ERM case studies: The employment impact of relocation within the EU

<table>
<thead>
<tr>
<th>Introduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose of study</td>
</tr>
<tr>
<td>Overall conclusions</td>
</tr>
<tr>
<td>Analysis of company cases under examination</td>
</tr>
<tr>
<td>Annex: Questionnaire</td>
</tr>
</tbody>
</table>

This report is available in electronic format only.

Wyattville Road, Loughlinstown, Dublin 18, Ireland. - Tel: (+353 1) 204 31 00 - Fax: 282 42 09 / 282 64 56
e-mail: information@eurofound.europa.eu - website: www.eurofound.europa.eu
On the basis of a series of in-depth company case studies, this report explores the positive and negative employment impact of the relocation of economic activities from the ‘old’ to the ‘new’ Member States. The aim of this study is learn more about the process and consequences of such relocation activities from one Member State to another. It examines in great detail the motivation underlying the company’s decision, the nature of activities involved in the relocation process, as well as the consequences of the move. Whenever possible, the evidence has been taken from both the ‘departure’ and ‘arrival’ country, in order to illustrate what the company hoped to gain, how it sought to manage the transfer of its operations, and how the other parties involved reacted to them.

Introduction
The economic integration that underpins the development of the European Union internal market involves continuous changes in the structure of employment as economies and companies evolve and adapt to new market demands, new technological advances, changing production practices and changes in the availability of labour.

The relocation of economic activities and jobs from one country to another account for only a small part – estimated at well under 10% – of changes in employment due to restructuring. Moreover, relocation cases may give a distorted impression of the changes taking place in the economy as a whole, insofar as they tend to involve particular types of activities – notably those where labour costs are particularly important – or occur in specific sectors – notably those with standardised production line systems.

On the other hand, these cases illustrate the impact of globalisation as well as the process of European integration in ways that are directly understandable by the general public and can complement knowledge derived from more broadly-based analyses.

The wider value of relocation cases lies in the following facts.

- Firstly, they reflect strategic company decisions based on a wide ranging assessment of their operations, in particular their long-term prospects in terms of both markets and production. Hence, such relocation cases may provide more information about the issues involved in such decisions than can be gleaned from studies of incremental adjustments.

- Secondly, unlike restructuring decisions and actions that are carried out within companies which are rarely observed or commented on outside the business, country-to-country movements of jobs rapidly enter ‘the public domain’ and become the subject of wider debate, insofar as they reflect concerns about the ability of a country, region or sector of activity to create or retain employment.

Purpose of study
The purpose of this study is to learn more about the process and consequences of the relocation of employment-creating economic activities from one Member State to another through a series of in-depth case studies. The study particularly focuses on activities which have been relocated from the ‘old’ 15 EU Member States (EU15 – prior to the 2004 enlargement) to one of the ‘new’ Member States that joined the EU in May 2004 and January 2007.

Whenever possible in these case studies, the evidence from both the ‘departure’ areas – the worksite where activities have been scaled down or terminated altogether – and the ‘arrival’ areas – the worksite to which activities have moved – have been brought together in order to illustrate what the company hoped to gain, how it sought to manage the transfer of its operations, and how the other parties involved reacted to them.

In cases where the gathering of such experiences ‘from both sides’ has not been possible, the experiences of a number of ‘departure’ areas and of a number of ‘arrival’ areas have been presented separately, because this information can also serve to increase the knowledge of such operations.

This research sets out with the collection of information on relocation cases recorded in the European Restructuring Monitor (ERM); however, its aim is to go beyond information collection and examine the following in more detail:

This report is available in electronic format only.

Wyattville Road, Loughlinstown, Dublin 18, Ireland. - Tel: (+353 1) 204 31 00 - Fax: 282 42 09 / 282 64 56 e-mail: information@eurofound.europa.eu - website: www.eurofound.europa.eu
• the motivation behind the decision to relocate all or part of a company’s activities to another country, the factors underlying the choice of the new location and the extent to which the move has proved successful;
• the nature of the activities involved, including the type and quality of jobs, as well as the characteristics of the people performing the jobs;
• the consequences of the move for the company concerned, for the workers who lose or gain jobs and for the local areas to and from which activities have been relocated.

In this way, the cases were intended to contribute to a better understanding of intra-country restructuring and its wider effects.

Where possible, national correspondents were ‘paired together’ on particular cases, with one correspondent being concerned with what had happened in the Member State in which the activity in question has contracted or disappeared, and the other correspondent being concerned with the counterpart situation in the Member State in which the activity had been created or expanded.

Correspondents were generally involved in more than one case study, and efforts were made to find examples involving the relocation of service activities (whether they were being carried out in an enterprise classified to a service or manufacturing sector) as well as manufacturing activities. In practice, however, most – but not all – of the case studies have involved manufacturing companies and manufacturing activities.

Where possible, cases were chosen where the relocation had taken place two or three years earlier in order to have more information about longer-term outcomes and consequences.

In undertaking this work, correspondents have drawn on a variety of sources. These include the companies involved, and also the views and experiences of trade unions, local development agencies, employment services, as well as press reports from various stages of the relocation process (see questionnaire in Annex).

In judging this evidence, it has to be noted that the ‘joint’ case studies have been selected, not only because they represent typical cases of transfers from old to new Member States, but also because they are cases for which it was possible to obtain information from both the departure and arrival country.

As a result, the ‘joint’ and ‘one-sided’ cases may be somewhat biased towards certain types of manufacturing activities and sectors – such as textiles and electronics. Moreover, they may reflect the conditions and factors that are most important in such cases – notably relative wage costs and the proximity to main customers in the case of intermediate suppliers.

Some exceptions to such relocation cases exist, however, including the case concerning the return of a significant number of service sector (call centre) jobs to Europe from Asia – although the return was not to the company’s original base, the UK, but to a new Member State, Malta (see the case concerning the HSBC bank).

**Overall conclusions**

This report is based on 25 relocation case studies: nine cases covering the impact of the relocation in both the departure and arrival areas – the so-called ‘joint’ case studies – nine cases covering the impact in the departure area only and four cases covering the impact in the arrival area only.

Not all countries are covered by the case studies outlined in this study, and some countries are included in more than one case study.

In terms of the impact of relocations on departure areas, the following countries are covered once – Austria, Cyprus, Luxembourg, the Netherlands and Portugal – while the following countries are included twice – Belgium, Finland, Germany, Italy, Ireland, Slovenia and Sweden.

In terms of the impact of relocations on arrival areas, the following countries are included once – Hungary and Poland – the following countries feature twice – the Czech Republic, Lithuania, Malta and Romania – while Estonia and Slovakia feature three times.

Each case study is introduced by a brief summary of the key points that emerge. However, a number of broader conclusions can be drawn from these cases studies, as set out below.
Motivations and success

The main reason companies relocate from old to new Member States is almost always to improve competitiveness by moving to lower wage areas of production. In the case of component suppliers serving larger manufacturers, however, an important secondary factor emerges - the need to locate their production facilities close to the sites of their main customers, many of whom will already have relocated to such areas.

This latter logic can be seen in the case of a move of electronic component manufacture and assembly from Finland to Estonia (see Elcoteq joint case study), in the transfer of computer services from Ireland to the Czech Republic (see Banta Global Turkey departure study) and in the transfer of component manufacturing for domestic and industrial appliances from Italy to Romania (see Ircza Zoppas joint case).

In some cases, however, the closure or run-down in production in one of the older Member States, and its transfer to a new Member State, is not so much a transfer as a concentration of the production of a product, or group of products, in declining demand into a lower cost area, as was the case with the transfer from the UK to Malta of a component manufacture (see Methode Electronics joint case) or the transfer of the production of some car component lines from Portugal to Hungary (see Alcoa joint case).

While most of the relocations appear to have been successful in terms of fulfilling the company’s main hopes and expectations, this is not always so. In some cases, it turns out that Asian competition was always going to be too strong for even a low-wage cost EU location.

Moreover, in a number of cases, what had looked to be attractive ‘high skill, low-wage cost’ areas in the new Member States at the time of the initial relocation, proved not to be so over time. This seems particularly true in the case of the Baltic States – Estonia, Latvia and Lithuania – where, following their entry into the EU in 2004, wages and living standards have risen significantly.

This outcome is illustrated in the case of the relocation of electrical component manufacture from Finland to Estonia (see Efore joint case). It can also be seen in the relocation of quality textiles production from Norway to Lithuania (see Devold joint case) and in the somewhat similar case of a transfer from Sweden to Estonia (see Boras Wafwerier joint case) where the company admits that, in retrospect, it should probably not have undertaken the move in the first place.

Among cases where companies have been disappointed, some have gone on to consider further relocation options – including: moving to lower wage new Member States, notably Romania; moving outside the EU (to Belarus, for example, in the Devold joint case); or even importing Asian labour to work in Europe.

Types of transfer and processes

The transfers of activities and employment covered in these case studies tend to involve production processes with semi-skilled work, some of which may require specific training in the new location, but not necessarily high educational standards. In such cases, it is common to find more strategic development work or marketing remaining in the Member State of origin.

This is not always the case, however, as seen in the Inbev joint case, where accounting and financial management activities were transferred from Belgium to the Czech Republic as part of the restructuring within this major beer producing group. Meanwhile, other production restructuring took place between plants within Belgium.

While some relocations take place over several years, most of them occur relatively rapidly. Moreover, most of the companies covered in this study seem to have implemented their initial plans on the scale, and within the timetable, originally announced. The exceptions seem to be where the company had initially underestimated the competitiveness challenge they faced and had to go further than originally planned; where the company may have wanted to break the bad news progressively, (as may have been the situation in the Donora Candy departure from Italy case); or where the company was able to review its initial plans in a more positive light (see the Prevent departure from Slovakia case) and reduce the scale of redundancies after discussions with the workforce.
Where transfers took longer than originally planned, this seemed to have been mainly due to practical
difficulties rather than any desire to soften the impact on the local economy or workforce.

**Conflict in departure areas**

Workforce and trade union reactions to job losses that result from relocations vary a great deal
between countries, with the scale and effectiveness of reactions tending to vary with the degree of
trade union organisation and strength – which itself varies significantly between Member States and
sectors of activity.

In the company cases studied, trade union influence seems to have been particularly important in
cases involving job losses in Germany (see the **IBM** case), Italy (see the Irca Zoppas case) and
Belgium (see the Inbev case).

Conflicts, including at least token strikes, seem to be very much the pattern in some of these cases, as
is recourse to political support (see IBM case in Germany and the Donora Candy departure from
Italy). Ultimately, however, these actions do not seem to have had much influence on the final
outcome.

In some other countries – notably Portugal (see the Alcoa case) and the UK (see the Methode
Electronics case) – reactions by the workforce or trade unions appear to have been particularly muted.

The requirement to respect redundancy procedures is not always respected initially by companies.
Since employer obligations in the case of dismissals are clearly established, however, whether in
collective agreements between the parties or through national legislation which is often based on EU-
wide labour law directives, the minimum legal requirements are almost always respected in the end.

While some companies clearly prefer to minimise the amount of consultation, the advantages of early
and frank discussions with employees are illustrated by a Slovakian company (see **Lisca** departure
case). The company made some production workers redundant as a result of subcontracting part of its
work to Serbia and beyond in order to remain competitive. Because this strategy worked, the company
was able to create additional employment opportunities in sales and marketing. Moreover, by
maintaining good relations with those employees who left, the company left the door open for their
possible future return if needed.

**Redeployment in departure areas**

In the cases covered, most people made redundant find other jobs, retire (often earlier than planned)
or re-train for alternative employment. Relatively few people appear to be left unemployed in the end –
this, no doubt, is partly due to the strength of the European economy in recent years and rising
employment levels.

However, many of those who lose their jobs do not find equally good alternative employment, unless
they have skills that are in demand. At the same time, restructuring and relocation does not solely
result in job losses. In some cases (see the **Giesecke and Devrient** (G&D) case concerning transfers
from Germany to Slovenia), semi-skilled production jobs were lost but other, higher-value jobs were
created in their place, offering more stable and long-term prospects.

In terms of support for workers made redundant, some differences in approach are apparent. In some
countries – notably in those where trade unions are strong and works councils play a central role in
partnership arrangements – the emphasis tends to be on maximising the benefits in the financial
compensation package during the negotiations.

The situation in the Nordic countries – Sweden, Finland and Norway (see, respectively, the Boras
Wafverier, Elcoteq and Devold cases) – is generally different. There, much greater emphasis seems to
be placed on helping those affected to re-enter the labour market as rapidly and effectively as
possible.

Where companies are prosperous, the local economy buoyant and the cost-benefits of a move to a
lower wage location substantial, the companies concerned often prefer to ‘pay-off’ the workforce with
relatively generous compensation payments rather than risk conflict that might delay the transfer or
damage their public reputation. This was the case in Ireland (see Banta Global Turnkey departure
case) where even the local trade union representative thought the company was generous.
In Italy, a special form of the Wages Guarantee Fund (CIG), the so-called Cassa integrazione guadagni straordinaria (CIGS), can be invoked to assist structural change (see Dorona-Candy departure case study). This fund, and an associated ‘mobility’ measure, provides government-funded income support to employees affected by major redundancies and can be extended to cover any subsequent re-training periods. Despite the strong emphasis on vocational training, it is not clear how effective this measure is in supporting structural readjustment and in re-equipping the workforce for alternative employment. On the other hand, it does seem to be a useful, possibly even necessary, means of reducing social conflict in cases of closure or run-down affecting large employers in declining economic sectors.

A Belgian case (see SCF E5 Mode departure case) also illustrates how, despite policy edicts to the contrary, early retirement was still being used as a way of managing redundancies even for employees as young as 52 years old.

Impact in arrival areas

Impact in arrival areas

Some plant or company relocations involve the transfer of a volume of work, with approximately the same number of people employed in the new location as in the old. In other cases, however, the transfer appears either to have created new expansion opportunities for the company or to have been associated with long-term increases in employment (see the impact of the IBM transfer on Poland) based on the growth of the domestic market as well as export sales. In other cases (see the Methode Electronics case), the new location – in this case Malta – became the effective hub of the company’s overall operations, resulting in significant increases in employment in the arrival country.

A number of the case studies show, however, that companies can be over-optimistic about the availability of suitable labour in the new location. While educational standards are relatively high in the new Member States, the workforce may be inexperienced or lack the required workplace skills. This has occasionally caused delays in completing transfers on time and has led some companies to invest in vocational training courses for new employees.

Also, some companies have, to their surprise, found themselves facing growing labour shortages (see the Faurecia joint case, where such shortages put some possible transfers from Sweden to the Czech Republic on hold). This is partly the consequence of the entry of other new businesses into these fast growing economies, all of whom are seeking to draw on the same pool of labour. In this respect, labour shortages can also be the result of the outward migration of local – skilled and unskilled – workers who had been attracted by higher wages in some older Member States.

However, it can also be the case that in moving to the new Member States, especially to regions of high unemployment, some companies may pitch their wage offers so low that they fail to attract sufficient local labour. In such cases, companies may even have to resort to ‘importing’ labour from even poorer areas, notably from outside the EU (see the Conta case in the Czech Republic).

Employment impact: gains versus losses

Most of the 13 so-called joint cases in this review that contain information on the employment impact in both departure and arrival countries relate to companies operating in various parts of the electromechanical sector (often as component suppliers) or in the textiles and clothing sector. However, in one case – Inbev which operates in the food and drink sector – the relocation actually covers the transfer of financial services activities. In another case – IBM – it concerns data processing and in a third one – HSBC – the relocation concerns the transfer of call centre work in the banking sector. Nevertheless, in all of these cases, relocation essentially involves the movement of activities, and hence jobs, from the old to new Member States.

It is obviously not easy to estimate with any degree of precision the true scale of the job gains and losses associated with these relocations of activity. This is due to a number of factors which influence the economic development of the companies, industries and countries concerned, as well as the difficulty in trying to establish common timeframes for comparative purposes.

Nevertheless, despite all these caveats, it is possible to obtain from these case studies an overall impression of the quantitative impact of such relocations on the respective national labour markets concerned.
As far as the companies in textiles and clothing are concerned, the three case studies show recent job losses in Cyprus, Norway and Sweden amounting in total to some 400 jobs. These losses were offset by gains of some 2,000 jobs in Estonia and Romania. Nonetheless, it should be noted that no job losses are recorded for the Cypriot company since the bulk of the run-down of the country’s textiles sector took place a long time ago.

As far as the production of engineering and electronic components is concerned, the seven case studies show recent job losses in Finland, Germany, Italy, Sweden and the UK totalling some 1,500 jobs, with an increase in employment in the Czech Republic, Estonia, Hungary, Malta, Romania and Slovakia of approximately 4,500 jobs.

Likewise, the employment gains to Malta from the re-integration of call-centre jobs to Europe by HSBC and the transfer of certain data-processing activities from Germany to Poland resulted in an estimated increase of some 2,600 jobs, compared with 600 job losses in Germany.

It appears therefore that relocation activities of the kind identified in these case studies have been associated with job gains in the new locations against job losses in the old locations, on average, in the order of four or five jobs to one.

However, these case studies also show that, while some of the employment gains may simply be due to the fact that the companies concerned are seeking out the cheapest, or most geographically convenient, location for the production of products to be sold on the European or global markets, some other employment gains are at least if not more related to the development of the local market; for example, this appears to be the case concerning the IBM transfer to Poland. In such cases, an on-the-spot presence of the company may be essential.

Overall, it is encouraging that the evidence suggests that transfers of activity are associated with a substantial net increase in aggregate employment in the EU. The case studies, however, also underline the extent to which employment creation is a continuous and evolving process: movements of jobs are part of a much more complex process of structural adjustment. As the nature and content of economic life evolves, job creation and destruction require a continuous adaptation and re-skilling of the workforce.

Wider social impact

In general, the case studies demonstrate the resilience and flexibility of the labour markets in the old Member States in the face of what are, after all, quite abrupt changes for local economies and particularly for the individuals concerned. Although the outcomes vary between Member States – depending partly on the way their labour market systems function, as well as on their prevailing industrial relations traditions – there seems to be relatively little evidence of cases where the departure of a company, a plant or a production line leads to lasting unemployment.

The change process can be complicated, however. The Synek case study involved the progressive transfer of textiles production from Cyprus to Romania, creating a significant increase in employment in Romania in the process. At the same time, the Cypriot-owned, but UK-based, company retained its marketing and design work in the UK in order to be close to the company’s main markets.

Despite these positive findings for many companies, a number of the case studies also report that, for those who lose their jobs and have to seek alternative employment on the open labour market, the levels of pay or general working conditions are rarely comparable to what was lost. This situation is different to that of employees transferred within companies or helped to find employment with other employers – these employees tend to fare better.

Given that the information available to the research team was limited in most cases, it is not possible to know whether such short-term losses in ‘quality of employment’ turn out to be only temporary or more permanent. Moreover, no evidence is available concerning the more general ‘human’ side of restructuring and relocation. What may appear, from the outside, as a generally satisfactory outcome for all concerned may, nevertheless, reflect a more traumatic experience for those directly affected and their families.

© European Foundation for the Improvement of Living and Working Conditions, 2008
Analysis of company cases under examination

This section covers three groups of case studies.

1. Joint case studies covering both ‘departure’ and ‘arrival’ areas:
   - Alcoa – Portugal to Hungary;
   - Borås Wäfverier – Sweden to Estonia;
   - Devold – Norway to Lithuania;
   - Giesecke and Devrient (G&D) – Germany to Slovakia;
   - Faurecia – Sweden to the Czech Republic;
   - HBSC – Asia to Malta;
   - IBM – Germany to Poland;
   - Inbev – Belgium to the Czech Republic;
   - Elcoteq – Finland to Estonia;
   - Efore – Finland to Estonia;
   - Irca Zoppas – Italy to Romania;
   - Methode Electronics – UK to Malta;
   - Synek – Cyprus to Romania.

