernsey, the Isle of Man and London, and another 2,100 job losses across the UK, of which 700 will be implemented through natural attrition.

The other UK large-scale case is that of the Anglo-Dutch steel maker **Corus**, owned by Indian conglomerate Tata Group. It announced more than 3,000 job losses in the second quarter of 2009, on top of the 2,500 already announced in January. In early May, the company announced 1,920 job losses with the closure of its Teeside plant. The announcement came after the decision of a consortium of four international steel buyers to terminate their contract with Corus earlier than had been foreseen. The company has entered into negotiations with the employees and asked for government assistance while exploring alternative options that might secure the plant's future. In late June, Corus announced the loss of at least another 1,922 jobs across the UK. This time, the cuts were blamed on further deterioration in the demand for steel due to the severe impact of the recession. Most of the job cuts will affect staff in Scunthorpe (where 500 job losses were announced), Stocksbridge (379), Rotherham (377), Teesside (150) and Hartlepool (156).

UK insurer **Aviva** also announced major job losses in this quarter, amounting to 1,100 across the country. The company stated that it intends to keep compulsory redundancies to a minimum. The job losses will affect 800 permanent staff and will occur by the end of 2009.

The remainder of the quarterly job losses recorded in the UK consists of cases of fewer than 1,000 announced job losses, of which the most significant are aircraft manufacturer **Bombardier Aerospace** (975 announced job losses), British van maker **LDV** (810), computer and printer manufacturer **Hewlett-Packard** (700), and the **Dairy Farmers of Britain** (696).

In Germany, half of the job losses recorded in the quarter were attributable to two large cases – the German department store chain **Woolworths** (between 5,000 and 9,000 announced job losses) and German manufacturer of printing machines **Heideldruck** (3,000 announced job losses; see also the feature in this issue on 'State aid for companies affected by the crisis').

Deutschland Woolworth's insolvency comes only a few months after Woolworths in the UK went into administration in November 2008, leaving 27,000 people out of work. Until 1998, the company had been the German subsidiary of the US retailer F.W. Woolworth; since then it has been owned by the British private equity firm Argyll Partners. Reportedly the insolvency was the consequence of a slump in sales, rising competition and insufficient liquidity. According to the administrator, some local and some foreign investors have shown an interest in taking over the company, though significant job losses appear inevitable.

With regard to the second-largest case in Germany, Heideldruck, about 20% of all jobs in production and a quarter or one third of all administrative jobs are expected to be cut.

Other major cases of job reductions include fashion chain **Adessa Moden** (where 900 job losses have been announced), trailer manufacturer **Schmitz Cargobull** (850), printing press manufacturer **Koenig & Bauer** (700), prefabricated house manufacturer **Kampa** (650), insurer **Axa** (600), and concrete pump manufacturer **Putzmeister** (560).

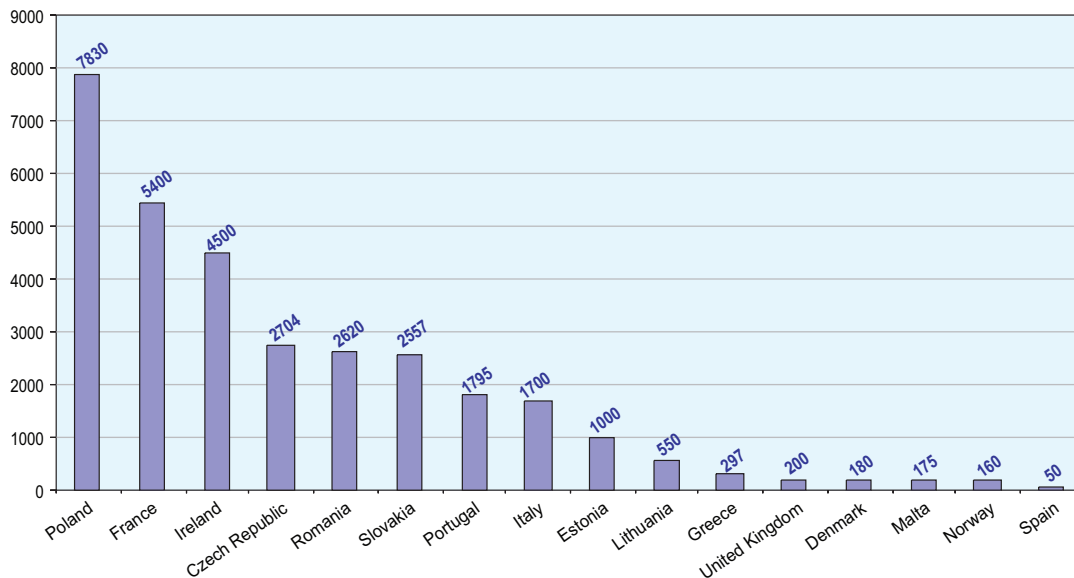
In Poland, the volume of job reductions in this quarter – mainly due to internal restructuring – is recorded in about 26 cases of varying size, but particularly notable instances include the cases of the Polish household glass producer **Huta Szkła Krosno** (2,000 announced job losses), **LOT Ground Services** – a subsidiary of the national airline company (with 1,420 announced job losses), and the mining conglomerate **Kompania Węglowa** (1,360).

Following a court decision announcing the bankruptcy of Huta Szkła Krosno, the now defunct company is in the process of dismissing all its 2,000 employees. The company's administrator has expressed hope that, once some assets have been sold off and the company has found a new investor, some of the jobs may be saved. Bankruptcy was also behind the closure of Lot Ground Services, which will see 1,420 people out of work by the end of 2009. The company, which was in charge of ground services at Warsaw airport, has now been put into liquidation. The State-owned mining company Kompania Węglowa revealed plans to reduce its workforce in the Silesia region by the end of 2009, after announcing the creation of 6,500 new jobs in early 2008.

Job creation

As shown in Figure 5, during the second quarter of 2009, Poland recorded the highest number of job gains (7,830 new jobs announced) followed by France (5,400 new jobs), Ireland (4,500 new jobs) and the Czech Republic (2,704 new jobs).