2. Case studies covering only ‘departure’ areas:
   - Banta Global Turnkey – from Ireland
   - Donora Candy – from Italy
   - Lisca – from Slovenia
   - Prevent – from Slovenia
   - SCF (E5 mode) – from Belgium
   - Schindler Aufzüge und Fahrtreppen GmbH – from Austria
   - Schneider Electric – from Ireland
   - Thompson Technicolor – from Luxembourg
   - Texas Instruments – from the Netherlands

3. Case studies covering only ‘arrival’ areas
   - Conta – arrival in the Czech Republic
   - ECG – arrival in Lithuania
   - Samsung Electronics – arrival in Slovakia
   - Yazaki Wiring Technologies – arrival in Slovakia

Each case study is preceded by a brief summary containing key findings.

Joint case studies

Alcoa: Portugal to Hungary

This case involved the closure of manufacturing facilities for car components in Portugal and their transfer to Hungary, with job losses in the former country being much larger than the gains in the latter. The main reason for this asymmetry in terms of job losses and gains appeared to be a decline in demand for the particular products being manufactured in Portugal. Hence, the Hungarian manufacturing plant was able to absorb the additional work with only limited recruitment of workers.
Company profile

Portugal
In Portugal, Alcoa Fujikura is part of the US-based Alcoa Electric and Electronic Solutions (AEES) group. Until early 2007, the company produced cables and components in aluminium for the car industry at its facility in Seixal in Setubal which is south of Portugal’s capital city Lisbon.

As a result of the relocation of this production to Hungary – which was announced in September 2006 and carried out during the early months of 2007 – some 436 people lost their jobs, leaving just 44 workers on the site in Portugal.

Hungary
Alcoa is currently the 12th largest employer in Hungary, having first entered the country in 1993. At that time, it acquired the previously state-owned Light Metal Works of Székesfehervár, now known as Alcoa-Kőfém Kft.

Today, Alcoa has four engineering businesses operating in Hungary, which produce and export innovative products for the aluminium ingot, packaging and consumer goods, automotive and industrial markets. These include rolling ingots, flat rolled products, automotive structures, truck bodies, plastic closures, wire harnesses and wheels for trucks, trailers and buses.

Another Alcoa company, AFL Automotive in Mőr in central Hungary benefitted from the relocation of production from Portugal. AFL Automotive covers the manufacture and final assembly of integrated electrical distribution systems, plastic components, wiring harness assembly and electronics production.

Relocated activities and reasons
The relocation concerned the assembly of vehicle wiring harnesses for which about 480 people had been previously employed in Portugal, most of whom (439 people) lost their jobs.

At the Mőr location in Hungary, 100 new jobs were created. These jobs were mainly for unskilled workers since existing qualified staff, such as engineers and production managers, were able to cope with the additional workload.

While lower costs in other countries were a major reason for the relocation away from Portugal, the demand for the type of vehicles for which Portugal was manufacturing wiring looms was in decline. This was not the company’s first relocation out of Portugal. There had been a previous one in 2003. Since that date, the company had been experiencing falling orders leading to the eventual closure of the factory in Seixal in 2007.

Relocation process
Workers in Portugal were warned two months in advance of the planned relocation. In practice, the relocation was announced in September 2006 and occurred between February and June 2007, with the appropriate equipment to produce wiring harness assembly being shipped over to Hungary.

This operation created 100 additional jobs bringing the total number of workers employed in Hungary to 3,400 people.

The training of new employees took place during the months in which the additional machinery was being transferred.

The public authorities in Hungary did not play any part in the redeployment, and the move is seen as an internal decision by the company to rationalise production at one site within the group.

Impact in departure area
Of the 439 people who lost their jobs, some 300 or more were categorised as ‘controllers and technicians’ – 90% of whom were women – along with some 20 administrative staff and 20 production managers. Some managerial staff and specialists were transferred to other factories in Europe.

Redundant workers received compensation payments higher than the minimum ones required by law.

© European Foundation for the Improvement of Living and Working Conditions, 2008
Local representatives of the Social Security and Employment and Vocational Training Institute were also involved in the process.

At a local level, the authorities actively tried to convince the company to retain production in Portugal; however, there was no real interest in providing support to the company or in entering into detailed discussions concerning alternative actions.

**Impact in arrival area**

Wages of employees at the Mőr site are estimated to be about half of those of employees who did similar work in Portugal. Regarding working arrangements, including working time, work schedules, employee qualifications and type of employment contract, however, no major differences exist between Portugal and Hungary.

On the other hand, Hungarians consider that the labour safety regulations in their country are generally stricter than in Portugal. Hence, safety modifications had to be made to the manufacturing equipment arriving from Portugal in order to meet local standards.

Employees in Hungary were hired with open-ended employment contracts. Most of the people hired were under the age of 27 years, although some of workers hired were over 40 years. Around 40% of the workers recruited had eight grades or less of elementary school education.

In terms of the overall impact of the transfer on employment in the region, it was a positive development, but no wider consequences can be seen.

Since the wages of employees at the Mőr site are significantly lower than those at the Seixal site in Portugal, it is assumed that the company’s goal of reducing its costs has been met. However, any such cost reductions do not appear to have led to any further business expansion by the company.

**Borås Wäfveri: Sweden to Estonia**

This case concerns a Swedish textiles company which had been progressively relocating the more routine parts of its production processes to Estonia in order to remain competitive. The impact of the labour force reductions in Sweden were mitigated by extensive relocation efforts and early retirement measures. Nonetheless, from the company’s point of view, the move has not proved to be a successful long-term strategy given rapidly rising wages in Estonia since the country’s accession to the EU.

**Company profile**

**Sweden**

The Swedish Group Borås Wäfveri produces textile materials for consumer products. More than two-thirds of the company’s production is marketed through other companies’ own brand labels, although Borås Wäfveri also retails some 10% of its production directly.

In 2003, prior to the relocations with which this case study is concerned, the group as a whole employed some 5,600 people, 300 of whom were employed at two sites in southern Sweden, namely in Kungsfors in Skene in the South of Borås (180 workers) and Ryda in Boras (120 workers).

The relocations were carried out in stages. The first step involved the closure of the Kungsfors unit in Skene, which was announced on 20 August 2003 and where the last employee left the site on 15 October 2004. The closure of the Ryda site in Borås was announced on 12 October 2004 and the bulk of employees left the site the last day of September 2005. Following the restructuring, all but five to 10 of the people previously employed on these sites lost their jobs.

These specific relocations of activities need to be seen as part of the company’s long-run attempts to maintain competitiveness in the face of Asian competition by moving from a high-wage country to a low-wage country. This strategy appears to have failed because of rising wages in the destination country, partly due to its successful entry in the EU.

**Estonia**

Borås Wäfveri has been gradually relocating its production activities from Sweden to Kreenholm in eastern Estonia. This process began in 1994, when Borås Wäfveri became the main shareholder in a
long established local company - Kreenholm Manufacture. Kreenholm Manufacture was privatised following Estonia’s regained independence in 1991.

While the purchase of the national company by a foreign company was seen as a way of providing access to international markets, it has not, in practice, halted the on-going decline in employment. At the beginning of 2001, some 4,900 employees worked for Kreenholm but, by August 2003, when the company announced the lay-off of 400 employees, the total number of employees was already down to 4,626.

A year later, in August 2004, additional cuts of 1,000 jobs were announced for the following 15 months and, by the end of 2005, the company’s planned workforce was down to 3,000 people. By December 2007, only 2,400 employees were left at Kreenholm and the major site owner indicated that, after a couple of years, just 800 to 1,000 employees could be left working in Kreenholm.

In this context, the transfer of work from Sweden to Estonia during 2003 and 2004 did little to slow the overall rate of job loss, although following the relocation in 2003, some 60 additional seamstresses were employed to sew curtains and sheets. However, no machinery was actually moved from Sweden to Estonia, and the factory simply moved from a two shift work organisation to a three shift work organisation, using the same equipment but more intensively.

In 2004, some 15 new jobs were created in spinning and weaving factories. However, while some new machinery was brought from Sweden to Estonia, more than 15 employees lost their jobs as the new equipment replaced older, more labour-intensive machines. Between 2005–2006, some of the activities concerning textile finishing were moved to Kreenholm and some 14 more people were employed at the plant. Nevertheless, this did little to halt the long-running decline in employment on the site.

**Relocated activities and reasons**

The relocation of activities from Sweden to Estonia which are under examination took place in stages. In 2003, the sewing of curtains and sheets were relocated; in 2004, the spinning and weaving activities and, finally in 2005, the textile finishing activities were relocated. In total, about 90 jobs were initially created in Estonia thanks to this relocation, while almost all employees (290 out of 300) lost their jobs in Sweden.

The main reasons given for the relocation of activities were global competition and the need to reduce costs. The textiles market in Europe is under considerable pressure from low cost countries, notably China, making production in Borås unprofitable. Falling demand for their particular products was also cited as a reason.

In fact, the company was one of the last textile producers to outsource production from Sweden, with production gradually moving to Estonia as an alternative to closing down the entire Swedish-owned production and buying-in products from external suppliers.

However, costs and especially labour costs have increased very quickly in Estonia since the decision was made to transfer production. The company’s financial director is of the opinion that Borås Wäfveri would not have begun the relocation process and activities if they could have predicted that this would happen. In particular, they apparently underestimated the impact that EU membership was going to have on Estonian labour costs.

**Relocation process**

Employees in Sweden found out about the company’s decision to relocate the plant a little more than a year before the unit was completely outsourced. In handling the process, the local management is considered to have behaved correctly and to have respected the procedures set out in the collective agreements.

At the Kungsfors site, the trade unions nevertheless tried, unsuccessfully, to change the company’s decision. The subsequent negotiations produced results in line with the provisions of the collective agreements. At Ryda, trade union influence is considered to have been limited regarding the relocation to Kreenholm.
Both outsourcing cases described are linked to one another and constitute logical steps in closing down the production in Sweden. The spinning and weaving which occurred in Kungsfors is a precondition for doing textiles finishing which was done in Ryda.

In the Kungsfors case, work from the site was outsourced in stages during the period 2003–2004, while the Ryda plant was closed all at once. In general, the process of outsourcing production was gradual in that one factory after the other was relocated, although it was done rather quickly, once the company had decided to move a unit. Job reductions also went according to plan, while in subsequent years more employees have been forced to leave such that no production remains in Sweden today. During the initial negotiations, a consultant was hired by the trade unions and work representatives, who argued that the site could be maintained. The trade unions accepted that the costs of the Swedish production were too high, but they did not see the Estonian site as a good alternative and argued that it would take years to achieve the same level of competence in Estonia.

Impact in departure areas

At Kungsfors where the workforce consisted of approximately an even divide of men and women, the typical employee who lost their job was blue-collar and about 55 years old. Many of the workers were immigrants with low levels of education. The workforce was seen to be particularly old as a result of the application of the principle of ‘first in, last out’, as laid down in the Employment Protection Act, in previous redundancies.

The situation was rather similar at Ryda with the exception that male workers accounted for about 60% to 70% of the workforce. At the end of the redeployment process, only a few employees (five to 10) with specialised competences (mainly engineers) remained in the company in order to liaise with and assist the unit in Estonia.

During the redeployment, a consultancy company was assigned to assist the workers in finding new jobs. Since many of the people concerned were rather old, some of them received early retirement pensions and the rest are now retired. A few workers suffered from occupational injuries and received disability pensions. However, some encountered difficulties finding new jobs.

According to research reports, a lot of people found new jobs – a view confirmed by a representative for the local unemployment service – and very few people have been left unemployed. Researchers estimate that about 75% of the employees made redundant have new jobs today. Technicians found new jobs in other companies, while many of the elderly women now work as cleaners. Some were hired by local industries.

The local authorities did not play any direct role in the process, apart from having participated in meetings. According to researchers, they were mainly interested in what would happen to the premises after Borås Wäfveri left. Indirectly, however, the public employment service provided assistance.

The local media has apparently not shown much interest in these job losses, possibly because the process of relocation has been gradual and has taken place over two decades, with no obvious adverse consequences. Nonetheless, plans to open a shopping mall on the old premises of Borås Wäfveri have yet to materialise.

Impact in arrival area

A variety of different jobs have been created in Estonia as a result of the transfer. Apart from production line workers, the company also needed skilled workers with technical ability and previous work experience in the same field. Specialists were also needed to maintain the machinery, although no additional specialists were employed as a result of the relocation. Rather the workload for existing maintenance specialists was increased.

In terms of gender, maintenance specialists are generally men, while machine operators are mostly women (70%). Female machine operators are aged between 45–55 years on average, with secondary education or post-secondary technical education based on secondary education (ISCED 3 or 4).

In terms of employment conditions, the trade union in Kreenholm had been successful in their negotiations. In addition to agreeing basic legal requirements – including redundancy arrangements,
and health and safety – the collective agreement offered 20% and 40% premia for evening and night work respectively, together with additional conditions with respect to Christmas bonuses. More recently, however, the trade union has been less forceful, recognising that the management no longer has the resources to raise wage levels.

In Estonia, the public authorities did not interfere in the relocation plans or in the economic activities of Kreenholm. Nonetheless, some projects have been launched to help retrain hundreds of employees who have subsequently been laid off in Kreenholm. In addition, the employees made redundant have access to services provided by the Estonian Labour Market Board.

In recent years, Kreenholm has reduced its production volumes as well as the number of employees. The finishing factory will not be closed, but the spinning and weaving factories will cease operating at the end of 2008. The relocation of some activities from Sweden has therefore not resulted in business expansion for the company, and sales have continued to decline.

The main explanation for this decline is increasing production costs in Estonia. Although the general price level in Estonia has also risen, it brings little benefit to the company which sells less than 10% of its production in Estonia. In effect, while production costs have decreased as a result of moving the activity, this has not been sufficient to match the competition.

According to the Financial Director in Kreenholm the relocation was not, in retrospect, the most rational decision. In effect, neither the company nor its shareholders have benefited from the relocations. In his view, the story is much the same elsewhere in Europe with similar factories closing down because it is significantly cheaper to produce in Asia.

**Devold: Norway to Lithuania**

This case concerns a long-established Norwegian manufacturer of quality textiles, which progressively relocated its production to a new facility in Lithuania in order to contain production costs, while retaining product development, and sales and marketing in Norway. The move initially proved successful following some transitional difficulties, but subsequent increases in wage costs in Lithuania have meant that the company is now planning to move some of its production outside the EU to Belarus.

**Company profile**

**Norway**

The Norwegian company, Devold of Norway AS, produces high quality wool textile products from facilities in Norway, including sports underwear, wool sweaters for outdoor and sports activities, as well as flame retardant underwear and socks.

Between 1996 and 1997, however, the company’s owners, Siva Spilka, a Norwegian company, began looking for opportunities to relocate production to countries with lower labour costs. The original intention was not to relocate the company’s own production, but to purchase products from other manufacturers. However, having failed to find suppliers in Lithuania or anywhere else with suitable equipment, the company decided to set up a new enterprise itself in Lithuania.

In 2001, the average number of employees in Devold Tekstil AS in Norway was 95 persons, about 50 of these were based at Langevåg in southern Norway. After the relocation in 2001–2002, some 24 workers remained at the main site and around 50 workers at the two sites, Devold Tekstil AS and Devold of Norway AS. Today, the only activities left in Langevåg are those dealing with administration, product development, and sales and marketing.

In 2002, while the restructuring was taking place, Devold Tekstil AS became bankrupt and the company re-emerged as Devold of Norway AS. At that time, the company owned two manufacturing sites in Norway, of which the largest was in Langevåg in the Møre and Romsdal County and the smaller in Rogaland in Ålgård in the Rogaland County in southern Norway.

The current group organisation is the result of further restructuring which took place in 2006. Devold of Norway AS is currently 100% owned by the Flakk Group (Flakk Holding AS) which is involved in a variety of business activities, including tourism and the manufacture of building components.
Lithuania
Siva Spilka established the Lithuanian company – VAB Devold – in Panevėžys in central Lithuania, which was one of the country’s biggest cities in 1998. The location was chosen for two reasons: the then cheap labour force and the availability of skilled employees.
The Lithuanian production company, UAB Devarta, was set up in the summer of 1998. From then on, there was a progressive relocation for parts of the production, with the main production of knitting, dying and sewing of underwear being relocated in 2002.
At the beginning, the company in Lithuania employed some 15 people, but there are now 180 employees in the company.

Relocated activities and reasons
According to a manager of Devold, 95% of overall textiles production has now been relocated from Norway to Lithuania.
According to the company’s manager, the basic reason for deciding to relocate the production from Norway was the high labour cost. The company had been losing money and looking at ways of increasing profitability through the rationalisation of production and improvements in its organisation.
One difficulty in this respect was the fact that the production processes for the type of wool garments that the company sold was very labour-intensive, with limited possibilities to increase productivity by substituting machinery for labour – hence the focus on wage costs.
Profitability and competitiveness have been improved considerably as a result of the relocation. Costs have been reduced, allowing the company to increase the volume of production.
However, the company also reports that it took some time before it benefited from improved results – the period following the relocation being marked by concerns about quality as well as the production technology. Overall, however, the company was initially satisfied both with Lithuanian labour costs and with the skills and qualifications of available employees.
According to the managing director, the initial success of the relocation can be explained by various factors, including the fact that the company has also been investing more in product design and marketing. In particular, the focus on natural fibre products and the interest for outdoor activities has been important in raising market interest for the Devold products.

Relocation process
The relocation of some of the activity had already taken place in 2001, although no job losses were recorded until 2002. The final decision to relocate production to Lithuania was made in February 2002, following discussions between the trade union and management in Norway one month earlier. The relocation was then carried out during the following summer.
The company followed ‘normal procedure’ with respect to legislation and collective agreements. The implication being that the relocation plans were discussed with the trade union according to the obligation to inform and consult with employees.
Public authorities at local, regional and national levels are not reported as having played any role in the relocation process.
The newly established company in Lithuania gradually expanded: a new building was erected and a subsidiary unit set up in Telšiai in western Lithuania. However, due to the rapid rise in wages in Lithuania and increased emigration towards high-wage countries, the company had difficulty finding enough adequately skilled workers.
At this point the company started looking for opportunities to relocate some production away from Lithuania. At the end of 2007, Belarus was chosen and it was decided to relocate some 10% of production there. This new phase of relocation was planned to start at the beginning of 2008.
Impact in departure areas

In 2002, the actual job losses corresponded with those initially indicated. Since then, the remaining production activities were closed down at the Ålgård site, where part of the production had been retained in Norway. This was mainly due to a marked drop in demand for the products made at this location, such as knitted jackets of traditional design.

This production was first moved to the company’s main site in Langevåg, and in this process the Ålgård-employees lost their jobs. Today, the remaining production at the Langevåg site is in the process of being moved abroad. No job losses will take place as part of this last relocation. Only two people are today working within the type of activity that is being relocated.

The majority of the employees affected were not offered other jobs within the group, although a few people obtained work in the ‘sister company’. Of the rest, some have got other jobs locally or in the district, some have moved, while others have left the labour market altogether. Five or six people were employed directly in another local textiles company, Mittet AS.

Most employees were women and not highly qualified. As the average age of the affected workers was high – with a significant number of workers being in their mid-fifties or older – it was to be expected that a number of them would leave the labour market through early retirement or withdraw from the labour market. The Norwegian employment service held meetings with the workers concerned.

The relocation of this work has created difficulties in the local area of Langevåg since Devold had been a cornerstone company for many years – in fact, the relocation took place just one year before the company was due to celebrate its 150th anniversary.

Impact in arrival area

According to the manager of Devold, terms and conditions of employment such as wages and working conditions in the company are above the regional average, although the company has never signed a collective agreement.

After 10 years in Lithuania, Devold has set up a further subsidiary unit, and the total number of employees directly related to the relocated business exceeds 200 people today.

It is difficult to measure the indirect consequences of the company’s arrival in the region. However, it is obvious that jobs were established and that their number regularly grew at a time when the region faced economic stagnation.

In doing business in Lithuania, the company has invested into the development of infrastructure through the erection of a new building. This certainly has had a positive influence on the construction sector in the area.

Giesecke and Devrient (G&D): Germany to Slovakia

When a family-owned German business sought to reduce costs by transferring part of its sophisticated production to Slovakia, there was strong resistance from the workforce, including token strikes. In the end, the activities were transferred to Slovakia, creating some 250 new jobs in the new location. Nonetheless, many of the employees who lost their jobs in Germany were redeployed to other activities, and the company has continued to invest in new products and create new employment at the German site.

Company profile

Giesecke and Devrient (G&D) is a family-owned business that operates on a global scale. It was established in Germany in 1852 and has its headquarters in Munich.

The company initially specialised in the printing of banknotes and securities, but it has extended its product portfolio to include automatic currency-processing equipment, as well as the production and distribution of smart cards and cutting-edge system solutions.

In the financial year 2006, the group recorded sales worth €1.3 billion. The company’s four business units contributed in the following ways: €695.7 million through the printing of banknotes and

© European Foundation for the Improvement of Living and Working Conditions, 2008
securities; €483.8 million through the cards and services business, €112.9 million through government business solutions and €4.3 million through a new business division.

At the end of 2004, G&D employed a total of 7,337 people worldwide, some 3,485 of whom were employed in Germany. By 2006, the total number of employees had increased by close to 1000 people – to 8,295 – while the number of employees in Germany had declined to 3,348 employees.

Germany

In June 2005, a Munich-based daily newspaper, Merkur, published the first reports of a possible relocation of G&D’s card-body production from Louisenthal in Bavaria in southern Germany. The newspaper article reported that either 160 jobs or, according to a works council’s statement, even 200 jobs might be affected.

G&D would not confirm the reports concerning a possible reduction in the size of its Louisenthal workforce. However, a spokesperson for the company did state in a press article published in Merkur, that the company was contemplating ways of reducing its costs.

The company indicated that the options being considered included more flexible working hours, the reduction or cancellation of additional contributions or payments, longer working hours, as well as a possible relocation of the production site.

In early July, however, G&D announced in a press statement that it intended to relocate its card-body production from Louisenthal in Germany to Nitra in western Slovakia. The company stated that the relocation process would take 12 to 15 months and that 160 employees would be affected.

Slovenia


The site became operational in November 2006, by which time some 250 persons were employed.

Relocated activities and reasons

G&D relocated all the production aspects of its smart card business to Slovakia, but other aspects of its smart card business – such as product development, personalisation and marketing – remained in Germany.

At the time, G&D had stated that 160 employees would be directly affected by the relocation process, although the works council initially cited a figure of 200 jobs being lost through the relocation. An article in the daily Merkur newspaper at the end of October 2006 had quoted a figure of 235 jobs, while the trade union, the United Services Union (Vereinte Dienstleistungsgewerkschaft, ver.di), had suggested that 240 employees would be affected.

In its July 2005 press statement, the company had indicated that it had decided to relocate its production of smart cards due to falling prices on the European market and increased competition. The company argued that, to ensure its future, it was absolutely imperative to boost its competitiveness. A careful analysis of the cost structure at the smart card production facility in Louisenthal had indicated that ‘unit prices could not be reduced by volume effects—more orders leading to increased revenues alone’.

Furthermore, the company declared that it would seek to negotiate a socially acceptable solution for the employees affected. The G&D management and its works council had already analysed all the possible alternative strategies concerning the relocation of the smart card production.

The company stated that it had looked for ways in which it would be able to achieve a more efficient and cost-effective production in Germany, but that such a solution could not be found. Therefore, G&D decided to relocate the card-body production to a location with lower unit labour costs, namely Nitra in Slovakia.
Relocation process

G&D initially stated that the relocation of production would take 12 to 15 months, which turned out to be the case in practice. At the end of October 2006, the Merkur newspaper reported that the last shift had been worked at the smart card production site in Louisenthal. Towards the end of November 2006, G&D announced the opening of its new card production facility at Nitra in Slovakia.

Almost four months passed, however, between the date of the first official G&D announcement to relocate smart card production in July 2005 and the conclusion of the social plan. In Slovakia, the creation of some 200 new jobs was announced in 2006; according to information from G&D, however, the actual number of jobs created at the end of November that year were closer to 250. According to the information obtained from the Slovakian labour service (Ústredia práce, sociálnych vecí a rodiny, ÚPSVAR) in September 2007, the company created more than 200 new jobs.

Impact in departure areas

The German ver.di trade union had fought vehemently against the announced relocation of smart card production from the beginning and, in September 2005, held a strike at the production site in Louisenthal. The trade union demanded that a social plan be implemented in order to reconcile competing interests. It also called for the negotiation of a supplementary collective agreement regulating the relocation.

At the end of November 2005, G&D announced the setting up of such a social plan, following an agreement between the arbitration board (Einigungsstelle), the works council and the company’s management. This arbitration arose because collective redundancies are regulated in Germany by the Works Constitution Act and the Employment Protection Law (Kündigungsschutzgesetz, KschG).

The company statement pointed out that, by the end of September, it had already identified over 100 other employment options for the affected employees in the company and that it had begun to take action in relation to these possibilities. Furthermore, the employees affected were offered consultation sessions designed to assist their ‘outplacement’ to other employers, as well as the opportunity to take advantage of schemes run by a private employment agency.

G&D decided against the setting up of a transfer agency (Transfergesellschaft) and no relief fund (Härtefond) was set up for those employees affected. However, the company did provide a six-figure additional sum to be distributed among the employees affected – a figure that G&D stated was 25% higher than the initial amount offered.

At the end of September 2005, a press article in Merkur reported that G&D wanted to take legal action against ver.di and that it would only conduct negotiations with the works council at the establishment level. Further strike action was initiated by ver.di throughout November 2005.

It should be noted that the legality of strikes by unions in support of claims relating to issues regulated by social plans is an often debated topic among the social partners, as well as among labour law experts. Many legal experts and employers believe that strikes which are organised in protest against the closure or relocation of a plant or an establishment should be considered to be in breach of German labour law.

In April 2007, however, the Federal Labour Court issued clarification on this issue, indicating that trade unions were allowed to strike over issues covered by social plans, while also stating that, according to the Works Constitution Act, the works council and management had the right to set up a social plan at the establishment level. At the same time, the Court also indicated that the contents of a social plan could be considered as issues to be negotiated on in a collective agreement and that trade unions therefore had the right to call strikes aimed at enforcing the provisions of such collective agreements.

After the social plan had been established, G&D had hoped ver.di would accept the solution negotiated by the social partners at the establishment level and would thus cease its strike action, which G&D had deemed to be illegal. In this context, the German Printing and Media Industries Federation had also called on ver.di to end the work stoppages.
At the end of March 2007, a spokesperson for G&D declared in another Merkur press article that G&D had managed to place 130 employees in other positions, 20 of whom took up positions in Slovakia, 30 were placed at G&D’s paper mill in Louisenthal, 60 were transferred to G&D’s office in Munich and another 20 were placed in a part-time work scheme for older employees. However, no information is available on the terms and conditions of these new jobs or on how they compare to the previously held jobs.

At the beginning of July 2007, the mayor of Louisenthal had stated in a Merkur press article that the loss of 160 jobs would have a serious impact on the workers affected and that it would not be easy to find alternative employment in the region. By this time, however, G&D was claiming that 130 of the 160 affected employees had already been placed in another position at G&D or its affiliates.

Furthermore, G&D has continued to invest in the local area in Germany. Another press article in the daily Merkur from the end of March 2007 reported that G&D was investing €10 million in its banknote-processing facilities in Louisenthal and that 20 additional people were being taken on as a result.

According to the available information, after the production relocation from German Louisenthal to the Slovakian town of Nitra, other areas of the cards business, such as personalisation, development, and marketing remained in Germany.

**Impact in arrival area**

Wages of employees working in the production plant in Nitra are likely to be on a par with those paid across this sector of activity in Slovakia – in other words, much lower than in Germany. Other employment and working conditions would be in line with Slovakian standards.

According to the managing director of the new facility, ‘the production plant meets every one of the Slovak Republic’s conditions, which are of particular significance when it comes to sustainability. Environmental protection and occupational health and safety requirements have been strictly observed, enabling Slovakian authorities to approve our equipment and give us the green light without a hitch’.

According to the available information, the local trade union organisation is operating in G&D Slovakia. However, collective agreements on terms and conditions of employment have yet to be concluded.

In September 2007, the Slovak Government through its Centre of Labour, Social Affairs and Family (Ústredie práce, sociálnych vecí a rodiny, ÚPSVaR) decided to provide G&D Slovakia with state aid amounting to a total of SKK 41.25 million (just over €1.3 million as at 15 December 2007) for the creation of new jobs and SKK 6.06 million (about €181,000) in order to improve the qualifications and skills levels of new employees in the company.

Local self-management provided the infrastructure for the industrial zone, in which G&D Slovakia was established as a greenfield investment.

According to indirect information available about the company, G&D management is generally satisfied that it met its objectives. No further business expansion of G&D has been announced in Slovakia, although, according to the information provided in relation to the provision of state aid to G&D Slovakia, the number of new jobs created there should increase from the current level of about 250 jobs to 330 jobs by the end of 2009.

The relocation of the activities has had only a moderate impact on employment in the region, where the unemployment rate was already low, at about 4%. However, the high-tech based production in G&D Slovakia also offers jobs requiring university education.

So far, the company operates only in the Nitra industrial zone, where other multinational companies are also located. Given the very specific production and technology systems used in G&D Slovakia, its operation are not expected to provide major spin-off benefits to other companies in the local area and/or in the country at large.

© European Foundation for the Improvement of Living and Working Conditions, 2008
Faurecia: Sweden to the Czech Republic

This case study concerns a planned restructuring and relocation of motor vehicle parts production from Sweden to the Czech Republic, but which has only partly taken place to date. The motivation for this relocation is fairly standard – to reduce costs and to be closer to customers – but labour shortages in the arrival area and the need to raise labour force skills, together with difficulties in managing the relocation process, have put much of the transfer on hold – at least for the moment.

Company profile

Faurecia Sweden is part of the large, French-owned and French-based Faurecia group, which employs about 65,000 workers in total. Faurecia produces a range of products for motor vehicles, including seats, cockpits, door panels and acoustic packages that represent approximately 70% of the company’s output, and front ends and exhaust systems that correspond to 30% of its output.

Sweden

The Swedish company, based in Torsås in Småland in southeast Sweden, produces manifolds that are part of exhaust systems. According to the general statistical classification of economic activities in the European Communities (Nomenclature générale des activités économiques dans les Communautés européennes, NACE), this is part of the manufacturing sector, more specifically of the manufacture of parts and accessories for motor vehicles and their engines (NACE 34.3).

Before the relocation, Faurecia Sweden employed 400 people in Torsås. However, in February 2006, the company gave advance notice that some job losses would occur and, at the end of October 2006, 30 people were laid off.

Czech Republic

The Czech company, Components Písek s.r.o. which is a subsidiary of Faurecia, is a supplier for the automobile industry in the Czech Republic, as well as a buyer of related products made by cooperating Czech manufacturers.

The company is based in Písek in South Bohemia in the southern Czech Republic and located in the north Písek industrial zone, which has been set aside by the municipality for new investors. Faurecia leases the land from the municipality, but the company owns the buildings and production facilities.

Before the relocation, Faurecia had no employees at the Czech site. Following the relocation, some 670 people were employed and this number has since increased to about 1,000 employees.

Relocated activities and reasons

Two production lines for manifolds were relocated. Since the tasks involved were highly automated, only 28 employees out of 400 lost their jobs.

Those who lost their jobs were mainly older blue-collar workers, with low levels of education. 83 percent were male. Some had physical health difficulties, and their skills were described as outdated. An additional 20-30 also left the company, but as a more indirect consequence of the relocation.

Among the latter were some white-collar workers as well as blue-collar workers.

The decision to transfer activities was made at the company headquarters and the local management is considered to have had little or no say in the decision.

Two factors are thought to have been behind the move: firstly, the fact that wage costs in the Czech Republic are much lower than in Sweden, although the gap is decreasing; secondly, Faurecia needs to be close to the market and the major car companies. In this respect, the new location in Písek was seen as a better alternative. Labour shortage in Sweden may also have played some part in the decision.

Relocation process

The initial plan, as announced in February 2006, was for 130 workers to leave the Swedish company over the following three years. However, 2007 proved to be a good year for the car industry and, as a result, some of the outsourcing was postponed.
According to company representatives, part of the explanation for the deferral was the fact that relocations are complicated and human resource intensive; nonetheless, labour shortages and inadequate skills in Eastern Europe also contributed to postponing the relocation.

Moreover, some of the reorganisation measures that were to be combined with the outsourcing process had been resolved in Sweden, because some 30 workers had left the company voluntarily. As a result, signs now exist that a larger part of Faurecia’s production could remain in Sweden, although the company has not given any specific promises and some 70–80 workers could still be required to leave the company.

In the Czech Republic, preparations for the relocation carried on during 2006 and 2007, and the third and last plant began production towards the end of November 2007.

**Impact in departure areas**

The initial plan in February 2006, was for 130 workers to leave the Swedish company over the following three years. However, 2007 was a good year for the car industry and, as a result, the outsourcing process was postponed.

In Sweden, employees were given six months advance warning. The trade unions tried to negotiate with the company management, but the decision had already been taken. Some trade union demands were met, however, and the workers affected were treated in line with the collective agreements. Nevertheless, some conflicts arose concerning the application of the ‘last in, first out’ principle established in the Employment Protection Act (LAS).

The trade unions considered that the Swedish workforce was very competent; some protests were rather severe, with several negotiations held with the local management at the plant. The trade unions also assigned a consultant to look into the case. Although the results of the report, which indicated that the cost reasons given by the company were valid to some extent, did not fully satisfy the trade unions, it did cause them to back down.

According to trade union representatives, the conclusions of this internal report – which were not made public – were not fully embraced by the management and it would appear that no alternative strategies were considered by the company. However, the decision to focus on research and the advanced parts of the production can be seen as a reflection of a desire to maintain production in Sweden, although it is still likely that production will be further rationalised in the coming years.

Support for workers affected was provided in line with the conditions of the collective agreements. A consultancy company, Aventus, was hired to help the workers find new jobs, and it is estimated that about 70%–80% of all workers have found new jobs.

One estimate is that, of the 28 employees who received help from Aventus, 20 had found new jobs by 2008. However, almost none of the workers affected have found a job of equal quality. There are, however, many small industries in the region and it is likely that some of the employees have found jobs there. It should be noted that unemployment in Torsås is very low, just under 2%.

Public authorities played no role in the outsourcing decision itself, although they were, however, involved in meetings aimed at mapping the consequences of the process. None of this had any real impact.

As a result of these meetings, the local employment service was able to react more effectively, and a local association, partly funded by the municipality, was set up to provide some training and education support for the workers who were forced to leave. All other measures were taken by the consultancy company Aventus, which had no connection to the public authorities.

Since Faurecia is such a large group, it is hard to assess the results and consequences of these changes. The information available suggests that the costs of outsourcing have been higher than estimated, thus making it less profitable than expected. The problems associated with increasing skills and competence among the workforce in the new location in the Czech Republic, as well as establishing an efficient production line, were also greater than anticipated, although it is likely that profitability will increase over time.

There have been no wider consequences for the local area in Sweden since only 28 workers have left thus far and a majority of them are already re-employed. When, or if, the last steps of the outsourcing
process will take place, then it may have a somewhat larger impact. Demands for labour remain strong in the region, as confirmed in conversations with the municipality official responsible for trade and industry in Torsås.

**Impact in arrival area**

Since the plant in the Czech Republic was built on a greenfield site, no workers were employed there before the relocation. Thanks to this business expansion, some 1,000 jobs were created, including manual jobs – such as machinists, tool setters, electrical and electronics mechanics, welders – as well as management jobs. Overall, about 70% of these jobs went to women, 70% to manual workers and around 30% to nonnationals, mainly to Polish, Slovak and Ukrainian citizens.

Non-national employers are required to respect the labour legislation in the Czech Republic. Therefore, Faurecia operates in an environment that conforms to the current EU standard. Besides the labour offices and work inspectorates, trade unions also monitor compliance with the labour legislation, including occupational health and safety at work. As far as pay levels and the quality of working conditions are concerned, including social benefits and any other non-wage perquisites, the low level of pay in the Czech Republic, combined with skilled labour, was one of the reasons behind the decision to relocate production.

Average wages for unskilled manual workers start at CZK 12,000 (about €456 as at 15 December 2007) while specialists earn more than CZK 20,000 (€760).

In 2006, the company was awarded an investment incentive (the extent of state aid amounted to 46% of the investment) and tax relief (legal persons’ income tax discount).

Faurecia cooperated with the investment and business development agency, CzechInvest (Agentura pro podporu podnikání a investic), and with the local authorities during preparation of the investment. It also participated in a European Social Fund supported project entitled ‘Retraining programmes for acquiring skills necessary to find work in the automobile industry in the Písek industrial zone’, which aims to retrain unemployed people in the Písek district and helps school-leavers to find work in the automobile industry.

The plant director said that ‘we have found a strong base here that will allow the company to expand in line with our global policy’.

The relocation project is the seventh plant the company has built in the Czech Republic and the third in Písek. It is reasonable to assume, therefore, that previous relocations had been successful and had a positive influence on the company’s decision to invest more in the Czech Republic.

However, there is now a shortage of labour in the region. Neither Faurecia nor other companies in the region can find workers with the required qualifications. Employees in the declining textiles industry in South Bohemia are being retrained to work in the automobile industry, but even so, Faurecia is forced to do some of its recruiting outside of the Czech Republic, notably in Poland, Slovakia and the Ukraine.

Faurecia’s plant in Písek is seen as a typical subsupplier to the developed automobile industry in the Czech Republic, as well as a buyer of related products made by cooperating Czech manufacturers. This, in turn, has positive consequences on employment levels and business in the region.

**HSBC: Asia to Malta**

This case study is unusual in two aspects: firstly, it concerns service sector activities – namely, telephone banking call centres – rather than manufacturing; secondly, it can be presented as a net gain from the point of view of the EU. This is related to the fact that the increase in employment in a new EU Member State, Malta, has been at the expense of a previously successful Asian competitor rather than another EU Member State, the UK.
Company profile

United Kingdom

HSBC is one of the largest banking groups in the world with over 10,000 offices in 83 countries. It is a British registered company with its headquarters in London, although it has share listings in several locations – London, Hong Kong, New York, Euronext and Bermuda. It provides a range of financial services, but retail banking is its principal activity.

In the UK, it has about 1,500 branches and employs just under 48,000 staff. The level of employment in the group as a whole, and in the UK specifically, has remained broadly stable over the last few years until the financial crisis got underway in the summer of 2008.

Unlike many of the other case studies, this example does not involve the simple transfer of activities between EU countries, but rather the return of activities to the EU which had previously been transferred outside the Union.

Specifically the case concerns the ‘relocation’ of telephone enquiries from customers that can, in principle, be handled at a number of locations inside or outside Europe. In practice, the UK can be considered as the ‘departure’ country in the sense that the telephone enquiries work that is involved is carried out on behalf of UK clients of HSBC (and which must presumably have been carried out at some time within the UK).