Figure 5: Job creation, by country



Source: ERM, 1 April–30 June 2009

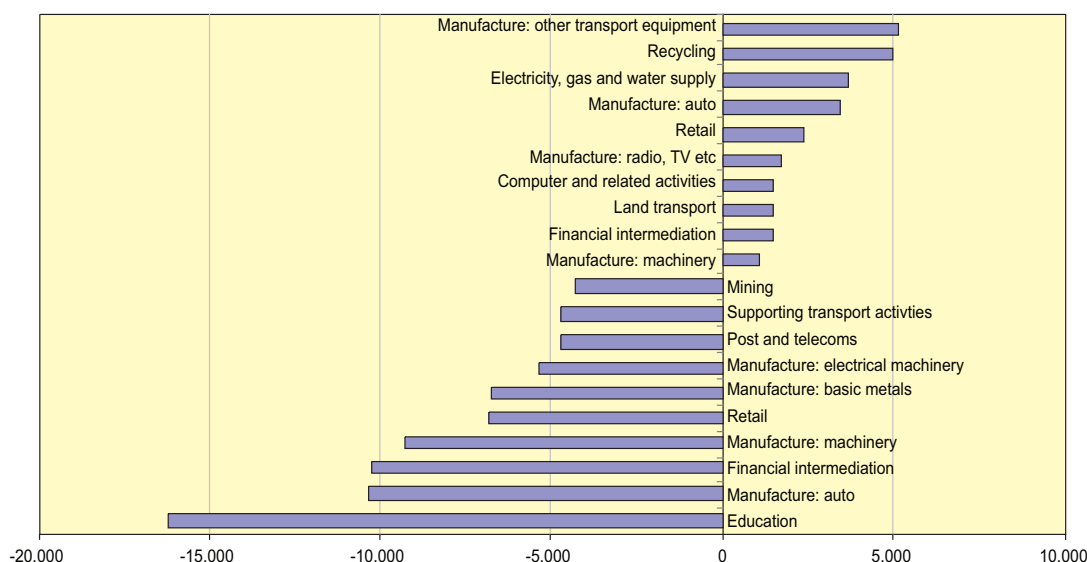
As in previous quarters, Poland continued to register significant job gains, especially thanks to the announcement of 5,000 jobs – as reported above – in the shipyards at **Stocznia Szczecin** and **Stocznia Gdynia**. In France, as described above, the French recycling company **Véolia Environnement** announced its plan to recruit between 5,000 and 9,000 permanent workers by the end of the year, while in Ireland, a high proportion of the job gains is due to the announced creation of up to 3,700 jobs by the **Electricity Supply Board**. In the Czech Republic, the greatest job gains were announced by **Foxconn**, a Taiwan-based manufacturer of computer components, which announced the creation of 1,000

new jobs at its Kutná Hora site by the end of 2010. **VGP**, an international industrial park developer operating in central and eastern Europe, has announced the creation of 414 new jobs, following the completion of one of the largest logistics centres in the Czech Republic, the VGP Park Horní Počernice in Prague.

Restructuring across sectors

Figure 6 plots the top 10 NACE 2-digit sectors in terms of announced job creation and job loss reported to the ERM during the second quarter of 2009. In this quarter, the education sector reported the greatest job loss (16,203 jobs) followed by auto manufacture, which had been the top job sector for loss for the preceding three quarters. Over the last three months, auto manufacture ranked second with 10,399 announced job losses. Other sectors with comparatively high numbers of restructuring-related reported job losses were financial intermediation (10,301 jobs) and machinery manufacture (9,287 jobs).

Figure 6: *Job gains and reduction for top ten sectors (Nace two-digit, revision 1.1)*



Source: ERM, 1 April –30 June 2009

Job reduction

The 16,203 announced job losses in the education sector during the second quarter of 2009 are almost entirely attributable to one large instance of internal restructuring, **Education nationale**, involving the loss of 16,000 teaching jobs in French secondary schools. This is the largest case of job reduction in France and, in absolute terms, it ranks first on the list of the quarterly top five cases of announced job reduction (see previous section). The remainder of the job reduction recorded in the education sector in the second quarter consists of two cases of internal restructuring at universities in the UK – **University of Leeds** and **Queen’s University**, involving respectively 100 and 103 job losses. The job cuts at Queen’s University (in Belfast, Northern Ireland) are more likely to affect teaching staff who are not involved in research, while the University of Leeds will cut 60 jobs from the faculty of biological sciences and another 40 from the school of healthcare. In both cases, no date has been given for the implementation of the job losses.

In the auto manufacturing sector, the largest case of restructuring is that of **Oerlikon Graziano**, a global leader in high-tech vehicle parts production, which announced the loss of 1,200 blue-collar jobs and 187 white-collar jobs in Italy. The second-largest case is **Sumitomo Electric Wiring Systems Polska**, a supplier of Toyota, which is to close its plant in Rawicz (Poland) with the loss of 900 jobs, while some 300 workers will be transferred to another plant in Leszno. Other

notable cases are the trailer manufacturer **Schmitz Cargobull** (850 announced job losses), British van maker **LDV** (810), cable and electrical equipment manufacturer **Delphi Packard Romania** (724), French car components manufacturer Treves (650) and electrical equipment supplier to the auto industry **Flextronics Romania** (500).

As with auto manufacture, the financial intermediation sector has recorded fewer job losses in the last three months compared with the first quarter of 2009. In this sector, alongside the UK Lloyds banking group case already mentioned, **Emporiki Bank**, a subsidiary of French Credit Agricole, announced a major restructuring with the closure of 57 branches across Greece resulting in the loss of 1,500 jobs. The losses will be carried out through a voluntary exit plan over the next three years. Trade unions strongly opposed Emporiki Bank's decision and demanded that it withdraw the plan; they voiced their opinion that workers were paying the price for the privatisation programme in the banking sector. Another notable case of job reduction is **Bank BPH**, which announced that 950 jobs would be lost in Poland by the end of 2009 – instead of the 580 originally announced. The bank is to close 35 branches out of a total of 247 across the country.

Substantial job losses are still affecting the machinery manufacture sector (however, the total announced job losses do not include large-scale Europe-wide instances of restructuring reported elsewhere in this report). Aside from the large German case – **Heideldruck** (3,000 announced job losses) – already mentioned, also of note is the case of another printing press manufacturer **Koenig & Bauer**, which announced 700 job cuts due to a sharp decrease of orders. Some 650 job losses will be implemented through direct dismissals at the Radebeul site in Saxony; no information is given on the remaining 50 job cuts. In the meantime, the company works council has secured a job guarantee for the remaining 1,400 workers in Radebeul until the end of 2011.

Job creation

The sector enjoying the highest levels of announced job creation during the second quarter of 2009 was manufacturing (with 18,312 new jobs announced). In particular, the highest proportion of new jobs were announced in manufacturing of other transport equipment, with the creation of 5,000 jobs in the Szczecin and Gdynia shipyards in Poland, and the creation of 100 jobs in the Czech Republic by **Bombardier Transportation CZ**. Another winner in terms of job gains was manufacturing of motor vehicles, trailers and semi-trailers. **Volkswagen** management announced the production of new small family cars (named 'Up!' and 'Space Up!') in the Volkswagen plant in Bratislava, Slovakia. This initiative will create about 1,500 new jobs at the Bratislava plant by the end of 2010. New models will be produced under the VW, Seat and Škoda brands.

In the financial intermediation sector, 1,460 new jobs were announced during the quarter. In Romania, the subsidiary of the Italian bank **Intesa San Paolo** announced the creation of 1,000 jobs. In a first phase of business expansion starting in September 2009, approximately 700 new jobs will be created with the opening of a new regional centre for eastern Europe in Brasov. In a second phase, 300 new jobs will be created. The process of job creation is due to be completed by November 2010.