Malta

The HSBC Global Call Centre Malta has been established to provide support services for telephone banking of HSBC UK clients. In November 2005, HSBC was reported to be considering setting up a call centre in Malta. However, the ‘relocation of activity’ – unlike clear-cut cases of relocation, no existing activity in the UK was directly affected by this action – was not formally announced until April 2006.

The implementation only began at the beginning of May 2007. This was partly due to the fact that local premises needed to be refurbished and transformed into a call centre since these had previously been a supermarket.

By the end of October 2007, some 450 persons were employed in the activity, which set off the relocation process.

Relocated activities and reasons

This case study does not deal with a straightforward case of relocation. The company, like most other UK banks, deals with the vast majority of telephone enquiries and transactions through call centres. These call centres are not necessarily concentrated in one country and deal with calls from a range of countries.

HSBC has had some call centres in the UK but has increasingly moved these to India over the past years. However, in 2005, the company began to use Malta as the basis for some of its call centre work, originally as a centre to deal with the back office work from its life insurance business based in Dublin, Ireland, and an insurance management company based in Guernsey, UK.

The call centre work has quickly expanded, with some calls being dealt with in Malta that had previously been handled in India. The HBSC Maltese call centre now employs over 300 workers and handles a range of telephone enquiries from different strands of the UK business.

The point concerning the so-called ‘departure’ country in this case is that it is not clear-cut where the work was relocated from: while it is true that the original work involved back office functions being transferred – neither of these were in the UK mainland – most of the work handled by the Maltese operation has come from other locations outside the UK, mainly India. It is possible that some of the expansion of the Maltese site would otherwise have gone to the UK, but this assumption is difficult to ascertain. This aspect of the ‘relocation’ conditions is outlined in the subsequent sections.

Clearly, the principal motivation for companies to locate call centres in countries that are far away from the customers that they serve is to reduce costs, particularly labour costs in what is a labour-intensive business function. However, some concerns have centred on the customer experience of
international call centres, leading banks to consider other factors besides cost. HSBC’s chief operating officer indicated in 2006 that:

*Malta is a European country with a well established legal, regulatory and commercial infrastructure and has sufficiently appropriate investment incentives offered by the government. Apart from being well educated and highly skilled, the Maltese workforce has excellent English language skills, close cultural affinity with the UK and Europe and a good work ethic.*

*It also has distinct cost advantages compared to Europe but with the full benefits of forming part of the European Union. To date this has been a very positive experience for HSBC in comparable global terms of direct inward investment and customer experience, efficiency and cost effectiveness.*

Concerning the role of trade unions or worker representatives, the particular response to the expansion of work in the Maltese call centre was limited as it was not a straightforward case of job loss in the departure country. However, trade unions in the UK have been actively campaigning on the general issue of international call centres.

In this respect, HSBC had announced in 2003 that it was reducing employment at its call centres in Swansea, Birmingham, Brentwood and Sheffield in a series of steps that would see the work being transferred to centres in China, India and Malaysia.

The following year, the banking union Unifi, which is now part of Unite the Union, reached a framework agreement with HSBC that allowed for the union to talk to bank executives at each stage of outsourcing plans to persuade them to keep the work in the UK. At that time, the company created a £4 million (£5.8 million as at 15 March 2008) fund for career counselling and support for those who faced redundancy – a move that complemented the plans to shift 4,000 call centre jobs out of the UK by 2006.

Trade unions have also picked up on particular issues associated with the ‘offshoring’ of call centre work. For example, the UK Amicus trade union – which has become Unite since its merger with the Transport and General Workers Union (TGWU) in 2007 – has campaigned concerning the risk of data insecurity in such arrangements. In response to a case of fraud in an HSBC call centre in India in mid-2006, Amicus national officer David Fleming said:

*If a world player like HSBC is vulnerable to fraud within their overseas call centres, then every organisation outsourcing work is vulnerable too. Amicus has consistently warned about the risk of fraud, and we are extremely disappointed that our warnings have not been heeded. HSBC has always maintained that because their overseas operations are not contracted out to a third party the bank would remain in control and customers' personal details would be safe. This is not the case. We are urging other companies to re-think their off-shoring strategies urgently.*

**Relocation process**

As indicated above, the ‘relocation’ from India to Malta was spread over a period of two years and is still ongoing. It involves a variety of types of work that would otherwise have been handled by a number of different locations and not just those in the UK. It is difficult to measure the impact on job levels in the ‘departure’ country, because the issue of advance warning and consultation with the workforce, which normally take place in the departure country (the UK), did not happen in this case.

The refurbishment of the premises in Malta was carried out between the beginning of May 2007 and the end of September 2007. HSBC started to recruit employees in June 2006, with aim of completing recruitment by the end of 2007.

Initially it was reported that the Maltese site would provide 200 full or part-time jobs. By May 2007, however, the company was employing 240 employees and reportedly intended to recruit further 260
workers by the end of 2007. By the end of October 2007, the call centre was employing about 450 persons and HBSC intended to increase the number of call centre workers to 600 by Christmas 2007. Thus, more jobs were and are still being created than originally planned.

The success achieved by the relocation also prompted the company to expand the range of banking services it could offer from this site.

**Impact in departure areas**

The same issue applies here. There were certainly employment effects of the expansion of the Maltese operation on the company’s call centres in other locations – levels of employment would otherwise have been higher in other sites. However, the impact has been spread across different locations and the high staff turnover associated with call centre work generally means that, in many countries, reductions in employment levels can be handled without compulsory redundancies. As noted above, HSBC has operated a fund to help those facing redundancy with career counselling and support.

Call centres typically have high rates of staff turnover; this means that compulsory redundancies only tend to occur when a major relocation of work takes place. Therefore, it is difficult to link the expansion of the Maltese operations to particular cases of redundancy in the UK for the reasons highlighted above.

The reduction in call centre work over the last few years in HSBC UK has occurred across the four UK cities mentioned; however, the expansion of the Maltese site did not have a discernible impact on the employment levels in these UK locations since much of the work had already been ‘offshored’ to other countries.

**Impact in arrival area**

It is not known how the terms and conditions of employment of the workers at the HSBC Global Call Centre Malta compare to those of their peers working in call centres in the UK. The employees of the call centre in Malta are not covered by a collective agreement.

HSBC sought the help of the government agency in charge of attracting foreign direct investment to Malta, Malta Enterprise, in order to adapt the site and premises to its new use. However, it is unclear whether such help played any role in the decision to relocate to Malta.

The relocation of activities is seen to have been very successful from a Maltese and HSBC perspective. In October 2007, the HSBC Group General Manager based in London stated that

> the Call Centre has performed exceptionally well versus its 14 peer call centres across HSBC’s global network. Customer experience has been on the up and favourable, as is its operational efficiency and staff satisfaction. One year on, we can say the call centre has exceeded expectations all round and one must not forget the contribution towards Malta’s economy and the community.

The success achieved by the relocation prompted the organisation to start offering other specific banking services. Moreover, in October 2007, it was announced that another HSBC call centre would open in the smaller Maltese island of Gozo. This call centre was intended to start operating in January 2007 and should employ around 50 persons.

Since the island of Malta is relatively small, the employment and business investment effects were not felt in the local area but across the island. During the opening of the HSBC Global Call Centre Malta in November 2006, it was reported that the event had already encouraged two other companies to open call centres on the island, and the call centre industry in Malta is seen to be expanding rapidly.

**IBM: Germany to Poland**

This case-study involves a non-union US company disengaging from part of its operations in Germany, with its highly regulated industrial relations system in terms of works councils in particular. Against this background, the company faced strong workforce resistance and wider political criticism; however, it seemingly managed to expand operations successfully in Poland. Nonetheless, it is not
clear to which extent the large employment gains in Poland are related to, or independent of, the significant but smaller job losses in Germany.

**Company profile**

**Germany**

IBM Business services in Germany, which is part of the global US-based IBM business group, provides electronic data processing for clients such as the German logistics company Hapag-Lloyd, the German energy provider RWE and the German garment retailer Bader. Two sites were affected by the relocation of activities to Poland, namely Schweinfurt in Bavaria where 342 jobs were lost and Hannover in Lower Saxony where 258 jobs were lost.

The announcement of impending job losses was made at the beginning of March 2005; negotiations had ended by the end of June and business operations had ceased by the end of September. In Schweinfurt, some data processing operations were continued by a German information technology (IT) service provider Spirit 21, a company with close ties to IBM, according to the company website. Schweinfurt-based services were relocated to Hungary and Switzerland, as well as to Frankfurt in Hesse in Germany.

Both IBM plants in Schweinfurt and Hannover were closed, with no employees remaining. The plant closure in Hannover was due to the relocation of activities and internal restructuring, involving the transfer of employees to another division. Nevertheless, most of the people employed in Hannover lost their jobs because of the relocation.

**Poland**

IBM had launched its activities in Poland in October 1991 after having been absent from the country for 52 years – IBM’s original Polish office was closed in 1939. The company had announced its intentions to open an office in Poland some 18 months earlier. The company’s headquarters are located in the capital city of Warsaw, with branches opened in 1992 in Katowice in Silesia and Wrocław in lower Silesia, and then in Poznań in greater Poland and Cracow in lesser Poland.

Initially, IBM employed some 98 workers including 13 specialists in information services in Poland. Following the opening of the branch offices, the number of employees rose to 102 people including 23 persons in information services in 1992, to 110 people including 23 persons in information services in 1993 and then to 137 people comprising 26 persons in information services in 1994. By 1995, the employment level in IBM Poland had reached 173 staff including 30 persons in information services, which rose to 500 employees including 250 people in information services in 2001. By 2007, the number of employees in Poland had reached some 2,000 people.

IBM does not own the sites in Poland, but rents its buildings.

**Relocated activities and reasons**

The activities to be relocated involved the data processing services, with about 600 people affected at the two sites in Germany, including those employed in facility management services and security.

According to the company, the relocation occurred because of internal restructuring aiming to reduce costs in terms of wages, taxes and insurances. However, these arguments were rejected by the works councils at both plants and at company level, the worker representative on the supervisory board and the trade unions involved.

According to the works council, costs and competitiveness were not the real issue and the main aim of IBM was to relocate work to other European countries as part of its globalisation strategy. According to a trade union representative, IBM managers did what they were told to do by their US headquarters, and were not interested in discussing alternative arrangements.

In this view, the company’s objective had been to transfer work to Hungary and to Brno in the southeast of the Czech Republic. However, it was rumoured in 2005 that the relocation to Hungary had not been particularly successful because of a high level of labour turnover and problems in ensuring appropriate levels of continuous training, hence the current interest to be moving to Poland.
According to worker representatives, the cases of Hannover and Schweinfurt represent a turning point in IBM’s corporate culture in Germany. It was for the first time in 40 years that IBM Germany had reduced employment in this way. As a result, long-term IBM employees were shocked and demotivated, seeing this as a significant change in corporate culture.

**Relocation process**

The whole process of relocation of these activities to Poland took about one and a half years, from the announcement of intent until the actual employment of staff. The ‘physical’ relocation took about four months. Some IBM delivery services remained located in Schweinfurt, but the work was outsourced to other companies.

It should be noted that, in the IBM Group in Germany as a whole, further 1,600 employees lost their jobs in 2005, half of them through early retirement and half through negotiated financial agreements with the people concerned. In the period 2007–2008, no further job losses occurred.

**Impact in departure areas**

According to the IBM works council, there was no advance warning of the company’s intentions to relocate activities.

According to the Works Constitution Act (Betriebsverfassungsgesetz), the works council and the workers’ representative at the supervisory board have to be consulted in case of internal changes of organisation. At the supervisory board level, the decision was taken against the vote of the workers’ representatives.

While the works council was then consulted, trade union and works council representatives claim that IBM was not willing to negotiate with the works council or to take any alternative proposals into account.

The trade unions involved at the German sites were ver.di, the German Metalworkers’ Union (IG Metall) with, in addition, the Mining, Chemicals and Energy Industrial Union (Industriegewerkschaft Bergbau, Chemie, Energie, IG BCE) in Hannover.

The two main trade unions involved – ver.di and IG Metall – worked together organising local protests, demonstrations and meetings against the planned closures at both sites, for which there was extensive press coverage.

In Schweinfurt, 15 employees appealed to the courts for protection against dismissal. The labour court ruled that

- the dismissal was unlawful as IBM could not prove that no alternative jobs were available in the company; hence, the 15 workers still held valid employment contracts;
- the company had not followed the appropriate criteria for selecting the workers it intended to dismiss as it should have selected them from among all employees of IBM Business Services sites in Germany;
- the company had not kept the works council informed in a correct manner.

In Hannover, some employees were offered the chance to join the IBM commercial order management division, which was also located in Hannover (although no exact figures are known). On the other hand, in Schweinfurt no offers were made to employees to join other parts of the company, according to the works council.

It is thought, however, that some employees were offered jobs at the data processing sites in Ehningen in Baden-Würtemberg and Frankfurt in Hesse, as well as at the company’s headquarter in Stuttgart which is also located in Baden-Württemberg. It is also believed that IBM asked some employees to switch to the external IT-service provider Spirit21, which continued to manage operations at the Schweinfurt site, and that some 60 to 70 employees did so.

According to a trade union source, it was assumed that in Hannover, the capital of Lower Saxony, IT-workers would not face any significant problems in finding a new job since a cluster of IT-services companies are located there. More difficulties were foreseen, however, in Schweinfurt in Bavaria.
where the job prospects were seen to vary according to skills level and their age. No information is apparently available concerning workers employed in security and administrative services. From what trade union contact persons heard, wage levels and working conditions in the new jobs were below those in IBM.

In Hannover, the local and regional authorities did not get involved at all in addressing the issues, whereas in Schweinfurt they became actively involved in trying to prevent the closure of the plant. This was done by talking to the company’s management (to no avail), as well as by asking the local member of parliament (MEP) to check whether the proposed arrival area would benefit from EU Funds (it would not). According to the works council and the trade unions, public authorities were mainly active at the ‘hot phase’ of the struggle to prevent the plant closure in Schweinfurt when demonstrations took place and media coverage was extensive.

The employees who lost their jobs were typically male, over 40 years old, highly skilled and with over 20 years of IT-business experience. Security workers were typically male, aged over 40 years and classified as skilled with medium levels of IT qualifications.

No specific support was given to workers to help them find new jobs other than the regular services to jobseekers provided by the local Federal Employment Agency (Bundesagentur für Arbeit). However, outplacement services were also provided for employees in search of possible job transfers to IBM’s business partners.

There are unlikely to have been any significant adverse effects on the regions concerned considering the nature of the activities involved (IT-services to major companies) and the fact that both regions have recorded above average economic and employment performance over the decade.

**Impact in arrival area**

At IBM’s Polish operations, no trade unions or worker representatives are present in the company and no collective agreements have been concluded. The terms and conditions of employment of employees at IBM’s Polish sites are therefore determined by the Polish Labour Code only. However, the Polish Labour Code affords a considerable degree of protection for employees and their interests regarding open-ended employment contracts and restrictions on termination of fixed-term contracts by employers.

It has proved to be impossible to find out details concerning the terms and conditions of employment of IBM workers in Poland. However, it is well recognised that salaries are generally (much) lower than in Germany or the US, so employment conditions were almost certainly less advantageous to the workers in terms of net remuneration.

Local, regional and national authorities did not play any role in the launch of IBM’s Polish operations and no incentives – financial or otherwise – were offered to the company. This is understandable since Warsaw is not a special economic area and has a low unemployment rate; for instance, investors in regions defined as ‘special economic areas’ receive various tax exemptions and public aid. Despite these conditions in Warsaw, IBM has apparently encountered no difficulty in recruiting the workers it needed.

Overall, IBM appears to have achieved its main objective, namely a rapid expansion in the Polish market, and its Polish unit now ranks among the largest IT companies in the country. The success of IBM’s Polish operation is also reflected in the increase of employment, from under 100 employees in 1991 to about 2,000 employees in 2007.

Warsaw, as well as the other cities in which IBM Polska is present, has a low rate of unemployment; in this sense, the arrival of IBM in the Polish labour market did not contribute to a reduction in unemployment. However, IBM’s need for highly-qualified employees may have contributed to an influx of such persons from other parts of the country. More generally, the arrival of employers such as IBM also increases the market value of technical or scientific degrees, and of the ability to speak foreign languages. This, in turn, has influenced the design and content of university curricula and affected recruitment practices in general.

The transfer of IBM’s operations did not seem to have any direct impact in terms of encouraging other business investments. However it should be noted that, since 1991, many more companies with
similar profiles have established operations in Poland such as Asseco, Prokom, Incom, Sygnity (previously ComputerLand) or ABC Data, thereby increasing competition in the Polish IT services market.

**INBEV: Belgium to the Czech Republic**

This case concerns the transfer of a small but significant administrative/financial unit within a strong international company which is operating, however, in what must be seen as a changing and declining market where long-term employment prospects are not good. The transfer was resisted by the relatively aged workforce and trade unions in the departure area, but agreed around a set of relatively generous provisions. From the company’s point of view, the operation in the new location is considered to be working well.

**Company profile**

The Belgo-Brazilian group Inbev is the one of the largest producers of beers in the world, employing 77,366 people globally in 2005.

**Belgium**

The Belgian brewery has four sites in Leuven, Jupille, Hoegaarden and Sint-Pieters Leeuw, of which the two largest are in Jupille in the Liège region in the southeast of Belgium and Leuven in Vlaams Brabant in the north of Brussels.

In 2005, prior to the restructuring, some 3,200 people were employed at the four Belgian sites. In January 2007, following the restructuring, some 3,000 were employed at Inbev in Belgium.

At the particular site of Jupille, with which this case study is most concerned, 719 people including 317 employees with open-ended contracts were working at this site in January 2006. By January 2007, these numbers had decreased to 588 workers, including 186 employees with open-ended contracts.

**Czech Republic**

The Czech site did not exist before the restructuring. The initial plan was to create 100 new jobs. By 2007, following the restructuring, some 278 people were employed.

**Relocated activities and reasons**

Inbev had already restructured the Belgian breweries several times since the Brazilian group Ambev became involved in its management.

In December 2005, the managers of Inbev Belgium, following an internal review, announced a major restructuring in which 232 people would lose their jobs, with the production of white beer being transferred from its traditional brewery in Hoegaarden to Jupille.

Three months later, the management announced another restructuring, this time concerning the administrative and financial departments located at the Jupille and Leuven sites, with which this case study is concerned. More than 200 jobs would be lost due to the relocation of these departments to the Czech Republic and Hungary.

The main activities relocated concerned the administrative management services and economic organisation services, business, financial, organisational and economic consultancy, data processing, databank services, network management, accounting consultancy, book-keeping and tax records services.

**Relocation process**

The relocation process began in Belgium in April 2006, when the first voluntary redundancies took place and continued until December 2006.

In Jupille, 317 people were previously employed in the units affected by the relocation of financial and administrative activities to the Czech Republic. Initially, 152 jobs were affected which, following negotiations, was reduced to 131 jobs – in total, 72 men and 59 women lost their jobs due to the restructuring. Some 49 jobs were also affected at the Leuven site.

© European Foundation for the Improvement of Living and Working Conditions, 2008
For the most part, the workers who lost their jobs were either employees with middle level accounting qualifications or employees with IT qualifications.

**Impact in departure areas**

The consultation took place in the framework of the so-called ‘Renault Law’ which requires an initial consultation phase to take place in order to allow the trade unions to propose alternative responses. This is then followed by a negotiation phase – involving several meetings between the trade unions and the employer representatives – to establish a ‘social plan’.