In the retail sector in the second quarter of 2009 there were a number of announcements of job creation, with a total of 2,350 new jobs. In Portugal, the French group Auchan planned to open three Pão de Açúcar supermarkets, two Jumbo hypermarkets in Amadora and Guimarães and six new petrol stations, creating 1,000 new jobs by the end of the year. In Italy, the retail company **Esselunga** announced the creation of 800 new jobs by the end of 2009 with the opening of seven new supermarkets. The job creation follows positive financial results reported in 2008. Esselunga employs around 18,700 workers in Italy.

State aid for companies affected by the crisis – the case of Germany

As part of the European recovery plan, the European Commission has simplified the rules applied to state aid and has temporarily authorised Member States ‘to ease access to finance for companies through subsidised guarantees and loan subsidies’.⁴ The rules for this temporary framework were outlined in a Commission Communication adopted on 17 December 2008.⁵

However, state aid remains controversial even in times of economic crises, as subsidising certain companies tends to distort competition and disadvantage other, competing companies. In reaction to the Commission’s Communication, UEAPME’s Secretary General Andrea Benassi warned: ‘It is now up to Member States to ensure that aid goes to the enterprises suffering because of the crisis and not to those that are in difficulty due to structural problems and overcapacity’.⁶ State aid also creates the problems of allocation and entitlement, with several companies submitting speculative applications for aid.⁷

As the largest national economy within the European Union, Germany is a good example of how Member States are using the temporarily revised rules on state aid. As part of two economic stimulus packages, Germany has set up a German recovery fund (*Deutschlandfonds*), which gives companies easier access to subsidised guarantees and loan subsidies.⁸ Several companies have requested state aid on the basis of the German recovery fund; some have been successful, while others have been rejected.

Relaxation of EU rules regarding state aid in the non-financial sector

For companies that have experienced financial difficulties since 1 July 2008, the European Commission will automatically approve state aid for government assistance up to the end of 2010, that takes the form of:

- cash grants of up to €500,000;
- certain loan guarantees with lower risk premiums than were previously allowed;
- certain subsidies of interest rates for bank loans;
- certain subsidies of investment loan finance for new products for environmental protection;
- certain finance for risk capital for small and medium-sized enterprises (SMEs).

In major public works programmes, the EU rules on public procurement – which usually stipulate compulsory competitive tendering – will be relaxed: tender processes under the ‘restricted’ procedure can be shortened from 87 days to 30 days.

Sources:

http://ec.europa.eu/competition/state_aid/legislation/horizontal.html

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/2040&format=HTML&aged=0&language=EN>

The first large company to receive guarantees and loans from the German recovery plan was Heidelberger Druckmaschinen, the world’s largest printing press maker. Suffering from falling orders and the general decline of traditional print media, the company successfully applied for a €300 million loan from the Reconstruction Credit

⁴ European Commission Communication, *A European Economic Recovery Plan*, COM(2008) 800 final, p. 12

⁵ *Temporary framework for State aid measures to support access to finance in the current financial and economic crisis* (http://ec.europa.eu/competition/state_aid/legislation/temp_framework_en.pdf)

⁶ ‘EU eases state aid rules because of credit crunch’, 18 December 2008, www.eubusiness.com/news-eu/1229513534.12/

⁷ *Spiegel Online*, ‘List of German Companies Needing Help Grows Longer’, 19 May 2009, <http://www.spiegel.de/international/business/0,1518,625770,00.html>

⁸ <http://www.bmwi.de/BMWi/Navigation/Wirtschaft/Konjunktur/Konjunkturpaket-2/wirtschaftsfonds-deutschland,did=295722.html>

Institute (*Kreditanstalt für Wiederaufbau*, KfW) and additional state guarantees of €50 million from the German government and the federal states of Baden-Württemberg and Brandenburg. Other companies were less successful: Porsche's request for a €1.75 billion loan from KfW was rejected because the company's financial troubles resulted less from the current crisis than from its failed attempt to seize control of Volkswagen. The most controversial case was to be that of Arcandor (see below).

In theory, the decision about who receives state aid and who does not should be made according to the criteria set up in the framework for the German recovery fund. However, the involvement of several actors introduces a political dimension to decision-making. Credit is granted by the state-owned development bank KfW. The decision about state guarantees is coordinated between the federal government, the governments of the affected federal states (*Bundesländer*) and the state-owned guarantee banks. In the biggest cases (i.e. where a company requests more than €150 million as a loan or more than €300 million as guarantee) and in other cases of special significance – for instance, with regard to employment – the final decision is taken by a steering committee (*Lenkungsausschuss*). This steering committee is composed of state secretaries representing Chancellor Angela Merkel (of the Christian Democratic Party, CDU), the Federal Minister of Economics and Technology, Karl-Theodor zu Guttenberg (Christian Social Union of Bavaria, CSU), the Federal Minister of Finance, Peer Steinbrück (Social Democratic Party of Germany, SPD), and the Federal Minister of Justice, Brigitte Zypries (SPD). In addition, the decisions are based on reports that are commissioned from PricewaterhouseCoopers (PWC), with requests for state guarantees of more than €50 million having to be addressed directly to PWC's auditing division. This practice has received some criticism: *Financial Times Deutschland*, for example, suspects that the decision in favour of Heidelberger Druckmaschinen's application was influenced by the fact that the company is a long-time client of PWC.⁹

The agenda of the political actors is influenced by several partly conflicting considerations, as a result of the upcoming federal elections, which are scheduled for 27 September 2009. Politicians aim to demonstrate their ability to safeguard employment, with this motive being especially important for the social-democrat SPD members of the federal government, and the heads of government of the federal states who affiliate largely with the Christian-democrat CDU/CSU.

However, the massive state aid for the banking sector has resulted in criticism that the taxpayer is paying for the losses of private companies, while the private owners keep the profits. In light of this, the majority of the CDU/CSU government and the liberal Free Democratic Party (FDP) – which aims to form a new government together with CDU/CSU after the elections – have opted for another strategy: to demonstrate their responsibility with taxpayers' money and request a stronger commitment from the private owners of crisis-affected companies. This strategy is especially important in cases where a majority share of a company is owned by a wealthy individual. In the case of Arcandor, the majority of shares were held by Madeleine Schickedanz, heiress to the mail-order company Quelle; although she sold a substantial number of shares to the private bank Sal. Oppenheim in late 2008, she is still the second-largest shareholder, at around 26%.

This second approach gained more support from the public, particularly in the case of Arcandor. The steering committee met two days after the European Parliament elections, when the social-democratic approach of gaining votes by safeguarding employment had proved ineffective, with the SPD having its worst ever result in any national elections. On 9 June 2009, when the steering committee decided to reject Arcandor's request for state aid, the decision was welcomed by the press.¹⁰ For instance, the *Frankfurter Allgemeine Zeitung* commented 'The government deserves praise for its responsible use of taxpayers' money by deciding to reject state guarantees or loans, and for explaining itself well'.