At the beginning of May, the negotiation of such a social plan began. An agreement was signed in mid-June concerning the four sites, covering both blue-collar and white-collar workers.

According to the senior manager of Inbev Belgium and Luxembourg, restructuring was necessary in order to save the company in Belgium, given the decline in the consumption of beer in western Europe. Moreover, the centralisation of the administrative and financial functions in one centre would reduce costs and improve efficiency.

However, at the time of the restructuring announcement, Inbev also announced €1 billion profit for the previous year. According to the trade unions, the profit realised by Inbev is due to a great extent to the know-how of the workers from the traditional Belgian breweries.

The Walloon Minister of employment denounced the ‘brutality’ and the ‘cynicism’ of the company’s management decision to plan a major restructuring while announcing €1 billion profit. The federal Prime Minister also tried to put some pressure on the former Prime Minister who was a member of Inbev’s board of directors at that time.

The trade unions proposed alternative strategies to combat the job losses, but none were considered economically viable by the management. Moreover, by the time the trade unions were informed about the relocation, the centres in the Czech Republic and Hungary were already established.

In 2005, 232 workers were destined to lose their jobs at the Jupille and Leuven sites, with a further 201 affected in 2006. Of these 433 potential redundancies, 32 workers were finally retained by the company at the same site, some 177 workers obtained the right to early retirement at the age of 52 years and 130 workers were transferred to other units. This included 52 IT employees who were transferred to the Czech Republic. Some 61 workers left voluntarily and 33 workers were dismissed, including 20 persons at the Jupille site and 11 individuals in Leuven.

According to data from the Community and Regional Vocational Training and Employment Office (Forem), well over a third of the workers affected at the Jupille site were aged 50–54 years, another third were aged 40–49 years and some 25%–30% were aged under 40 years (mostly between 34–39 years).

The collective agreement that was negotiated between the trade unions and Inbev Belgium and signed in mid-June 2006 also covered the internal transfer of 78 workers, as well as that of 52 workers to the Czech Republic. These workers retained their wage levels and years of service; they also benefited from an adaptation period with the possibility to resign and receive a bonus for a period of three years. Inbev also increased its payments towards their travel costs to work because of the longer distances involved.

Those workers who were not transferred or given early retirement obtained financial compensation above the legal requirement. They also benefited from the ‘retraining cell’ from Forem or the Flemish Public Employment Service (VDAB).

Most of the workers who were dismissed found a new job after two or four months of unemployment. They were mainly accountants and joined other companies or sectors of activity, especially in computer and related activities. However, some of the workers who had been made redundant became teachers. In general, pay levels in their new jobs were below those in their previous posts at Inbev.

However, at the end of August 2007, while 45 people from the Jupille site had found work, 16 remained unemployed. Regarding the 45 people who were in employment, some 37 of them were working in another economic sector, while eight persons had found a new job in the food industries sector, including five persons who had been re-recruited at Inbev.
According to Inbev Belgium, the centralisation of the administrative and financial departments allowed the company to reduce its costs and then to invest in production. Administrative units were centralised in the Czech Republic and Hungary, while 50 workers had to be recruited for the manufacturing unit. This unforeseen recruitment seems to be the result of the failure of the brewery restructuring process and not of the centralisation of some units in a different location. 

In terms of the wider impact of this restructuring, the region of Liège has experienced several cases of restructuring and company closure over the past 20 years, including a significant loss of jobs in the metal industry. However, the region has also developed some new projects in order to encourage investment and the creation of new jobs.

Regarding the food industry, numerous companies are present in the region, such as Delacre, Kraft foods and Nestlé, but many of them – notably, Kraft foods and Nestlé – have relocated their activities, resulting in many job losses in the sector. In Liège, between 2005 and 2007, some 204 jobs were lost in the food industry at a time when total employment increased by some 4,728 jobs.

Since the number of people employed in services has increased, it can be assumed that ex-employees of Inbev found new jobs in this sector. A former employees’ delegate from Inbev confirmed this assumption, by indicating that most of the company’s former employees had found jobs in computer activities or in education.

**Impact in arrival area**

According to a local director, ‘the Czech Republic, and Prague in particular, were chosen as the most suitable location for a number of reasons. These include the fact that from the point of view of employee requirements we find the right combination of business, technical and language skills here’. The local Inbev vice-president for business services also added that ‘the Czech Republic is one of the countries where Inbev achieves the biggest volumes of exports’.

The breweries in the Czech Republic owned by the Inbev group are the biggest exporters among the beer producers in the country; they are also among the biggest exporters in the Inbev group. This aspect had a fundamental impact on the relocation decision.

Elcoteq: Finland to Estonia

This case concerns the transfer of activities and jobs from Finland to Estonia by an electronics component manufacture. This is a market where change is rapid. Thus, ‘closeness to the market’, as well as production costs, can be an important determinant of where production is located. In addition,
employment levels in any particular location can fluctuate to a great extent over both the short and long term.

Company profile
Originally, Elcoteq is a Finish company which manufactures electronic components. However, in 2004, it changed its company identity and became a European company (Societas Europaea, SE) and, in January 2008, it moved its headquarters and national base from Finland to Luxembourg.

Elcoteq had owned a manufacturing site in Estonia since 1992 and opened a second factory in Tallinn in 2001. Over the years, the Estonian business has been one of the company’s largest operations, although the number of people employed there fluctuates in line with overall demand and the needs of specific markets.

Finland
In January 2004, Elcoteq announced that it would shed 230 jobs at its Espoo unit in Finland, with product development activities being transferred to other units in Finland and manufacturing activities to Estonia. These moves took place between March and September 2004.

In February 2007, the scene was set for a further phase of staff cuts, when the company announced that it would begin negotiations concerning 500 employees at four locations, namely in Turku and Salo in western Finland, and in Espoo and Lohja in southern Finland.

In March, 84 employees were made redundant in Salo and Espoo, and the Turku unit was closed with operations being relocated to Salo. The company also announced that its Lohja plant would be closed by the end of August 2007; this closure would make 215 employees redundant, in addition to 27 employees from the new product introduction (NPI) unit.

Estonia
Employment levels in the company’s plant in Estonia have fluctuated significantly over time. In January 2004, some 2,283 people were employed at Elcoteq’s site in Tallinn; however, this number had risen to 3,399 employees by the end of the year. In 2006, some 3,454 employees worked for the company in Estonia at the beginning of the year, but only 2,937 people at the end of the year.

Short-term variations are partly due to the nature of the company’s activities, with the number of employees required fluctuating according to market demand. Nevertheless, changes in employment levels over time can also be due to the practice of switching production between countries depending on the needs of the client – changes in market demand can make it more profitable to switch production to a plant in a country closer to the new expanding market.

In this context, and in parallel with the information made available in Finland, the company announced in Estonia in February 2004 that production from the manufacturing plant in Espoo in southern Finland would be transferred to Estonia in stages over the following six months from March to September 2004.

Likewise, in February 2007, the company announced that there would be a further transfer of jobs from Finland to Elcoteq Tallinn as part of the company’s overall strategy to improve competitiveness, profitability and cost-efficiency. This second relocation was completed in three months, by May 2007.

Relocated activities and reasons
In 2004, the work that was relocated concerned the production of ‘digital optical cross-connection products activities and broadband access systems’ for Tellabs International. For this purpose, a new production line was created in Tallinn, thus none of the employees in Estonia were employed on exactly the same activities as those that had been discontinued in Finland.

In 2007, the manufacturing of ‘specific communication equipment for police and rescuers’ was transferred. Again, at that time, none of the employees in Estonia had previously been employed on this specific type of work. However, people who had been employed on the manufacture of mobile phones were now transferred to these activities.

It should also be noted that two years earlier the same activity which was now relocated had been moved to Hungary and China from Estonia. In total, 210 jobs were created thanks to this relocation.
In 2004, the press release stated that moving production to Tallinn was expected to generate clear cost savings for both Elcoteq and its customer Tellabs. Likewise, in 2007, the streamlining of operations and the raising of efficiency were said to be essential in order to improve the company’s profitability and competitiveness.

The communication manager in Elcoteq Tallinn explained that behind the official statements of restructuring is the fact that speed of delivery along with quality, competency and price is a key element in maintaining competitiveness. Hence, discussions are held with different clients in order to determine where (in which country) the production of different components should be based, taking account of both production and delivery costs.

**Relocation process**

In Elcoteq, a production line exits for every client. Work is generally organised around a production line employing between 50 and 300 people. These include a range of specific specialists – notably engineers – as well as production staff.

In the 2004 transfer of activities, Elcoteq Tallinn was able to begin the manufacture of the new products within two weeks. However, due to the specific demands of the client, Tellabs, about six months were needed to make the manufacturing process function flawlessly.

In 2007, the first products were manufactured in Tallinn within two to three weeks of their transfer. Some employees from Elcoteq Tallinn were sent to Finland to learn the processes so that they could instruct other employees in Estonia. In this case, the whole relocation process was completed in three months.

**Impact in departure areas**

The following information concerns the impact of the 2007 redundancies.

On 7 February 2007, Elcoteq informed the Uusimaa Change Security Unit which is located in the Espoo Employment Office in Finland that it was starting negotiations with its staff concerning redundancies. The first meeting between representatives of the company, employee representatives and the Uusimaa Change Security Unit took place on 20 February. These meetings continued until the end of April 2007.

The negotiations with staff concerned mainly employees having fixed-term employment contracts. Employees with fixed-term contracts working in manufacturing activities were made redundant. Meanwhile, product development continued at the Espoo unit and the Lohja plant.

In March, some 84 employees were made redundant from the Salo and Espoo units. Subsequently, in April, Elcoteq announced that it was closing the Lohja plant by the end of August 2007.

The amount of support for workers who lost their jobs in Finland was wide ranging. According to the head of the Uusimaa Change Security Unit, 10 information events were organised for the workers affected, in which some 172 employees took part. Over the period May–June 2007, an employment office information desk was set up at Elcoteq’s premises on each Monday and Tuesday from 10:00 to 16:00. The Labour Administration’s Personnel Solutions also organised four coaching courses for jobseekers, which 99 employees attended.

At the same time, according to Elcoteq’s human resources (HR) management, everybody in Finland was also able to apply for any of the vacant positions at the company’s manufacturing unit in Tallinn. According to the head of the Lohja employment office, a total of 208 employees were made redundant from Elcoteq following the negotiations. While younger employees seem to have found alternative employment, this does not seem to be the case for older workers.

About a quarter of the employees are still registered as unemployed jobseekers at the employment office, 37 of them are Lohja residents and the rest are from surrounding municipalities. Over half of the unemployed people from Lohja are aged over 55 years and two thirds are more than 50 years old, but only 2 Elcoteq employees took the early retirement package. No significant movement to nearby cities has been reported.

The Mayor of the City of Lohja has set up a ‘crisis group’ as part of the city’s contingency planning and established a standby group capable of acting effectively if similar situations arise in the future.
this respect, the Mayor was positive about the flexible and rapid support given to the crisis group work, especially from the Labour Administration.

The local authorities were not able to reduce the scale of relocation, but they were able to play a significant role in promoting employee’s chances to find alternative employment, for example, through training and trainee work. Numerous individual employment programmes were drawn up together with a consultant from the employment office.

However, according to the Lohja employment office, the unemployment rate stood at 6.4% in January 2007 and at 5.5% in November 2007

**Impact in arrival area**

In 2004, the actual number of jobs gains had been less than initially planned. At that time, for one production line in Elcoteq, 100 people were hired in Estonia compared with the 150 employees previously employed in Finland. As a general rule, no new jobs tend to be created in other activities when opening a new production line. Some new project managers may be hired, but they are also closely related to the specific production line.

Regarding the 2007 relocation to Estonia, it is reported that it is too early to state the actual job gains. In Elcoteq Tallinn, the workforce is young averaging 32 years of age and 80% of staff are women. Some 40% of the workforce have a third-level education (ISCED 5) and 60% hold a post-secondary technical qualification based on secondary education and less (ISCED 3 or less). This suggests that the workers may be overqualified for the jobs they do.

Some 80% of the workforce is drawn from the minority Russian-speaking population.

No specific information can be provided about employment conditions. In general, the conditions of employment for new workers are as set out in Estonia’s Collective Agreements Act, although specific issues – notably, wage levels and additional days off – are determined through collective agreement with a trade union of the company.

In 2004, the company’s objectives were not achieved as turnovers did not increase and the client made excessive demands, with the result that cooperation was not as good as expected. On the other hand, it can be supposed that the same problems would also have occurred in Finland. In 2007, however, the relocation of activities from Finland to Estonia appears to have been successful, but it does not appear to have led to any wider business expansion in Estonia.

Overall, the company is not expected to seek to expand production in Estonia beyond present levels since that could bring too much activity to one location. This, in turn, could lead to a loss of flexibility which is essential in electronics manufacturing services where clients usually search for the production site that is the closest to their sales area.

Public authorities in Estonia have never interfered in the relocation plans or in Elcoteq’s economic activities. However, the public authorities in Tallinn state are aware that Elcoteq Tallinn is the largest manufacturing company in Estonia’s capital city and that it has had an important impact on the scale and quality of employment in the labour market in the area.

**Efore: Finland to Estonia**

This case concerns the transfer of electronic component manufacture from Finland to Estonia, which eventually led to the closure of the facility in Finland. The well-developed employment and social system in Finland ensured that extensive support was made available to assist the redeployment of the workers made redundant. Initial skills shortages in Estonia have now been overcome by the company; nonetheless, concerns exist at local level that the work could ultimately move to China where the company has a production facility.
Company profile

Finland

The Efore electronics group is an international, Finland-based company providing services for telecommunications, industrial electronics and healthcare industries. Its operations comprise custom-designed power supplies, DC power systems, electronic design and manufacturing services (EDMS), as well as maintenance and repair services.

The company which has its headquarters in Espoo in southern Finland manufactures electrical equipment and control apparatus. Its operations comprise custom-designed power supply solutions, power systems, manufacturing of demanding electronics, and related services and maintenance.

The company announced a relocation of activities away from the Efore factory in Saarijärvi in central Finland on 29 March 2005. By 23 May, negotiations with staff were concluded and it was announced that 98 employees would be made redundant out of a workforce of 285 people.

The main products manufactured at Efore’s Saarijärvi factory were AC/DC and DC/DC converters and DC power systems. Most of the activities were reported to be relocated to Efore’s factories in Tallinn in Estonia and to China. The relocation of this business line was completed by the end of the year 2005.

A new round of negotiations with employees started in July 2006. On 17 July, Efore announced that it would close the Saarijärvi factory, followed by an announcement on 28 August that it would gradually dismiss 82 employees over the period up to the end of May 2007.

According to the employment office in Saarijärvi, job losses at Efore amounted to 75 employees in 2005 and 82 employees in 2006, corresponding to a total of 157 employees who lost their jobs. According to Efore’s HR manager, further job reductions could occur in 2008.

Estonia

In 2003, Efore had decided that it needed to establish manufacturing plants in low cost areas and, by the end of that year, it had started to build a factory in Estonia on a greenfield site. This was done in cooperation with an Estonian partner, the electronics company Paitec Elektroonika. The Estonian subsidiary, Efore AS, was registered in the trade register of the southwestern Estonian city of Pärnu in December 2003.

The new factory was finished in May 2004. The company hired some 60 people when officially opening the plant in Estonia in August 2004. Thereafter, Efore began to progressively move production to Estonia without any specific public announcements. The workforce at Saarijärvi in Finland was not reduced initially because the Estonian subsidiary was mainly working to meet increased demand.

By March 2005, however, Efore had decided to relocate all manufacturing activities from Saarijärvi to Estonia and China. At the same time, negotiations began with employees in Saarijärvi which were concluded by August 2006. By the beginning of 2007, all of the activities had been relocated.

In 2006, the average number of employees at Efore’s Estonian facility in Pärnu was 224 people. At the end of January 2007, when the relocation from Saarijärvi was completed, some 256 employees worked in Pärnu. In 2008, 297 people work for Efore AS in Estonia.

The whole relocation process has involved a gradual business expansion in Estonia. In January 2006, the Estonian unit moved to a larger factory, and Efore’s 2007 annual report shows that the number of staff continued to increase in Estonia and China. The report also indicates that the company’s production was focused further on Estonia and China in 2007.

Relocated activities and reasons

The manufacturing of electronics was relocated along with product development and most of the sales and maintenance activities. However, parts of the after-sales marketing team (some 20 employees) and maintenance staff (some 10 employees) were retained in Saarijärvi.

Two new units were established in Estonia and China in order to take advantage of lower labour costs. According to data from Statistics Finland, the average monthly earnings of all full-time wage and
salary earners amounted to €2,634 in Finland in the last quarter of 2006. At the same time, Statistics Estonia indicates that the average monthly gross wages in Estonia were EEK 10,212 (€653) in the last quarter of 2006. In 2004, when Efore took the decision to relocate to Estonia, the gap between the two countries was even wider.

Efore considered that these steps were necessary in order to turn the company into a global player. Market competition in electronics has been increasing as product prices decrease, while the prices of production materials do not decline.

The president of Efore indicated that the company had considered building the factory in another Estonian city, but it had decided on Pärnu because of the presence of Paitec Elektroonika, with which it had already cooperated.

**Relocation process**

The relocation took gradually place over the period 2004 to 2007. The plant in Pärnu is currently of the size initially planned. Further land is available for a possible expansion of the facility, given that the original plan envisaged a move from an initial facility of 1,600 m² to a new facility of 7,000 m² in 2006.

When the new facility was opened, no people were employed before the relocation of the activity from Finland to Estonia. According to the company’s 2006 annual report, Efore employed on average 224 people in Estonia. In January 2007, when Efore shut the factory in Saarijärvi in Finland, some 256 people were employed in the Estonian facility.

**Impact in departure areas**

According to the head of the Saarijärvi employment office, it could be seen at the time of the layoffs that manual labour based on long series was leaving the country due to cost reasons. It was clear to almost everybody that they needed to change their field of work and that the remaining employees were absolutely opposed to continuing in this field.

The employment office also reports that the average age of workers made redundant was 42 years in 2005 and 37 years in 2006. In 2005, job reductions were targeted at workers with lower levels of education and those most recently recruited. The final reductions in jobs involved all of the assembly employees, regardless of whether they had worked for the company for one year or 20 years.

During the national incomes policy negotiations in December 2004 (FI0501203F), the central Finnish labour market organisations had agreed to establish an operational model for employment and change security as a part of the comprehensive incomes policy settlement for the years 2005–2007.

This legal change added a section to the Act on cooperation in undertakings, which obliged employers making redundancies to negotiate a plan of action with employee representatives. This plan of action should be finalised before formal cooperation negotiations (as provided for by the act) begin between the employer and employee representatives.

This action plan should also contain elements such as a timetable for the cooperation negotiations, the course of action that the employer intends to follow to mitigate the planned redundancies, notice periods and the use of public employment services to assist with job search and the provision of training.

The aim is to transform the cooperation procedure between the employer and employee representatives into a series of events which support employment. The procedure would include clarification, information, joint planning of principles of action and negotiation, and involve the employer, the employee representatives, as well as the labour authorities.

Efore’s employee representatives in Finland saw the restructuring as synonymous with job cuts and loss of employment security, although the poor economic situation of the company was common knowledge among employees. However, a local crisis group called *Yrityspaja* (Entrepreneurship workshop) was formed, with the workshop mostly run by the Saarijärvi employment office.

The entrepreneurship workshop received funding from the following organisations: the European Regional Development Fund (46%), the Finnish state (24%) and the city of Saarijärvi (30%). The workshop also had a steering group with a range of appropriate local partners.

© European Foundation for the Improvement of Living and Working Conditions, 2008
According to the head of the Saarijärvi employment office, the main aim was to find alternative employment for the workers affected and not to encourage the company to pursue alternative strategies.

The Efore crisis group was formed right after the first announcement of job cuts in May 2005. A project manager started to work in November 2005 when the funding was secured. The legislative changes came into force retroactively in February 2005 and were immediately applied by the employment office. The last meeting of the project steering group took place on 15 January 2008.

In December 2006, Efore took part in a professional recruitment event in Saarijärvi, but did not participate in further re-employment activities, such as the entrepreneurship workshop aiming to promote entrepreneurship, encourage enterprises operating elsewhere to expand their activities to Saarijärvi and facilitate other labour market activation measures.

The employment office provided help to individuals by drafting personal re-employment programmes and promoting jobseeking and training. Also, the region around Saarijärvi and Viitasaari was designated as a structural change area in 2007–2008, with funding foreseen for 2008.

Two or three employees took the opportunity to work in the Efore factory in Pärnu in Estonia. There were also some open vacancies at Efore’s Espoo office in southern Finland.

By 31 December 2007, 157 out of the 169 employees made redundant had been in contact with the local employment office. As things stand in 2008, 62 of these employees are again in work, 45 people are undergoing training (almost all of them are in labour market training leading to a qualification), 40 persons remain unemployed (six of whom come under the so-called unemployment pensions device), one is an entrepreneur, one is receiving a disability pension and eight are outside the labour market or not looking for work.

According to the employment office, work at Efore was well paid compared with the local pay level. In general, manual workers had to accept a lower pay level in new jobs, while those workers with higher levels of education, such as engineers, were better able to find work corresponding to their previous pay level.

New jobs were found in a variety of sectors and activities, ranging from the metalworking industry (as machinists or welders) to healthcare (as nurses) or beauty services (as hairdressers). According to the local employment office, enterprises in the metalworking industry have expanded strongly in Saarijärvi during 2006–2007 and some of the workers affected have found employment in these companies. The main measure has, however, been the search for individual tailored solutions from different industries.

The rate of unemployment in the area is high, but it slightly declined from 16.4% on 31 December 2004 to 15% on 31 December 2006.

Efore had some local subcontractors, who have also had to close down their activities. Nevertheless, on the whole, the effects of Efore’s relocation on other business activities have been limited.

**Impact in arrival area**

The initial months in Estonia and China were painful for the company as it had to learn a lot. In the meantime, extra bonuses had to be paid to workers at the Saarijärvi plant in order to complete customer orders. However, according to Efore, the main profitability goals were achieved in the third quarter of 2007 and, since then, the results have been positive.

The executive vice president of Efore has pointed out that all of the people with managerial responsibilities require appropriate professional skills, regardless of where they are located. Since Efore has a manufacturing unit in Pärnu, supervision skills are critical. Additionally, lower-ranked workers have to possess different skills from equipping and running machines to the assembling of complicated electronic products.

The human resource manager from Efore in Estonia indicated that more than 80% of the 297 employees are women. On 31 October 2007, the age structure of the workforce was as follows: 34% of employees were younger than 30 years, 24% were aged between 30–39 years, and 25% between 40–49 years and 17% of the workforce were older than 50 years.

© European Foundation for the Improvement of Living and Working Conditions, 2008
Most employees have secondary-level education or vocational secondary education attained after secondary education (ISCED 3 or 4). However, education levels vary among the workforce and some employees in engineering and economic occupations hold a master’s and/or bachelor’s degree. In the opinion of company, there is a shortage of people with electronic assembly skills in Estonia. As a result, the company had to retrain the labour force who had previously worked in the textiles industries.

The relocation has, in general, achieved the company’s objectives in Pärnu. The only disappointment for the company has been the skills level of the people, which was not as high as expected. Moreover, people with the right skills are not prepared to move to Pärnu from other towns, for instance, from the capital city of Tallinn.

According to the public authorities in Pärnu, the arrival of Efore has had a positive impact on employment development in the area. Firstly, the number of employees in Efore itself has increased.

Secondly, the proportion of employees engaged in manufacturing has increased in the Pärnumaa county since the opening of the facility in Pärnu in 2004, with the percentage of employees in manufacturing increasing from 37.1% to 41.6%.

However, the public authorities do not consider that Efore’s relocation has led to any other companies expanding their activities in Pärnu or any other county in Estonia. They also note that almost all of Efore’s income is derived from outside Estonia. Moreover, if incomes continue to rise, manufacturing in Estonia may not be as profitable as expected in the future. If Efore were to move its manufacturing activities to China, this would create significant labour market problems in the Pärnu area.

Irca Zoppas: Italy to Romania

This case involved a relocation of production from Italy to Romania by a component manufacturer and supplier, which followed the relocation of its main customers. Significant job losses were sustained in Italy, outweighed by substantially greater job creation in Romania. The move out of Italy provoked strike action and strong resistance, leading to extensive negotiations over appropriate redeployment and financial support for the workers who lost their jobs. The company benefited from tax and other incentives in Romania.

Company profile

Italy

The Zoppas Industries group designs and produces electric resistor units and heating systems for domestic and industrial applications, notably for both small and large domestic appliances. The group’s headquarters are in San Vendemiano in the province of Treviso in northern Italy; the group has three companies in Italy – Coris, Iraca and Sey.

In 2004, before the announcement of the reorganisation plan with which this case study is concerned, the Zoppas Industries group employed about 1,350 staff in Italy – of whom Sev employed 280 workers, Coris around 80 workers and Irca some 500 people. This amounted to a total of 860 employees in Italy out of some 4,000 employees worldwide.

With the implementation of the reorganisation plan, both plants in northern Italy – the Sev plant in Miane in the Veneto region and the Coris plant in San Vito di Tagliamento – were closed, while the workforce at the Irca plant of San Vendemiano near Treviso in the Veneto region was reduced to about 450 employees. In total, the company’s reorganisation plan led to a reduction in the Italian workforce of some 420 employees.

Romania

In Romania, Zoppas Industries Romania SRL began its operations in 1997 at Sânnicolau Mare in the Timiș County in western Romania. The main activity involves the manufacture of resistors for household appliances and industrial equipment.

The company was formed by the takeover and restructuring of the state-owned textiles companies Banatex and Fimotex in Sânnicolau Mare, which enabled the company to acquire some 40,000m² of factory space leased from the local council, involving a total investment of over $60 million (about €41.2 million as at 15 December 2007).
With the rapid growth of production in the new location, employment in the Romanian company rose from just under 500 employees in 1999 to about 3,276 workers in 2006.

**Relocated activities and reasons**

The relocation has mainly involved the production of electric resistors for small appliances, for which around 500 workers were employed in Italy. This included all of the employees at the Sev plant in Miane and at the Coris plant in San Vito di Tagliamento, as well as some of the workforce, around 60 employees, at the Irca plant of San Vendemiano.

Most of the workers who lost their jobs were employed in production and had different skills levels, although those who worked at the plants which were shut down entirely also included ancillary workers, such as maintenance and clerical staff.

The company had no plant in Romania before 1997. However, due to the rapid business expansion in that country, the number of employees has risen to 3,276 people, with most of the new jobs being for machine operators.

Zoppas Industries has given two reasons for the relocation. Firstly, the need to be close to the companies they mainly supply – namely producers of domestic appliances – who have also relocated to the new Member States. Secondly, the need to reduce production costs in order to remain internationally competitive and strengthen their presence in emerging markets.

In its partial relocation to Romania, the company has benefited from incentives granted under the government emergency Ordinance 31/1997, regarding foreign investment in Romania, applicable to all foreign investors in Romania.

One of the concessions afforded to foreign investors is a 15% profit tax for the first two business years, as against 25%–38% for other businesses. The local council also leased the necessary land to the company until 2002, and provided access to utilities at prices considerably lower than the prices in the old Member States.

**Relocation process**

The company reorganisation and relocation plan was announced in Italy in June 2004 and came into effect at the beginning of October 2004. It involved plants producing electric resistors for small and large appliances, namely the Sev plant of Miane (province of Treviso), the Coris plant of San Vito di Tagliamento (province of Pordenone), and the Irca plant of San Vendemiano (province of Treviso).

The guidelines for the company reorganisation plan were revealed informally in March 2004 and formally presented to the trade unions in June 2004, at which point the company announced its intention to start the ‘mobility procedure’ for 620 employees.

While consultations on the reorganisation plan took place, the workers involved took various forms of industrial action during June and July, with the support of the trade unions and local political institutions.

The trade unions declared that they were prepared to accept the relocation of low value-added production, provided that research and development work, as well as the high value-added activities were kept in Italy to avoid any skills loss. To this end, the trade unions proposed that two of the four manufacturing plants should be kept in operation, going against the company’s initial plan which foresaw the continued production of electric resistors for small and large appliances at only one Italian plant.

In October 2004, at the Italian Ministry of Labour and Social Policies (Ministero del Lavoro e delle Politiche Sociali, which has now become the Ministry of Labour and Social Security (Ministero del Lavoro e della Previdenza Sociale)), the Zoppas group and the sectoral trade unions reached an agreement providing for the following measures.

- Various measures to protect the incomes of the workers affected, the most significant of which was the use of the extraordinary Wages Guarantee Fund (Cassa integrazione guadagni straordinaria, CIGS) for one year, with a possible extension for another year on condition that a series of measures to help the redeployment of the dismissed workers were implemented.
• a reduction in the number of dismissals from the 620 initially announced to 420;
• the redeployment of about 120 employees to other Italian plants of the Zoppas group.
• Various measures to assist the re-employment of the workforce who is made redundant. The agreement provided in particular for the organisation of vocational retraining through the provincial labour agency and employment centres, but also with recourse to private employment agencies, which were tasked with finding jobs for some of the dismissed workers.
• A commitment by the company to developing an industrial plan which would keep research and development, and part of the production in Italy. Moreover, the company pledged not to reduce employment levels at its Italian plants for at least three years, beginning from the end of 2004.

The relocation of a large part of the production of electric resistors for appliances was completed in the first half of 2005. Regarding the workforce, after the end of 2004, the workers involved in the reorganisation plan received two years of benefit from the CIGS, after which the ‘mobility procedure’ began. The management of the redundancies was mostly completed in the first months of 2008.

Workers who lost their jobs were eligible for two years of benefit from the CIGS and then, once placed on the ‘mobility lists’, they were eligible for the ‘mobility allowance’ as provided for by law. During the CIGS period, the dismissed workers could attend vocational training and retraining courses organised by the provincial authorities of Pordenone and Treviso through their employment agencies, and financed by the regional administrations of Friuli Venezia Giulia and Veneto.

Use was also made of private employment agencies to outplace the dismissed workers, in line with the agreement signed. The agreement also envisaged the outplacement of about 120 workers at other establishments belonging to the Zoppas group located in the same regions as the Coris and Sev manufacturing plants.

Local authorities played an active role in reaching the agreement on the management of the redundancies, by providing a ‘map’ of the economic sectors in which a particular demand for labour existed, as well as by providing training and redeployment support, with financial assistance from the regional administrations.

**Impact in departure areas**

As a result of the various support activities, around 50% of the dismissed workers – most of whom were over 45 years old and had middle-to-low skills – found other jobs through the vocational training and retraining schemes. Those with higher professional skills usually found another job through other channels. In general, the majority of the personnel dismissed by Zoppas found work in the same sector, namely the metalworking industry. Most of those who found jobs in other sectors were women, often following vocational retraining courses.

Many of the workers who found new jobs, nevertheless, experienced a worsening of their economic and employment conditions, especially when they were hired by small companies where no company-level bargaining existed.

At the beginning of 2008, some workers had still not completed the ‘mobility procedures’ and had not yet found another job. The trade unions gave an estimate of about 50 people. During the CIGS and mobility period, some 40 workers met the requirements for retirement.

In recent years, the provinces of Pordenone and Treviso in northern Italy have witnessed significant changes regarding the production of household appliances by major companies such as Zoppas, Electrolux and De Longhi, as well as large numbers of small and medium-sized enterprises (SMEs) tied to these groups by supply and subcontracting relations.

The relocation of part of their production by the large appliances manufacturers has, in many cases, entailed the relocation of these smaller enterprises as well. However, where these smaller companies have not had sufficient resources to reorganise and follow the large producers of household appliances, they have often been forced to close.

This is particularly the case with companies operating in the small appliances branch, whose production has been almost entirely relocated to Eastern Europe and China. Regarding this branch of
the household appliances industry, the trade unions estimate that some 700–800 jobs have been lost over the past seven or eight years.

In order to cushion the social impact of these job losses, the trade unions and local authorities have signed an agreement, which was subsequently approved by the Ministry of Labour and Social Policies. The agreement provides, in the case of an economic or financial crisis of small-sized enterprises operating in the small appliances branch, the use of measures for income protection and re-employment support. Until then, the law had only stipulated such measures for companies with a certain number of employees operating in specific sectors.

**Impact in arrival area**

In Romania, employment has shown a continual increase: rising from 493 employees in 1999 to 1,881 in 2001, 2,401 in 2002 and 3,276 in 2006. This increase in staff is in line with the company’s business expansion in its new location.

Wage costs in Romania are considered to be five to eight times lower than in Germany or Italy. For the new employees, the terms of their employment are set forth in the national labour legislation. Annually, a company must enter into a collective agreement negotiated at company level.

From a business point of view, the relocation process has enabled the Zoppas group to further strengthen its presence in markets of continuous expansion, such as China and Russia, and also to follow some of its largest customers, which include some of the largest domestic appliance manufacturers worldwide.

In Romania, Sânnicolau Mare is almost free of unemployment at present. The local labour force has been retrained, so that most people are in gainful employment. Some of the retraining was carried out through courses subsidised from the Unemployment Fund Budget.

For the training of the labour force, the company launched initiatives with regard to primary and secondary education and, jointly with the Polytechnic University of Timișoara, supported a programme of post-academic training and practice sessions in the company for students.

Irca Zoppas also runs two small capacity hotels and a self-service restaurant in Sânnicolau Mare, which adds touristic value to the town and has helped to diversify economic activity and employment. The company has also contributed to the economic growth of the region by opening an additional production unit in Criscior in western Romania, which employs 250 people.

**Methode Electronics: UK to Malta**

This case concerns the closure of a component manufacturing plant in Scotland in the United Kingdom and the transfer of the work to a large and expanding centre in Malta. The loss of jobs in the departure area was unwelcome, but does not appear to have had any lasting negative effects. The expansion in Malta, on the other hand, seems to have contributed to further employment growth and improved company profitability.

**Company profile**

Methode Electronics is an American multinational company. It produces devices that convey signals through sensors, interconnections and controls which are used in cars, computers, consumer electronics and information technology (IT) networks. The company operates in eight countries and is listed on the New York Stock Exchange.

As reported in the company’s annual reports, employment in the group as a whole increased from 3,100 staff in 2004 to 3,535 employees in 2006.

**United Kingdom**

The company had one production site in the UK, together with a very small design centre, in the Vale of Leven Industrial Estate near Dumbarton in west Scotland. About 150 workers were employed at the site, producing devices mainly for the automotive sector.
In November 2006, the parent company announced that it was reviewing the future of this production facility with senior managers. Company management was citing pressure from customers as the main reason for the impending concentration of production at its manufacturing site in Malta.

The relocation of work from Scotland to Malta involved all of the production at the Dumbarton site, which focused on electronic sensors and other electronic devices for cars. In early 2007, the company closed the site with the loss of jobs for all 150 workers.

The manufacturing processes that were relocated to Malta included plastic injection moulding, stamping and plating, ultra-sonic welding, tool-making, spray painting and other semi as well as fully automated assembly processes. Around 160 jobs were directly created as a result of the relocation.

**Malta**

Methode Electronics Malta Ltd produces switches and electronic instruments which are mainly used in cars. The facility is located in Mriehel on a site of around two hectare leased from the government, which has been extended following the relocation from Scotland.

In early December 2006, a local internet site reported that the company would be closing its Dumbarton site and transferring all of its product lines to Malta. However, the official announcement was not made until mid-December, and the relocation of production started during the last week of December 2006.

Employment at the site in Malta had grown rapidly – from 250 to 620 workers – over the 10 years preceding the relocation. Since the relocation, the number of employees has further increased to about 780 people.

Most of the jobs created were those of machine operators, requiring a minimum qualification of a lower secondary education (ISCED Level 2) and, ideally, some previous work experience. Most of the newly employed people were semi-skilled women with previous experience in the manufacturing sector, aged between 18 and 40 years.

**Relocation process and reasons**

In early 2006, the company reported that the restructuring of the company’s European operations meant that the Dumbarton site exclusively operated as a manufacturing satellite of the large Malta facility. In this respect, all services relating to finance, quoting, general administration, material planning and logistics, as well as advanced sourcing and procurement are integrated and provided for through the respective functions in Malta.

In a letter to employees in late 2006 announcing the review of the future of the Dumbarton site, the company stated that ‘various customers, including Autolive and TRW, insisted production lines had to be transferred out of Scotland. Methode Electronics declined their request and opted not to accommodate their requirements. Customers have then, however, stopped awarding business to Methode’.

The closure took place very quickly. The review concerning the future of the site was announced in late November 2006, but by mid-December the company had decided that it would close with the loss of all of the jobs, and that this would happen within a week.

The relocation and expansion of jobs in Malta associated with it, took effect between December 2006 and April 2007. However, no formal announcement of planned job creation was found, but an unofficial indication on a local Maltese website in early December 2006 suggested that between 150 and 200 new posts would be created. The higher amount of these figures turned out to be correct.

**Impact in departure area**

All of the 150 workers involved in the production site in Scotland were directly affected by the relocation. In terms of Methode Electronics presence in the UK, only the very small design centre in the north of England, which employed nine people, remained.

The workers affected were of a range of ages and of both sexes. The work was largely semi-skilled in nature.
There was no trade union representation at the Scottish production site. A local newspaper reported that the company’s employees appeared to be resigned to the closure. One employee stated that ‘reading between the lines, production is going to be much cheaper for the company in Malta’.

Very little specific support was offered to the employees affected, and little scope existed for redeploying workers to other parts of the company in the UK, given that the Scottish site had been the only production facility in the country.

When the redundancies occurred, a debate took place in the Scottish Parliament addressing the site’s closure. At the time, the local Scottish deputy and Scotland’s First Minister argued that the company should give a proper 90-day notice period as is required under UK employment law. As the deputy highlighted, ‘it is absolutely incumbent on the company that they accept their responsibilities to those families. The minister for enterprise and I have already asked our officials to meet with the company urgently, in order to pursue the case for the company to meet those obligations and to do so properly and preferably before Christmas in the final salary payment’.

Pressure was also brought to bear by civil servants on the management of the company to honour their statutory requirements, and there is no evidence that they did not. However, there was no real hope or expectation that the company would change its mind concerning the closure.

It has been impossible to track what happened to the individual workers involved. However, the unemployment rate in Scotland has been 5.8% in recent years, fractionally above the national rate of 5.5%. This relatively low rate of unemployment indicates that pressure to move elsewhere in search of employment would not have been as great as it would have been during the periods of very high unemployment levels in the early 1980s and 1990s.

The relocation clearly had some knock-on effect on the local economy by affecting spending power of those made redundant and through its impact on local services that the company brought in. Nevertheless, its impact would have been greater if the site had been bigger and if there had not been reports of other expansions and opening of sites in the electronics sector in southern Scotland in the two years prior to Methode Electronics site closure.

Concerning the company’s other activities in the UK, the small design centre employing nine people remained located in the north of England. No evidence was found that other jobs in Britain were affected by the closure.

**Impact in arrival area**

The company describes its Malta plant as ‘first class’ and one that has ‘evolved into an organisation that carries out research and development, product and tool design, rapid prototyping and laboratory services’.