⁹ *Financial Times Deutschland*, 'Berater von Staates Gnaden', 23 June 2009, www.ftd.de/politik/deutschland/:%D6ffentlicher-Sektor-als-Klient-Berater-von-Staates-Gnaden/530528.html

¹⁰ *Spiegel Online International*, 'Merkel "Didn't Let Herself be Blackmailed by Arcandor"', 10 June 2009, <http://www.spiegel.de/international/germany/0,1518,629687,00.html>

The decision was based on a number of elements. For one, the German government argued that Arcandor was in trouble before the beginning of the crisis and did not therefore qualify for aid under the temporary EU framework, which stipulates that only companies that have encountered difficulties since July 2008 may apply. Another significant reason for the rejection of state aid was that the German government was not satisfied with the commitment of Arcandor's main owners and creditors: a key issue was that three years ago, in an attempt to gain short-term financing, Arcandor had sold its subsidiary Karstadt's properties and leased them back for rents considered exaggerated by observers. The real estate of 85 Karstadt department stores was sold to a high-street consortium owned by Goldman Sachs, Deutsche Bank and others. Five key stores were sold to the Oppenheim Esch Fonds, set up by Sal. Oppenheim, which owns around 29 % of Arcandor. According to Spiegel Online (26 May 2009) one of the main investors in this fund is Thomas Middelhoff who, as former CEO, was responsible for the buy-out. These facts nurtured suspicions that the owners and creditors of Karstadt wanted taxpayers to take the risk while risking as little as possible themselves.¹¹

Another aspect of the decision regarding state aid is the idea of using new insolvency rules introduced 10 years ago – inspired by the Chapter 11 bankruptcy procedures in the US – to create a protected environment for the restructuring of companies.¹² Although instances of the successful application of these new rules remain limited, federal minister Karl-Theodor zu Guttenberg is a strong supporter of such 'planned insolvencies'. While in the case of Opel he did not succeed in convincing other members of the government, in the case of Arcandor he gained the support not only of Chancellor Merkel but also of SPD ministers.

The aim of using insolvency as a means for successful restructuring is one of the reasons why Quelle, part of Arcandor's Primondo brand, was granted a €50 million loan from the KfW. Quelle needed the funds to send its mail-order catalogue to customers, but the distribution was held up after its bank withheld finance following Arcandor's insolvency.¹³ The state loan was therefore considered a precondition for successful restructuring. This loan, however, qualifies under the EU's normal state aid rules, not the temporarily relaxed version, and is therefore subject to stricter rules, including the possibility of forced cuts in capacity of 30% and severe job losses.¹⁴

Recent news on restructuring from the European Industrial Relations Observatory

The European Industrial Relations Observatory (EIRO) is Eurofound's monitoring instrument offering news and analysis on industrial relations in all 27 EU Member States and Norway, and at European level.¹⁵ In the first six months of 2009, more than twice as many of EIRO's information updates dealt with the industrial relations consequences of major restructuring announcements as in the first half of 2008 (25 as against 10). This is, of course, not unexpected. Recessions, especially recessions borne of financial crises, tend to have a dramatic impact on companies by decreasing demand for services and products as well as cutting off vital lines of credit.

In some cases, slumps in demand can be met by modifying work organisation or internal flexibility. One feature of the current recession has been the readiness of public authorities and social partners – within very different national frameworks – to activate or devise employment-maintaining solutions to what are anticipated as temporary declines in

¹¹ *The Economist*, 'The till is bare', 11 June 2009, www.economist.com/businessfinance/displayStory.cfm?story_id=13832346

¹² Gerritt Wiessman, *Financial Times*, 'Arcandor may ease insolvency stigma', 23 June 2009, www.ft.com/cms/s/0/e99516e4-5f8c-11de-93d1-00144feabdc0.html

¹³ *Spiegel Online International*, 'Quelle Gets 50 Million Euros in State Aid', 30 June 2009, www.spiegel.de/international/business/0,1518,633449,00.html

¹⁴ *Financial Times*: Chris Bryant 'Arcandor may not meet German aid condition', 3 June 2009,

www.ft.com/cms/s/0/36ded2d6-5070-11de-9530-00144feabdc0.html; Gerrit Wiesmann/Nikki Tait, 'Brussels approves Arcandor rescue aid', 1 July 2009, www.ft.com/cms/s/0/e4ecc0b6-65d5-11de-8e34-00144feabdc0.html

¹⁵ <http://www.eurofound.europa.eu/eiro/>

demand. In other cases, in particular in sectors or enterprises with pre-existing structural issues (such as the auto industry or airlines), job losses may be harder to avoid. But again, the evidence of several recent EIRO information updates is that even in these cases, processes of social dialogue of consultation and negotiation, where constructively engaged, tend to produce ‘least bad’ outcomes for all sides. What follows is a selection of interesting recent cases with outcomes ranging from positive agreement to ongoing dispute.

In the case of Whirlpool Italia, the American parent company announced 5,000 job cuts worldwide in October 2008 due to collapsing markets for domestic appliances. Of these, nearly 700 were planned to take place in the group’s Italian plants in the province of Varese. The announcement provoked an immediate call by unions and the European works council – representing the Italian workers affected – for negotiations on how to mitigate the effects of the restructuring. Whirlpool management responded positively and in December reached an agreement with unions on redundancies at the plants in Varese, which envisaged the loss of 231 jobs through non-renewal of temporary contracts. These contracts would, however, continue until their end date. The plan also involved the placement of another 200 redundant workers on the ordinary wages guarantee fund (*Cassa Integrazione Guadagni*) from January to July 2009.¹⁶ Following a subsequent assessment of employment surpluses, a procedure shall be initiated in September 2009 involving the placement of redundant workers on a mobility list (*lista di mobilità*) and granting them entitlement to mobility allowance (*indennità di mobilità*) for a period that varies according to their age. The company also committed itself to redeploying redundant workers in the event of fresh recruitment over the next three years, while temporary workers who have completed 36 months of work by July 2009 would be hired on permanent contracts. The Whirlpool European works council, which coordinated the trade union representatives at the company’s various European plants, has called for the involvement of trade unions in further discussions in other European plants affected by the restructuring.

Given the economic circumstances, an increasing number of companies in serious financial trouble have resorted to pay freezes, longer working hours and other cost-cutting measures as an alternative to job cuts. This approach has been followed by global manufacturer of electronic goods Sony, which has withdrawn its redundancy procedure and committed to keep its Barcelona plant in operation until 2010, in exchange for a pay freeze and an increase of 40 working hours per worker over the two years. The agreement was signed by the trade unions, which have welcomed the plan for saving jobs and for outlining an approach to safeguarding the future viability of the company in the region.