It is presumed that the company found it easier to meet the demands of its customers after moving production from Dumbarton to Malta. In a meeting with the Maltese minister for investment, industry and IT, the company’s senior vice-president indicated that the experience, skills and motivation of the Maltese employees were instrumental for relocating the activity to Malta. He also highlighted the low level of defective products produced in Malta.

These reasons were generally accepted as being valid. However, it was also assumed that, as in the case of other relocations, the move was designed to reduce wage-related costs.

Moreover, the terms and conditions of employment of the newly employed workers at the Maltese site are apparently worse than of those who were employed at the Scottish facility in Dumbarton, in that workers are employed on an ‘on call’ basis and work according to the needs of the company. No collective agreement is in place at Methode Electronics Malta Ltd. On the other hand, new workers receive pro-rata benefits in relation to full-time employees.

The Maltese public authorities played no direct role in the relocation, but they did facilitate the expansion of the factory premises to accommodate the relocation.

It was reported in early September 2007 that increased efficiency following the relocation to Malta would contribute to improving the company’s operating results for the first quarter of the fiscal year 2008. Net income increased from $4.4 million (€2.96 million as at 15 January 2008) in the first quarter of the fiscal year 2007 to $8.3 million in the first quarter of the fiscal year 2008. In addition,
selling and administrative expenses as a percentage of net sales reportedly decreased from 13.3% to 12.8% over the same period. However, no data is publicly available concerning the overall impact of this particular relocation on the company’s profitability and competitiveness.

According to sources within the Maltese plant, the relocation is leading to further business expansion, with new work requests from clients and better future perspectives for the manufacturing plant in Malta. Furthermore, the expansion of the company has had a multiplier effect on other local businesses supplying materials to the company, although such effects have not been quantified.

It should be noted in this respect that Malta’s manufacturing sector had been decreasing in size, leading to the unemployment of many factory workers. This relocation has had the effect of recruiting people who used to work in ailing manufacturing organisations, thereby reducing the number of unemployed people. Since Malta is a small country, these employment effects have been diffused across the island and not just felt in the local area.

**Synek: Cyprus to Romania**

This company case illustrates a long-term relocation of textiles production from Cyprus to Romania, by a UK-based, but Cypriot-owned, company. It demonstrates how the successful division of the value chain can bring success to companies, as well as continued and expanded job creation, but not necessarily at their original locations. As labour shortages arise in the new Member States, the prospect of further relocations – or even the import of labour from Asia – remain options to be considered.

**Company profile**

Synek Ltd., which oversees the Alison Hayes group, is a Cypriot-owned company but headquartered in London and focuses on the UK market. The company specialises in the design and manufacture of women’s clothing such as dresses, coats and jackets. According to a company executive, Alison Hayes currently employs around 2,000 people.

The company was established in 1962 and prospered in the ‘golden age’ of the Cypriot clothing industry in the 1970s, at which time the company employed some 800–900 people in Cyprus. Since the closure of the company’s Cypriot production facilities, the group’s activities are divided between the UK, where the design and logistics departments are located, and Romania, where the manufacturing takes place.

In total, the group comprises five companies, three in the UK, one in Romania and one in Cyprus. One of the UK companies is Alison Hayes UK (established as Ablerose in 1988 and renamed in 2002) which employs 80 people and markets its products to some of the largest clothing stores in the UK. Alison Hayes Romania was established in 1994 and has two factories in the country. The first manufacturing facility to be established, which has become the largest plant today, is located in Urziceni near the capital city of Bucharest. A second factory was established in Buzău in southeastern Romania in 2003.

**Relocation and reasons**

Faced with rising labour costs in Cyprus and fewer workers entering the sector, the company made a first attempt in the mid 1980s at relocating its activities abroad, more specifically to Jordan and Russia. It is understood that this effort failed to produce the expected results, due to cultural difficulties in Jordan and the instability of the business environment in Russia.

The first phase of the relocation from Cyprus to Romania was announced in 1993; however, the relocation of the entire production process was not completed until 1998. Once the relocation had been completed, the company developed a number of other activities as a result of which the number of staff increased from 250 to 345 people over the period 1993–1999 and rose more strongly thereafter reaching some 4,000 workers by 2007.

The two main factors behind the decision to relocate activities to Romania were high and rising labour costs in Cyprus and growing labour shortage. However, the absence of any sectoral industrial policy,
together with the fact that the sector consists mainly of separate small and medium-sized companies, is seen to have contributed to the relocation of enterprises in the clothing industry.

The general director of Alison Hayes stated in March 2004:

> There is nothing left behind in Cyprus. The factory was closed and the offices were moved to London. Our major problem in Cyprus was transportation: the only way we could ship the goods was by sea, which was time consuming. We disbanded the production facilities and brought all the equipment to Romania. However, I do not think this can be viewed as relocation, because what we brought here from Cyprus was barely a quarter of what we currently [March 2004] have in the two manufacturing sites in Romania.

When asked if Alison Hayes Romania is a Cypriot or a British investment, he replied that:

> It is definitely a British investment, because it was established by Alison Hayes UK, not by the initial company. It was us who started and expanded the production in Romania, mainly for British clients, based on the experience and business connections previously gained in Cyprus.

**Impact in departure area**

In Cyprus, Synek employed mainly women, 60% of whom were aged over 50 years, and many had worked for the company since its inception. When the relocation was imminent, the main concern of the trade unions was to find alternative employment for the redundant staff in other sectors of the economy.

Before the production units were relocated abroad, a total of five factories were in operation in Cyprus. The last unit to cease operations was in the capital city Nicosia. Given the strong performance of the economy, in particular in the services sector, the impact of the relocations was relatively limited.

According to a Synek executive, the company made efforts to save some jobs in 1994, believing that the manufacture of certain specialised products in Cyprus could still be viable and one unit employing 60 people was retained. However, this also proved uncompetitive and was soon closed.

Trade union representatives report that the intention to relocate the factory abroad was announced to the employees two months in advance. Nevertheless, the employees had already anticipated such a move since companies in the Cypriot clothing industry had repeatedly expressed the view that they needed to relocate jobs to lower labour-cost countries. The main focus was therefore on ensuring appropriate compensation for the workers concerned, on the basis of the relevant legislation. The closure of the factory was completed in a single phase.

Although no specific public support was given, other than that was normally available to unemployed people, trade union representatives consider that 90% of the workers who lost their jobs succeeded in finding work in other economic sectors – a fact related to the low unemployment in the Cyprus economy. However, while many workers were absorbed by the services sector – working as cleaners, for example – they often found pay levels to be significantly lower than in their former jobs.

**Impact in arrival area**

Production in Romania started at a site located in Urziceni, with 250 employees. The relocation process began in 1993 and, by 1998, the company had moved its entire production operations to Romania. The company in which business expansion occurred was initially called Alison Hayes România, followed by Alison Hayes Moda and Alison Hayes Britannica.

The company manufactures light textiles wear for women, which is sold through nine major chain stores in Britain. Several different types of jobs were created. For the production side, the company employed industrial garment tailors and assembly line operators for ladies textiles wear; for the AH Moda Division, designers and drawers were hired and, for the AH Britannica Division, the company employed distributors, quality controllers and transport organisers.
At the start-up in 1993, the location for the production facility was in the town of Urziceni in the Ialomiţa County in the southeastern Muntenia Region. In 2002, the company opened a new production unit in Buzău in the Buzău County in southeast Romania. In 2003, Alison Hayes set up its own logistic and storage division, which was based in Buzău in the southeastern region; more specifically, the company established store houses for raw materials, the quality control division for finished products and the distribution centre to the UK in Romania.

Also in 2003, Alison Hayes set up the AH Moda Division in Urziceni, which was attached to the local production division; the purpose of this division was to develop prototype drawings for the designers’ creations. In 2007, the company also set up a distribution centre in Urziceni, to which the operations of the similar centre in Buzău were relocated.

The company owns the sites in Urziceni and Buzău. In 2000, the company purchased a building in Buzău, which was entirely rebuilt and commissioned in 2002; the funds invested in the building and equipment amounted to €5 million.

In 1993, the company started production with 250 workers at the site in Urziceni. By 2004, it employed some 700 workers. Following the €5 million investment in Buzău, the number of employees at this location had reached 800 staff.

The relocation of manufacturing activities to Romania in the 1990s, in conjunction with the relocation of the headquarters and design activities to the UK, had an immediate impact on the company’s economic performance, with the sales volume increasing tenfold from £3 million (€3.96 million as at 15 January 2008) to £37 million (about €48.8 million).

According to company representatives, the devaluation of the Romanian currency had a major effect in keeping down labour costs.

The relatively high level of education in Romania was also an important factor in the relocation. A large number of the company’s employees have undergone third level education. However, with the high level of unemployment in the 1990s and the structural changes caused by the transition to a market economy, even graduate paediatricians and chemists were being employed in factories in Romania, according to a company executive. On the other hand, most of the workers in Romania lacked the specific knowledge or skills needed, leading the company to invest in training and an education infrastructure.

The diversification of the business created new employment opportunities. Nonetheless, it should be noted that the production facilities at the two sites in Urziceni and Buzău employed some 1,724 people and, according to the company, up to 4,000 workers are involved in other related activities.

Despite these successes, a press article in 2008, entitled ‘Garment manufacturer Alison Hayes to bring labour from China’, reported the General Manager of Alison Hayes Romania, Harris Palaondas, as stating that

skilled labour for our production line is rather hard to find. Due to the seasonal character of our production, with a slowdown between January and June, we will have to employ temporary labour. In Romania, young people prefer jobs in the retail and services sectors, which is why, also on counsel from the recruitment companies whose assistance we have sought, it seems we will have to consider the option of importing labour from China.

Overall, the company has created some 4,000 jobs in Romania, with some of the company’s foreign suppliers having opened representative offices in the country. Half of the company’s production comes from its own production facilities, while the other half is supplied from six other Romanian manufacturers, which have been retained as subcontractors. These are located in the southeast of the country in Bucharest, Călăraşi and Ploieşti, and in the northeast in Roman. All raw materials for the textiles production are imported.
Departure cases

Banta Global Turnkey – departure from Ireland

Some 150 IT production jobs were lost in Ireland due to the relocation of part of a US-owned company’s activities to the Czech Republic. However, the negative impact on employees was limited by the buoyant local labour market, and the generous financial provisions and practical assistance provided by the company.

Company profile

The Banta Global Turnkey (BGT) company was established in Cork in southern Ireland in 1995 when Banta Corporation, which is headquartered in Wisconsin in the US, took over the Irish-owned company BG Turnkey Services. Banta Corporation undertakes printing and digital imaging, as well as the management of outsourcing activities—materials sourcing and production configuration—for large technology companies.

BGT in Ireland has two major customers, Hewlett Packard and Microsoft, and its work includes the production of hard disk drives for the IT sector, as well as the printing of IT manuals and brochures.

Relocated activities and reasons

At the end of September 2006, BGT announced the relocation of the Hewlett Packard side of its business to the Czech Republic. The relocation took effect from the beginning of January 2007 and was completed by the end of March of the same year.

Before the relocation, 300 people were employed on the Irish site; after the relocation of activities, only 150 employees remained at the site. In all, some 200 people are thought to have been affected by the relocation, 75% of these were permanent employees and 25% temporary staff. The majority of employees were men and, in terms of skill, would typically be described as semi-skilled operatives.

At the time of the announcement, the company said that moving the production (primarily that relating to services provided to Hewlett Packard) to a new facility in the Czech Republic would ‘help bring the company’s cost structure in line with the current competitive environment and customer requirements’. In other words, the main objective of the relocation was to reduce costs, although it was also seen as an opportunity for the company to review its capacity requirements in Ireland.

In this context, it can be noted that BGT had carried out a reconstruction in June 2003 that saw the company consolidate its Irish operations, resulting in the closure of its Dublin facility with the loss of some 65 jobs.

No open conflict emerged between the company management and workers following the announcement. The operatives at the Cork plant were unionised, but the company did not recognise the trade union representing the supervisory, technical and administrative grades among the workforce. The sister plant in Limerick is entirely non-union.

Relocation process

The relocation took place over the period January to March 2007, with the actual job losses corresponding to those announced.

Impact in departure areas

The trade union official who represented the workers said that the company provided extensive support for those affected. Workers received a redundancy package amounting to 4.5 weeks pay for each year of service, plus statutory redundancy entitlement of two weeks pay for each year of service—making a total of 6.5 weeks pay, with no ‘cap’ on the overall total. In addition, out-placement assistance was made available and workers received assistance with regard to interviews and the preparation of their curriculum vitae (CV). The company also offered fork-lift truck training for workers who expressed interest.

According to the same trade union official, the redundancy process was eased by the fact that most workers knew that it would not be too difficult to find alternative employment in the Cork area, which...
has proved to be the case. Moreover, workers were generally pleased with the redundancy settlement. Most of those who sought alternative employment found a new job and some retired.

The Irish Training and Employment Authority (Foras Áiseanna Saothair, FÁS) which has a local office in Cork, played a key role in helping workers to find new jobs.

**Donora Candy – departure from Italy**

The company – producing domestic appliances in a ‘mature’ and highly competitive market – closed its production facility in Italy and moved to the Czech Republic. In the face of over 400 direct job losses, and after some industrial conflict and political agitation, the income-supporting CIGS along with the mobility allowance scheme as a further step were brought into play. This cushioned the financial blow, but a commitment by the company and the local authorities to attract ‘replacement’ employment has still to bear fruit.

**Company profile**

Candy is an Italian group, with administrative headquarters in Brugherio in the province of Milan in northern Italy. It is an international producer of a range of domestic appliances, such as washing machines, dishwashers, tumble driers, refrigerators, freezers, kitchen units, cookers and cooking hobs. Over the years, the group has acquired various brand names, including Hoover, and sells under a variety of national brand names.

The Donora Candy plant at Cortenuova in the province of Bergamo in northern Italy produced refrigerators and employed 450 people at the beginning of 2005. At the end of the same year – when Candy announced the plant’s closure with the subsequent relocation of the entire refrigerator production to the Czech Republic – 385 employees worked at the site. The reduction of personnel was to be completed by February 2006.

Over the same period, the company increased the refrigerator production at its plant at Podbořany in the northwest of the Czech Republic – the plant which is similar to the one in Italy was built between 2002 and 2003.

**Relocated activities and reasons**

At the beginning of 2005, the company had apparently envisaged maintaining plants in Italy as well as in the Czech Republic, with the Italian plant specialising in the higher end of the market. If this had happened, only 170 workers would have been laid off. However, the subsequent decision to close the Italian plant entirely and to make the Czech plant the main production centre for refrigerators led to a loss of 385 jobs in Italy.

According to the Candy group, it had taken various steps in recent years to increase competitiveness, many of these with the aim of reducing production costs, including labour costs. The decision to close down the Italian plant was justified on two grounds: the need to continue investing in countries with lower labour costs and the need to invest more in refrigerator production.

The decision was part of a broader strategy to reduce labour costs and develop new markets. For instance, in March 2007, Candy also decided to close its plant at Erba in the province of Como in northern Italy and to relocate the production of cookers to Turkey.

**Relocation process**

The announcement of some 170 layoffs was made in the first months of 2005, with the intention of completing the process by February 2006. At that time, the main sectoral trade unions had not objected to the construction of a manufacturing plant in the Czech Republic, being reassured by the company’s declared intention to retain high-quality production in Italy. As a result, they had signed an agreement with the trade unions at the Czech plant, which declared that both productive sites must be kept in operation, thereby avoiding competition between the two plants.

Nevertheless, following the company’s decision to close the Italian plant at the end of November 2005, the Italian trade unions took industrial action and also involved the local and national political authorities in their activities. Together, they offered to work with the company on a new plan,
including the production of another type of household appliance so as to ensure greater profitability. However, this proposal was rejected by the Candy group.

The relocation proceeded gradually, with about two years elapsing between the start-up of the Czech site and the announcement of the closure of the Italian plant.

**Impact in departure areas**

In April 2006, the company and trade unions signed an agreement which set out a series of income support and re-employment measures for the workers who would be dismissed. In November 2006, the Ministry of Labour and Social Policies approved the use of the CIGS, with an extension until the end of the year 2008.

The CIGS is a particular form of income and re-employment support for which the law provides. However, it only covers workers employed by companies operating in specific production sectors, such as manufacturing, publishing, commerce and, partly, crafts, which fulfil particular size requirements – more than 15 employees for companies in industry and more than 50 employees for those in commerce.

The possibility to place workers under the CIGS scheme ensures continuity of income and employment for temporarily laid-off workers. Unlike the ordinary **Wages Guarantee Fund** (*Cassa integrazione guadagni*, CIG), which is applied in the case of temporary downturns in production due to market factors, the CIGS is intended to address serious situations of redundancy. The CIGS benefit is paid in cases of company restructuring, reorganisation or conversion and in cases of particular procedures such as bankruptcy, liquidation and extraordinary administration.

The agreement between Donora Candy and trade unions provided for a maximum period of benefit payment of two years. The trade unions exerted much pressure for the collective dismissals procedure to be preceded by a period of CIGS, so that there was more time to look for alternative solutions to the closure of the plant.

Further public provisions – so-called ‘mobility procedures’ – were also envisaged to come into effect in December 2008 for workers who were still to be dismissed. Under this ‘mobility procedure’, the workers concerned are entitled to a ‘mobility allowance’ equal, for the first 12 months, to the allowance due from the CIGS immediately prior to the dismissal. Following the 12 months, this allowance is reduced to 80%.

In general, the duration of the mobility allowance varies according to the age of the worker and the location of the enterprise. It is paid to all redundant workers for a period of 12 months but can be extended to 24 months for workers aged over 40 years. Workers over the age of 50 years receive the allowance for 36 months. Workers placed under the ‘mobility’ scheme need to have a length of service amounting to at least 12 months, of which at least six months must have been actually worked.

Dismissed workers are also placed on ‘mobility lists’ which are special job placement lists to help their re-entry into the labour market. In the Donora Candy case, the agreement signed by the company and the trade unions envisaged special vocational retraining programmes at the nearest labour agency in Romano in Lombardy in northern Italy.

The company and trade unions also agreed further measures: for example, after an exploratory interview with a company interested in hiring the dismissed Candy workers, those concerned could attend training courses and then enter the company for a trial period, during which the CIGS benefit would be suspended. At the end of the trial period, the company could decide whether or not to offer employment, while the worker was free to accept or refuse the proposal.

The company and the local authorities also undertook initiatives to encourage new businesses to come to the area. Furthermore, an agreement between Candy and the sectoral trade unions provided for the transfer of 17 workers to the Candy plant at Brugherio in the province of Milan.

After the company announced the closure of the Italian plant, about 100 workers left the company through the ‘mobility procedure’ envisaged by the first reorganisation plan. At the beginning of 2008, a further 200 workers began receiving income support from the CIGS. For these workers, the ‘mobility procedure’ should come into effect by the end of 2008.
According to the trade unions, workers with higher and more updated skills have had less difficulty in finding new jobs; they have generally found similar kinds of work. However, this only represents about 30 people. Women and workers with lower level or ‘non-reusable’ skills have had the greatest difficulties in finding new work.

Where people have found new employment, it is often the case that their working and economic conditions have worsened, and they had to accept much greater travel-to-work distances. In particular, workers no longer benefited from the acquired rights, such as shift breaks, cafeteria access and trade union rights, that had been negotiated at Candy through decentralised bargaining.

During the three years following the initial announcements, about 40 workers of those declared redundant following the closure of the Italian plant became eligible for retirement. At the beginning of 2008, some 200 workers continued to receive CIGS benefits and were waiting for outplacement. At the end of 2008, the ‘mobility procedures’ will be activated for all of the workers who have not been redeployed or who have not yet fulfilled all the requirements for retirement.