However, trade unions are not always satisfied with solutions that trade greater flexibility for more job security. The pay freeze at the SEAT car plant in Martorell (near Barcelona in Spain) was approved by workers in a referendum in late March 2009 only after lengthy negotiations to resolve disputes between the parties involved. A more extensive cost-cutting package was agreed in April 2009 by the management of the German car manufacturer Daimler and its works council. In return, Daimler offered some job guarantees, which have been criticised by some works council members for being too limited.

A novel cost-cutting agreement was reached by Irish airline Aer Lingus and the Services, Industrial, Professional and Technical Union (SIPTU). Under the deal, 850 workers availed of a ‘leave and return’ option, under which an attractive severance package was paid, with workers returning to newly defined roles on lower pay and poorer conditions. According to *Industrial Relations News*, some 230 workers decided to remain on their existing terms and conditions without receiving lump-sum payments and a further 200 workers chose voluntary redundancy or early retirement. Aer Lingus’ ‘leave and return’ option is regarded by many as an innovative alternative to job cuts; however, in the long term, it is likely that the situation whereby workers on different terms and conditions find themselves working side by side may fuel tensions between colleagues and pressure for parity of pay and conditions.

¹⁶ This is a long-established so-called ‘social shock absorber’ measure aimed at cushioning the effects of restructuring and redundancies in Italy; for more information see

www.eurofound.europa.eu/emire/ITALY/WAGESGUARANTEEFUNDCIG-IT.htm

In Greece, Olympic Airways staff have been protesting over government plans to privatise the airline company and split it into three separate companies. The restructuring of the national airline is proposed against a background of significant accumulated losses of €2.6 billion and operating losses of around €1 million per day. As part of the plan, employees have been offered the opportunity of voluntary departure with financial compensation and with the possibility of transfer to other parts of the public sector. For those employees who elect to remain in the newly privatised group, a major concern is that their rights under the EU Transfer of Undertakings Directive (98/50/EC) are respected. This would ensure that when the firm is split up, employees are transferred to the new entity with either the same employment conditions that they enjoyed in the previous company or that any change in conditions would occur only following negotiations. For this reason, the most contentious issue in the negotiations with the trade union is that the new private owners will be free to decide on the number of employees in the new companies.

Similarly, in Austria, trade unions have strongly opposed the restructuring plans announced by the Austrian Post Company (Österreichische Post AG) which would involve the loss of 9,000 jobs and the closure of a significant number of post offices across the country. Following trade union protests, the company has not confirmed the extensive restructuring programme; nonetheless, the management announced that substantial restructuring measures would be inevitable in the medium term for the company to survive in business.

A large wave of demonstrations and protests has spread across Europe – in Austria, Belgium, France, Germany, Italy, Spain and the United Kingdom – in response to Hewlett-Packard's (HP) plan to cut some 9,300 jobs, freeze wages and benefits in order to achieve savings from its recent acquisition of information technology service provider Electronic Data Systems (EDS). According to the trade unions, the company failed to inform and consult with European works councils and employee representatives, thus contravening provisions laid out in European regulations. The intention of the trade union is to use the HP/EDS case to underline the need to enforce the current regulations and strengthen workers' rights, particularly in the current economic climate. In spite of the high level of mobilisation, HP/EDS has not withdrawn its plan. On top of the job cuts already announced in September 2008, the company has recently announced that it will reduce further its global workforce, notwithstanding positive financial results in its second quarter.

Coordinated industrial action, such as that at HP/EDS, has been more the exception than the rule during the current economic crisis. The repercussions of the recession in terms of industrial action have to date been comparatively muted. In part, this may relate to the strength of the recessionary forces, which have persuaded social partners that adaptation and flexibility are essential to short-term viability and survival in a difficult trading environment. The examples of large well-known firms such as General Motors and Woolworths entering bankruptcy or liquidation and the rapid rise in unemployment make it more likely that restructuring proposals will trigger negotiation rather than industrial action, even if the suspicion may persist that some employers are using the recession as convenient cover for restructuring plans that might at other times provoke more widespread protest.

Collective redundancy data: Spain

Introduction

In Spain, the national regulatory framework in relation to collective redundancies (*expedientes de regulacion de empleo*, EREs) is comparatively restrictive. In addition to the standard notification and consultation requirements that arise from the EU Directive on Collective Redundancies (98/59/EC), employers are also obliged to secure authorisation from the competent labour administration before proceeding with a collective redundancy.¹⁷ Where dismissals exceeding the thresholds of workers set by law (*Estatuto de los Trabajadores*) are concluded without correct procedures being followed, the courts are liable to declare the dismissals null and void and require reinstatement of the dismissed workers.

¹⁷ This feature of the pre-existing labour law regime from the Franco era was retained when Spain adopted the predecessor of the current EU Directive on Collective Redundancies (EU/75/129).

Table 4: Examples of restructuring-related industrial relations activity covered in EIRO in 2009

Country	Organization	Restructuring type	Sector	Action/outcome
Austria	Österreichische Post AG	Internal restructuring	Post and Telecommunications	Trade union organised major protest action against the restructuring plan
France	Renault	Internal restructuring	Manufacture: auto	Trade unions protested against restructuring plan
Spain	Sony	Internal restructuring	Manufacture: radio, TV and communications	Agreement reached to maintain jobs in return for pay freeze
Spain	SEAT	Internal restructuring	Manufacture: auto	Redundancy procedure approved by regional government; no agreement reached between parties involved
Spain	Nissan	Internal restructuring	Manufacture: auto	Union not satisfied with redundancy procedure; agreement not reached
Germany	Daimler	Internal restructuring	Manufacture: auto	Agreement reached to save jobs in exchange for extensive cost-cutting package
Portugal	Banco Português de Negócios, BPN	Internal restructuring	Financial intermediation	Trade union called for preservation of jobs after bank nationalisation
Greece	Olympic Airways	Internal restructuring	Air transport	Opposition of trade union to company privatisation
Ireland	Aer Lingus	Internal restructuring	Air transport	Agreement that company would adopt a 'leave and return' option
Italy	Whirlpool Italia	Internal restructuring	Manufacture: electric domestic appliances	Agreement reached on workforce cutbacks in Varese plants; ongoing talks with trade unions in other European plants
Italy	AstraZeneca IRBM, Wyeth and Merck	Internal restructuring	Manufacture: pharmaceutical products	Sector agreement between social partners and government to act jointly to assist, retrain and outplace workers made redundant in the pharmaceutical industry
Ireland	Lufthansa Technik Airmotive	Offshoring/ delocalisation	Air transport	Agreement reached to save jobs
Greece	Hellenic Railways Organisation	Merger/ acquisition	Land transport	Trade union organised strikes against restructuring plan
Italy	Fiat Group	Merger/ acquisition	Manufacture: auto	Trade unions seeking guarantees to maintain employment levels in all the Fiat Group's plants in Italy
EU	Hewlett-Packard (HP)	Merger/ acquisition	Manufacture: computers etc.	Europe-wide protests against announced job cuts
Bulgaria	Mondi Stamboliiski SPJSC	Closure	Manufacture: paper	Temporary closure and compensation agreement reached for dismissed workers
France	Camif particuliers	Closure	Retail sale via mail-order houses	Government measures geared to the creation of a training-employment platform and personalised back-to-work assistance for redundant workers
Luxembourg	Villeroy & Boch (forthcoming article)	Closure	Manufacture: ceramics	Trade unions negotiate a job retention plan

Source: EIRO

Collective redundancy (*despido colectivo*) is differentiated legally from other forms of dismissal ('dismissal for objective reasons', 'disciplinary dismissal') and in practice is the form of dismissal that offers the greatest level of protection to workers.

Ensuring consultation between worker and employer representatives prior to restructuring – a key objective of the Directive – is a dimension that has been strengthened in practice in Spain by the authorisation procedure. The reason for this is that labour demonstrates a strong preference for approving only those redundancies where the terms have been agreed by social partners. There is therefore a strong incentive for employers to secure agreement on redundancy terms that give unions and worker representatives leverage in seeking the best terms for their members. As statutory severance entitlements are comparatively high by international comparison (20 days' salary per year of service up to a maximum of a year's salary) and tend to be negotiated upwards during the consultation phase,¹⁸ collective redundancy tends to be onerous on employers financially as well as administratively.¹⁹

Criteria and procedures

Spanish legislation defines collective redundancies very similarly to the Directive, as dismissals that affect the following number of workers over a period of 90 days:

- at least 10 employees in companies employing fewer than 100 employees;
- at least 10% of employees in companies employing between 101 and 300 employees;
- at least 30 employees in companies employing more than 300 employees:

Collective redundancies also cover situations where the whole workforce is dismissed and there are more than five employees, resulting in the end of business activities.

Procedures

1. The company sends an application to the regional or national labour authority and at the same time, it starts the consultation with employee representatives. The consultation process may last up to 30 days (15 days for companies with fewer than 50 workers) or until agreement is reached.
2. The company notifies the regional labour authority of the result of the consultation.
3. If there is agreement on terms between the social partners, the labour authorities authorise the termination of employment contracts within 15 days. If there is no agreement, the authorities must decide within 15 days whether it accepts or rejects, in full or in part, the requested dismissals or lay-offs.

Data

The Spanish Ministry of Labour and Immigration (MTIN) publishes regular and extensive tables based on ERE data.²⁰ The data is based on EREs where administrative procedures have been completed and where the outcome becomes effective in the reference month. It should be noted that the framework for EREs comprises procedures in relation to temporary lay-offs (*suspensión de la relación laboral*)²¹ and working time reductions (*días/horas de reducción*) and is

¹⁸ These are often negotiated with reference to the higher entitlements (45 days per year of service, up to 42 months' pay) in cases of unjustified individual dismissal. See *Cost of dismissal under debate*, www.eurofound.europa.eu/eiro/2000/12/feature/es0012226f.htm

¹⁹ Between 1996 and 2002, the average cost of individual dismissal set by conciliation was between nine and 11 times the average gross monthly wage. See *Thematic feature – redundancies and redundancy costs*, <http://eurofound.europa.eu/eiro/2003/11/tfeature/es0311108t.htm>

²⁰ <http://www.mtin.es/estadisticas/BEL/REG/index.htm> (in Spanish) Note: in the illustrative charts, 'collective redundancies' refers to the number of affected workers and not to the number of companies/EREs.

²¹ This temporarily terminates the employment relationship, either partially or fully, and allows employees to claim unemployment benefits.

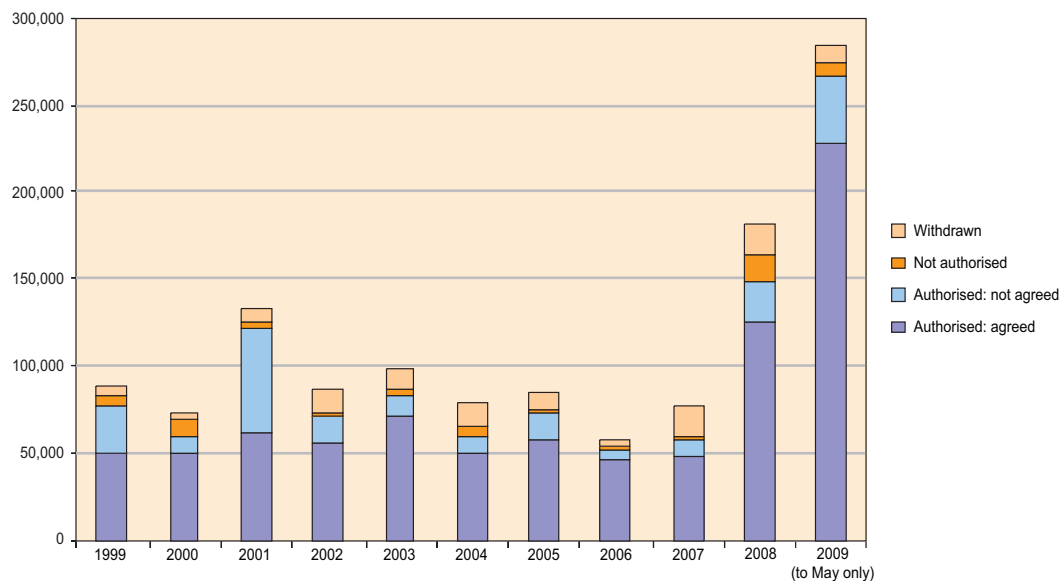
not limited to dealing with enacted terminations or dismissals (*extinciones*). Similar application and authorisation procedures are involved. The Spanish data published by MTIN include details such as:

- whether or not the EREs were agreed (*pactados*) or not agreed (*no pactados*) by the social partners;
- whether they were subsequently authorised by the labour authorities or withdrawn;
- what reasons were given by the employers for the redundancies or lay-offs;
- standard background variables – sector, gender, size of company, region etc.

The general ERE data will first be considered – including temporary layoffs and working time reductions – before the recent data on terminations arising from collective redundancies are looked at more specifically.

As indicated previously, EREs in Spain have to be authorised; such authorisation must be issued by the labour authorities where the terms have been agreed between worker and employer representatives. In practice, if the period of negotiation ends without agreement between the parties, the authorities will only approve the application if there are serious and justified causes – together with proportional social measures – that make the redundancy dismissals clearly necessary.²²

Figure 7: Number of workers affected by expedientes de regulación de empleo (ERE) by outcome of the negotiation and authorisation procedures, 1999 to date



Source: MTIN

From the chart above, we see that the great majority of EREs – between 75% and 95% in each year – end up being given the go-ahead by the labour authorities; also evident is that most of these are based on agreement between the social partners. This is consistent with what appears to be the basic logic of the Spanish ERE system: the labour authorities intervene mainly to rubberstamp agreements. That said, in years of economic downturn when levels of collective redundancies increase (such as 2001 and 2008–2009), the authorities have been more likely to authorise a higher proportion of non-agreed collective redundancies, effectively siding with the employer against worker representatives.²³ This was notably the case in 2001.

²² *Redundancy Law in Europe*, 2008, Kluwer Law International BV, the Netherlands.

²³ This is taking the assumption that most EREs are initiated by employers. Note however that there is provision also for EREs to be initiated by worker representatives.

Collective redundancies – by definition – affect larger firms and this is reflected in the fact that industry and manufacturing, sectors in which companies are generally larger, account for about two thirds of EREs. Services account for the majority of the remainder. The proportion of industry/manufacturing EREs tends to peak during downturns and was around 80% in the first five months of 2009. Although construction-sector employment has declined dramatically in Spain, beginning in 2007–2008, the sector only accounts for a small proportion of EREs (less than 5%), presumably because of the small size of firms in the sector.

Looking in more detail at the sectoral breakdown within manufacturing and industry, we see that the auto sector and its related sectors (metals, machinery) are responsible for a large proportion of the workers affected by EREs in 2009. The seven 2-digit sectors listed below account for around two thirds of all workers affected during the period. Auto sector terminations and lay-offs have however fallen sharply from their peak at the turn of the year.

Table 5: Workers affected by EREs in NACE 2-digit sectors, 2009

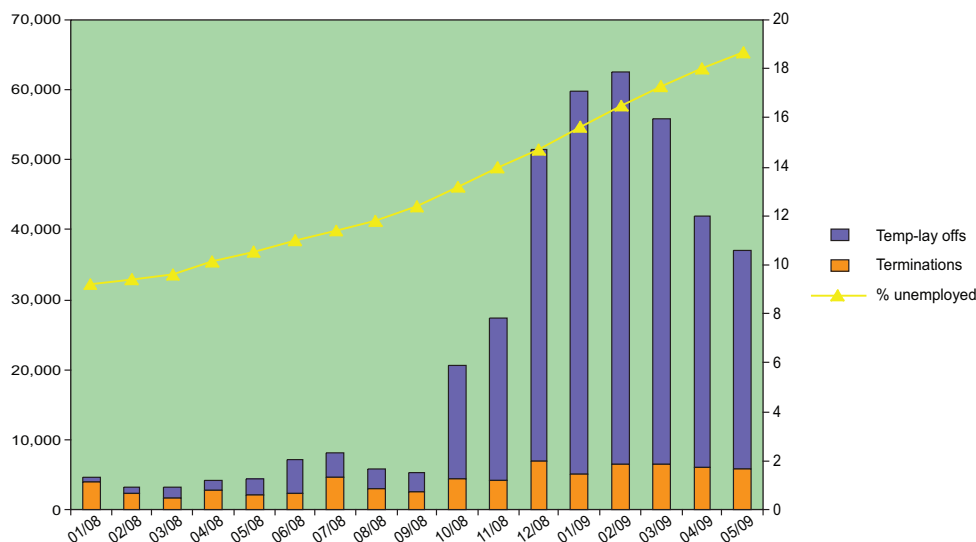
Sector	01/09	02/09	03/09	04/09	05/09	2009 to date	% of total
Manufacture: auto	33,539	22,050	11,492	7,117	4,579	78,777	29.6
Manufacture: other metal products	2,590	5,517	5,199	6,148	4,856	24,310	9.1
Manufacture: basic metals	2,140	5,468	5,971	4,933	2,179	20,691	7.8
Manufacture: other non-metallic products	1,637	4,450	2,930	3,400	2,515	14,932	5.6
Manufacture: machinery	1,757	2,966	2,127	1,909	3,199	11,958	4.5
Manufacture: rubber products	2,174	3,136	2,530	2,519	1,551	11,910	4.5
Wholesale trade	1,421	1,181	3,344	2,350	1,615	9,911	3.7

Source: MTIN

The current recession has tended to impact hardest on male-dominated sectors. Construction and heavy manufacturing have been especially affected – the former disproportionately so in Spain, given a construction boom in the period up to the end of 2007. Despite the limited coverage of the construction sector, the ERE data reveal a very marked gender imbalance in the workers affected by EREs. In recent years, there has been a male–female ratio of approximately 70:30 for terminations and 80:20 for temporary lay-offs (which tend to be especially concentrated in the sectors listed in the table above).

The comparative strictness of the Spanish ERE regime has had little apparent effect in dampening the unemployment rate in Spain, which – as already noted – has more than doubled during the crisis and is now the highest in the EU at 18.7%. One reason for this is that EREs cover only a small proportion of overall job loss; non-renewal of temporary contracts, other forms of individual dismissal and of job quit account for a much larger proportion. As an indication of their contribution to unemployment levels, in the period January 2008–May 2009, EREs affected just over 400,000 workers while unemployment in the same period rose by over 2 million. Moreover, the majority of the workers affected by EREs were temporarily laid off rather than being dismissed definitively, as Figure 8 indicates.

Figure 8: Numbers of workers affected by EREs (leading to termination and temporary lay-off) and Spanish unemployment rate, January 2008–May 2009



Sources: MTIN, Eurostat

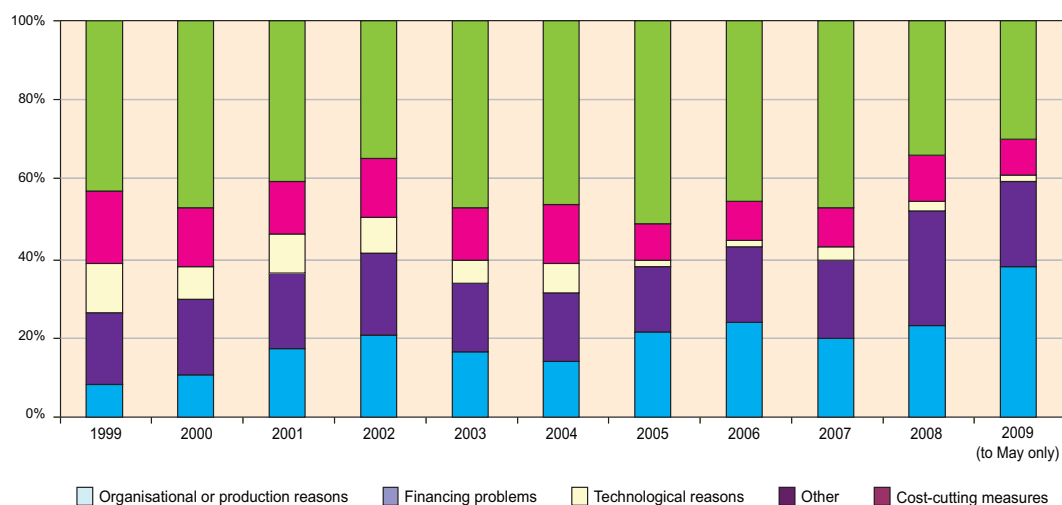
The chart above illustrates the sharp rise in authorised EREs – involving both terminations (*extinciones*) and temporary lay-offs (*suspensiones*) – which began in October 2008 and peaked in February 2009. What is striking is that temporary lay-offs are almost exclusively responsible for most of the recent increases. Terminations have increased in recent months but represent a much smaller proportion of workers affected by authorised EREs than had been the case in more ‘normal times’ up to mid-2008.

Also of note, the unemployment rate had been rising long before the abrupt increase in workers affected by authorised EREs in the last months of 2008. A possible explanation is that job losses took place earlier in smaller firms (not covered by the ERE regime due to size thresholds) and only more recently, and more concentratedly, in larger firms. Both ERE indicators have been in decline since February 2009, which can be taken as a positive indicator. The most recent national figures in Spain (for June) indicate that the rate of increase of unemployment is slowing; indeed, due to favourable seasonal employment flows, unemployment levels actually declined in June 2009.

Finally, the Spanish data allow us to look at the reasons employers give for requesting labour force adjustments using EREs. Figure 9 breaks down the principal reasons for terminations only.

Cost-cutting (*aplicacion de medidas economicas*) has been the main motive for dismissal over the 10-year period, though of declining importance in the two most recent years. Organisational or production reasons (*organizativas o de produccion*) are increasingly cited and were the reason given for nearly 40% of job losses in the current year. In 2008, financing problems (*problemas tesoreria o financiacion*) assumed greater importance. This ‘credit crunch’ effect appears to have retreated thus far this year.

Figure 9: Percentage of terminations by labour force adjustment motive, 1999–2009



Source: MTIN

Summary

- Employers in Spain require state approval before proceeding with significant labour force adjustments.
- The terms of – for example, severance – in over three out of four EREs are agreed between social partners before being rubberstamped by the labour authorities.
- The ERE framework governs temporary lay-offs and working time reductions as well as dismissals. The surge of EREs in late 2008 and early 2009 was related principally to temporary lay-off requests from employers.
- ERE labour force adjustments have tended to affect heavy manufacturing (especially auto-related) thus far in 2009.
- The main reasons given for terminations are – in current order of importance– organisation or production reasons, cost-cutting measures and financing problems.

Restructuring in Malta and Cyprus

Malta

The majority of Maltese cases of restructuring continue to be of business expansion by foreign-based firms. In manufacturing, in April the pharmaceutical company Arrow Pharm, which currently employs 175 employees, announced that it will expand its operations by investing in new packing halls and a research laboratory. The number of new employees to be recruited is unknown but will probably be fewer than 100. In the same month, International Aviation Supply, based in Italy, announced its plans to set up a plant in Malta to manufacture unmanned aerial vehicles (known as drones). The plant will employ 15 persons.

Infratec, a German company based in Malta for the past two years, produces electronic devices and offers consultancy, logistics and other services. In May, the company announced that it had recruited 18 workers through a scheme offered by the Employment and Training Corporation, Malta's Public Employment Service. This recruitment raised its staff

complement to 80. Toly Products, which produces plastic packaging components for products in the cosmetics and fragrances industry, was experiencing difficulties and had been considering laying off 60 workers. However, government intervention led the company to announce an investment of €3 million in a new factory. In June, the company, which employs some 350 workers, announced plans to increase its workforce by 10% – around 35 workers.

In June, it was announced that Solea Pharma, a pharmaceutical company and subsidiary of Spanish company Gadea Pharma, had officially opened its new factory in which it had invested €2 million. The factory, which already employs 10 people, will increase employment to 25 over the next two years.

Also in June, it was reported that Joinwell, a Maltese manufacturer of furniture, had dismissed 37 of its 100 workers. This happened after the company suffered a major drop in orders.

Looking at the services sector, at the end of March the UK-based company Operon Group invested in the Maltese company MTS, which offers consultancy on electricity and air-conditioning systems. The company has now been renamed MTS-Operon and has moved to larger premises with an investment of over €500,000. It currently employs around 50 employees and has plans to increase its work force later on this year. The number of new employees to be recruited is unknown but is thought to be less than 100.

The Swedish company Besedo, which opened its Malta office last year, announced in May that it will double its workforce to 280 within a year, due to the increased demand for its services. The company provides customer support to online companies, including those in the gaming industry, classified sites and to the financial services industry.

The Portuguese Banif Bank opened its sixth branch in Malta in June. The bank, which started operating in Malta last year, plans to open at least 20 branches on the island and to raise the number of employees to 250 from the current 90.

Cyprus

According to an article in the newspaper *Phileleftheros*, Indian company Vividia has proposed building a large aluminum-manufacturing plant in Cyprus, possibly in the region of Vasilikos (on the Limassol coast). According to the article, the proposed investment scheme will be worth up to €800 million, while the plant itself is expected to employ approximately 600 workers.

The Cypriot government intends to create 1,083 new jobs in the public sector. According to the proposed bill, the new positions will be in priority services in the fields of health, education and social welfare.

According to articles published on 15 June 2009 in *Phileleftheros* and *Politis*, another Cypriot newspaper, four hotels in the region of Paphos have proceeded with dismissals. Between 50 and 60 employees may lose their jobs because the hotels have suffered a loss in bookings.

Note on ERM methodology

The European Restructuring Monitor (ERM) is a tool that records industrial restructuring cases as reported in selected media titles (between three and four per country) identified by a network of 28 national correspondents. 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 EU27 and Norway.

The ERM database is updated on a daily basis. Readers can access more details of individual cases cited in this issue using the search tools at <http://www.eurofound.europa.eu/emcc/erm/index.htm>

The ERM also permits the compilation of statistics based on the information available in the database (10,000+ restructuring cases from 2002) broken down by the following independent variables – sector, type of restructuring, country and time period.

Only those fact sheets in the ERM database that refer to a specific country are included in the statistical analysis. Fact sheets referring to European or worldwide restructuring events are not considered in order to avoid double counting.

For previous editions of the *quarterly* as well as other ERM-related publications, visit the aforementioned website or send a request to erm@eurofound.europa.eu

The data for this report was extracted on 6 July 2009. As the ERM continually updates cases in light of new information on recent cases, data reported here may not correspond exactly to later extractions.

This issue was written by **John Hurley** with contributions from **Magdalena Bober**, **Sara Riso**, **Lidia Salvatore**, **Simon Prosser**, **Stefan Lucking** (ERM EU-level correspondent), **Manwel Debono** and **Anna Borg** (ERM Maltese correspondents) and **Yannis Eustathopoulos** (ERM Cyprus correspondent).