At the time of the announcement of the redundancies, the municipality of Cortenuova, the neighbouring municipalities, the provincial authority of Bergamo and the regional administration of Lombardy were all involved in talks between the trade unions and the company. The talks aimed to find ways to provide income support and assist the re-employment of the dismissed workers.

Apart from the national support through the CIGS, the regional administration of Lombardy and the provincial authority of Bergamo were able to draw on funds to support active labour policies. As concerns vocational retraining schemes for the workers in ‘mobility’, the provincial public authorities asked the local labour agency to organise appropriate courses.

Regarding the agreement signed by Candy and the sectoral trade unions to help promote the re-industrialisation of the area, little has been achieved and, at the beginning of 2008, only two companies were expressing their intention to open logistics centres in that particular area.

The closure of the plant has had a wider negative effect on the local economy through its impact on the various small enterprises which had subcontracting relationships with Candy and which have since been forced to close. The trade unions estimate that these closures have led to additional job losses amounting to about 200 jobs. It should be remembered in this respect that employees in enterprises employing fewer than 15 people do not have access to many of the CIGS measures available to the workers previously employed directly by Candy.

*Lisca – departure from Slovenia*

This company case outlines the reduction in employment in a textiles company in Slovenia due to the relocation of part of its production outside the country. The relocation was successfully carried out, with the full and effective information and consultation of the workforce and trade unions. The company was also able to combine this relocation with a wider positive restructuring, creating new job opportunities in sales and marketing, and strengthening the company’s overall performance.

*Company profile*

The company Lisca from Sevnica in the eastern part of Slovenia is owned by another Slovenian company, Perspektiva, which was established in 1955 as a small workshop engaged in the manufacturing and repairing of socks and buttons.

As the company developed, it specialised in underwear and has always paid particular attention to the quality of its products and its production processes. As a result, it is widely recognised as a respected producer of women underwear, swimwear and blouses. It has its own sales network in Slovenia, with shops in Bosnia and Herzegovina, Croatia, the Czech Republic, Germany, Hungary, Italy, Macedonia, Malta, the Netherlands, Poland, Romania, Russia, Serbia, Montenegro, Sweden and Turkey.

However, like other European clothing companies, the company faces strong competition from producers based in Asia. The new company strategy has involved relocating some of its production to Serbia, Turkey and China, as well as restructuring its own operation to put more emphasis on marketing and sales.
A relocation of production was first announced in 2004 and came into effect in 2006. It concerned the production unit of the company in Sevnica where some 520 workers have previously been employed. This number has been reduced to 420 employees.

**Relocated activities and reasons**

The relocated activities concerned the production of underwear for women, swimwear and blouses, with production being transferred to China, Turkey and partly to Serbia – the latter country has been a traditional ‘offshore’ producer for Lisca for the past 30 years.

Apart from the 100 jobs lost due to the relocation, the number of employees had also been reduced in recent years due to retirements. The employees who lost their jobs due to the relocation were mostly women – skilled dressmakers (seamstresses) aged between 45 and 50 years – who mostly held a second or third-level educational qualification.

The main reason for the relocation has been the pressure to reduce labour costs, although the decision was also influenced by the closure of the company’s main supplier in Slovenia, obliging the company to look elsewhere for suppliers.

The trade unions in the company accepted that the reasons for relocation were valid and well founded. The trade union position also reflected the fact that the employees were accurately, regularly and correctly informed about developments in the company. From the very first announcement of the relocation, regular communication had been maintained between the company management and the trade unions and work representatives concerning what was going on. In this sense, the relocation was not problematic and was carried out without any major complications.

Before and during the planning and preparation of the relocation, many discussions took place looking at possible alternatives and ways to minimise the negative effects on employees. As a result, the actual relocation of production was less important than originally planned and the company management took steps to retain potentially redundant employees in the company as long as possible. The management recognised that, in the case of any future business expansion, they would need the same type of workforce (seamstresses) who are difficult to find in the open labour market.

Moreover, at the time of the relocation of part of its production, the company also underwent a considerable restructuring process, with the emphasis on upgrading its marketing and development of its own sales network. This has proved successful with the company recording an 11% annual growth rate over the recent period, which is high for this industry.

**Relocation process**

The period of time from the announcement to the implementation of the relocation was a year and a half, while the relocation itself was carried out in about one month. During the whole period of preparation for the relocation, trade unions were included in the negotiation and information process, especially as far as the consequences of the relocation were concerned. The number of employees who lost their jobs due to the relocation was the same as the number which had been announced, reflecting the careful planning of the relocation project and process.

**Impact in departure areas**

The company offered all the necessary legal assistance to the employees who lost their jobs due to the relocation. They also received financial compensation as specified by law. Other jobs in the company were offered to about 10% of the workers who became redundant as a result of new jobs being created as part of the restructuring process.

Some 30% of the employees who lost their jobs due to the relocation took early retirement and 20% found jobs in similar companies in the same region, while the remaining 50% of the employees affected found themselves among the jobseekers at the employment offices. Those who did so mostly succeeded in finding jobs in the same sector of activity, in catering or in retail trade (mostly as shop assistants). Most of these workers are employed in approximately the same ‘rank’ of jobs as far as the salary and working conditions are concerned. According to the data available, none of the employees who lost their jobs are still unemployed.
Regarding the workers who took early retirement, it should be noted that the whole operation happened just before legislative changes were adopted in Slovenia. These changes altered the conditions for early retirement and made life easier for many redundant employees.

The interviewees claim that relocation and the consequent job losses have not created any social distress of the former employees. Overall, the whole relocation process was carried out without any legal problems, such as lawsuits by the employees, strikes or similar. The employees were aware that the relocation was unavoidable. They also believed that the whole process was carried out in a way designed to have the minimum possible negative effects.

Trade unions and the Chamber of Economy as the employer representative were actively involved in the discussion on how to handle the consequences of the relocation. The local community provided a certain financial contribution, amounting to 50% of gross salary for a certain period of time, to the employers and the employment office made a major contribution by finding new jobs for the redundant employees.

The company has achieved its main objectives, namely to reduce costs, improve its marketing strategy, increase sales, maintain quality and increase its presence in new European markets, as well as enabling to improve its market position in countries like Germany and Italy.

The relocation has increased the viability of the company and supported the creation of other jobs, such as in the sales network, while suppliers to the company have also been able to maintain their sales and jobs. Since the relocation, Lisca has recruited some 15–20 new employees, including 12 people in 2007. Newly employed employees have at least upper secondary education (ISCED Level 3) and work in the research and development, and marketing departments.

The interviewees consider that the relocation has not had a negative effect on the local area and region, which is important, if a little surprising, given that the local community of Krško, in which Sevnica is located, has one of the highest employment rates in Slovenia.

Overall, the relocation process is judged to have been successfully carried out in terms of both business results and the rapid re-employment of the redundant employees without any wider negative social consequences.

Prevent – departure from Slovenia

The company which produces car seat covers for major European vehicle manufacturers has relocated part of the production of one of its Slovenian production units to countries outside the EU in order to reduce costs. The loss of jobs was not as significant as expected and some workers were redeployed elsewhere. Overall the impact appears to have been modest, with indications that some ex-employees found higher paid employment elsewhere.

Company profile

The Slovenian Prevent Global Group employs over 3,200 people. It is the leading European manufacturer of covers for car seats, with a 15% share of the European market. Its manufacturing is located at sites near its main customers, including Volkswagen (VW), Renault, PSA Peugeot-Citroën and Ford. It also produces other textile parts of car interiors and protective clothing. Prevent Global is also active in the timber industry, construction and metalworking.

The company produces covers for car seats in eight units in Slovenia, one of them being Prevent Radlje d.o.o., which is the subject of this study and where the relocation of part of its production took place.

Prevent Radlje first announced the relocation in mid-April 2005, with the actual relocation being completed in three weeks. Before the relocation, the company employed 400 workers. Some 70 employees lost their jobs due to the relocation, reducing the number of workers to 330 people.

Relocated activities and reasons

Prevent Radlje only produces covers for car seats and the work is considered as low-skilled labour. The relocation involved moving part of its production to Bosnia and Herzegovina, Morocco and...
Croatia due to the high labour costs in Slovenia, where only the more sophisticated ‘boutique’ type of production will be retained.

The relocation led to the loss of 70 employees, mostly women aged 25–40 years with secondary level education.

The main reason given for the relocation was to reduce the production costs and improve profitability. The management claimed they had considered alternative solutions, such as a change in working methods. The trade unions did not accept the company’s argument, but they did not take any actions in response.

The management organised three meetings, of which the primary objective was to inform the worker representatives about the relocation plans. One of the main reasons why the trade unions did not undertake industrial action was that most of the employees concerned had fixed-term rather than open-ended employment contracts. Therefore, the company did not have to dismiss anybody, but simply wait until their fixed-term employment contract came to an end.

**Relocation process**

The first announcement of the production relocation came only three weeks before the actual relocation. The relocation itself was in fact carried out in several days. Thus, the relocation was a rather fast process, with not much time for consultations with the trade unions or for them to become involved and to cooperate in the whole project.

Nevertheless, the actual reduction in employment was lower than originally estimated. The plan had envisaged 100 redundancies. In the end, 70 employees actually lost their jobs while 30 employees were relocated to other locations.

**Impact in departure areas**

Prevent offered financial assistance (as defined under the Slovenian redundancy compensation legislation) to the employees who lost their jobs, while trying to reduce the number of redundant employees or find employment in other parts of the group.

Employees who lost their jobs because of the relocation generally found new jobs in the metalworking industry or in retail trade in the same region. Since wages in the metalworking industry are, on average, higher than those in the industry in which Prevent is engaged, some of the redundant employees found better paid jobs. The rest mostly obtained similar jobs with similar wages.

According to the data available, only five out of the 70 redundant workers did not succeed in finding a new job and face the prospect of long-term unemployment. For most employees who lost their jobs, the possibility of early retirement was not seen as a good solution. Many of the employees were too young and, for others, the pensions would have been too low to ensure a satisfactory minimum standard of living.

The local, regional and national public authorities did not get involved in trying to find a solution, provide assistance or offer any preferential conditions for the re-employment of those dismissed, although the employment office did its job correctly.

The company has achieved its stated objective in relocating part of the production, thereby reducing production costs and increasing profitability. However, the relocation is seen to have been a satisfactory rather than a successful operation, which has impacted neither positively nor negatively on employees in other parts of the company.

The consequences of the relocation have not been noticeable for the local area or region either. Suppliers have remained the same, the only difference being that they now supply different customers in different locations. This may be worse for Slovenian suppliers but better for suppliers from countries nearer to the new production locations.

By April 2006, some 189 workers in the factory in Slovenj Gradec were to be dismissed, in addition to 160 workers set to lose their jobs in manufacturing plants in Mežica, Radlje ob Dravi and Mirna by the end of 2006. A further 15%–20% of the total labour force would lose their jobs by 2008.

These factories are concentrated in the northeastern part of Slovenia in the Koroška, and Podravska regions. The management believes that, in order to safeguard two thirds of the existing jobs of Prevent
in Slovenia, the more basic production activities will have to be relocated to lower labour cost countries.

Most of the workers dismissed in 2006 were women. On average, every dismissed worker was due to receive about €2,200 of compensation. The downsizing process was prepared in consultation with the trade unions, which recognised that they could not prevent job losses and, hence, focused on negotiating the best redundancy terms.

**SCF (E5Mode) – departure from Belgium**

This case concerns the relocation of clothing production from Belgium to the Baltic States, with the Belgian company concentrating its efforts on its retailing operations. Of the about 40 persons who were made redundant, half of them left taking early retirement which is available at the age of 52 years in Belgium, while a quarter of the workers concerned found new employment.

**Company profile**

SCF is a Belgian holding company that opened its first clothes stores ‘E5-mode’ in the West Flanders region in the 1970s. It includes the European Clothing Group (ECG), which is a clothing manufacturer with suppliers in the Baltic countries and Russia. In 2003, SCF relocated its manufacturing activities to Lithuania and focused on its retail activities in Belgium.

The relocation of production work previously undertaken in Belgium was formally announced in October 2003, while the relocation took effect in November 2003. Prior to the relocation, 52 people were employed in the production of clothes and, after the relocation, only 11 workers remained employed in stock control. At the same time, however, SCF opened two news stores in Belgium.

**Relocated activities and reasons**

The activities linked to the production of clothes were relocated with stock control remaining at the Poperinge site in the south of West Flanders. Of the initial 52 workers, 41 people lost their jobs, including 22 manual workers and 19 employees. Most of the workers who lost their jobs were low-skilled women.

The reasons given for the move were the high production costs compared with those in the Baltic countries. The trade unions had proposed early retirement at age of 52 years for some of the workers and an extension of paid leave or a transfer to other company units. These proposals were not considered as being financially realistic by the company management.

**Relocation process**

No advance warning was given concerning the relocation. The two main Belgian trade unions – the Confederation of Christian Trade Unions (Confédération des syndicats chrétiens de Belgique/Algemeen Christelijk Vakverbond, CSC/ACV) and the Belgian General Federation of Labour (Fédération Générale du Travail de Belgique/Algemeen Belgisch Vakverbond, FGTB/ABVV) met the management of the company on several occasions within the framework of the ‘Renault Law’. The latter requires a first phase of consultation, in which the employer presents the restructuring plan and the trade unions try to find alternatives, and a second phase during which a social plan is negotiated. In this case, the relocation was spread throughout a long period.

**Impact in departure areas**

Early retirement at the age of 52 years was proposed for 20 workers, with the remainder being offered social benefits. Only one employee found work in another part of the company. A reconversion unit was set up in the Flemish Public Employment Service (Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding, VDAB) office in order to help the workers concerned find another job, including through retraining.

According to information from the public employment service office on the situation in Spring 2008, of the total of 41 workers affected, 20 took early retirement, 11 are working in new jobs, two are undergoing training, four are registered as unemployed (although they appear to have either
temporary work or to be also undergoing training) with a further four being unaccounted for. Four of
the employees affected by SCF’s relocation are reported as having found work with the same wages
and working conditions.

**Schindler – departure from Austria**

In the case of the lift, escalator and moving walks producing company Schindler, the relocation of the
production part of an Austrian subsidiary’s activities to Slovenia was seen as logical by the parent
global company since it brought certain activities together in a relatively low-wage area. The scale of
the job loss was not large in Austria, but it involved the dismissal of many skilled as well as unskilled
manual workers, as it has happened in many manufacturing sectors in the EU in recent years.

**Company profile**

The Austrian company, Schindler Aufzüge und Fahrtreppen GmbH, belongs to the international
Schindler Group headquartered in Ebikon in the canton of Lucerne in central Switzerland. The
Austrian subsidiary specialises in the installation and servicing of lift, escalators and moving walks.
The Schindler Group is the largest supplier of escalators and the second largest manufacturer of lifts
in the world, operating in all five continents. Apart from the lift and escalator business, which
contributes around 70% of sales, the group comprises another core area of business, **ALSO**, which is a
leading provider in the wholesale and logistics sector for information and communications
technologies (ICT) and consumer electronics.

The relocation plans were first announced in mid-January 2006. Before the relocation, the Austrian
site employed about 770 people. After the relocation, the number of staff was reduced to 680 people.

**Relocated activities and reasons**

All activities relating to the manufacture of components for lifts and moving walks were relocated
from the site in the capita city of Vienna. About 115 people out of the 770-strong workforce were
previously employed in the activity and 90 employees were directly affected by the relocation.
The employees were all male blue-collar workers of varying ages. Both skilled and unskilled workers
were affected, including in particular toolmakers and workers whose activities were related to the
assembling of lifts.

The then Management Board’s Chair, Hans-Peter Schwarz, argued in January 2006 that increasing
cost pressures would require a relocation of the core activities related to lifts to Slovakia, a so-called
‘low-wage country’. At that time, an assembling plant had already been set up in Slovakia, some
synergy benefits were thus expected given the existing production and assembling facilities in the
country.

The company management claims that trade unions generally accepted the reasons for relocations.
However, this appears to have been unlikely although it had not been possible to contact the works
council for the worker representatives’ view.

**Relocation process**

The relocation process was carried out in three waves during 2006, following the announcement in
mid-January 2006. The first wave was terminated at the end of February, the second at the end of May
and the third at the end of October.

According to the management board, the works council was consulted at each stage of the
restructuring process. Likewise, the appropriate trade union was fully informed.

Initially, 115 job losses had been planned in January 2006, but only 90 employees were laid off in the
end.

**Impact in departure areas**

A social plan, including a re-employment scheme directed and carried out by the Public Employment
Service (Arbeitsmarktservice Österreich, **AMS**), was drawn up jointly by the company’s management
and the works council, with the scheme being mainly financed by the company. The local authorities are believed to have participated to some extent in setting up this re-employment scheme.

According to the management, the new jobs have typically been equal in terms of activity and working conditions to those that they lost. However, pay of the new jobs tends to be significantly lower.

From the company management’s point of view, the relocation of the activity has been a complete success although, according to the management board, the works council does not fully share this view.

According to the management, the relocation process has not had any effect on other parts of the company and it has had no measurable effect in the local area.

**Schneider Electric – departure from Ireland**

The company’s decision in 2004 to relocate the manufacture of electronic components from Ireland mainly to the Czech Republic was seen as a serious blow to the area and country. This was not only due to the job losses involved, which amounted to just over 300 jobs, but also because this relocation gave an early warning that work of this type, in international companies, was vulnerable to competition from the new Member States.

**Company profile**

The core global business of Schneider Electric is electrical distribution, and automation and control. Schneider Electric Manufacturing Celbridge (SEMC), the company concerned, manufactures electrical components used in industry.

The relocation from Ireland was announced in September 2003 and concluded in April 2004. All 315 people who worked in the Celbridge plant near the capital Dublin in eastern Ireland before the relocation were made redundant.

**Relocated activities and reasons**

The manufacture of electrical components used in industry was relocated, causing 315 job losses, mainly men. Of these posts, some 265 were occupied by permanent employees and the remaining 50 posts were filled by temporary employees.

At the time, the company announced that all manual operations would be relocated to the Czech Republic while all automated operations would be transferred to one of the company’s existing plants in France, closer to its research and development units. Lower operating costs and the plant being closer to the company’s fastest-growing markets were the reasons for transferring all manual operations to the Czech Republic.

The company’s senior vice-president in Europe also said that rising labour costs in Ireland had contributed to the decision to close.

**Relocation process**

All the job losses that were planned actually occurred.

**Impact in departure areas**

At the time, the company promised to assist workers in securing alternative employment. It also paid a redundancy settlement of six weeks’ wages per year of service to all permanent staff, as well as to temporary staff with at least two years’ service. The government training agency, FÁS, played a key role in helping workers to find new jobs.

At the time of the closure announcement, the regional secretary of the Services Industrial Professional and Technical Union (SIPTU), which represented many workers at the plant, stated the closure would be a devastating blow to the location in Celbridge and to the west Dublin and east Kildare area. The union’s secretary added that ‘this was a “flagship” company in the area, employing over 300 people – the majority of whom are SIPTU members’. SIPTU said it was shocked at the severity of the job cuts and accused the government of ‘inaction and indifference’ over the job losses.
The then Deputy Prime Minister (Tánaiste) highlighted that, while the job losses announced at Schneider were a ‘major blow’ to the economy, employment in Ireland continued to grow. She added that ‘the government will continue to pursue the policies which will keep unemployment down and which will enable our economy to generate new jobs to replace those which have been lost’.

At the time, the leader of the Green Party emphasised that the job losses at Schneider underlined the need to ‘speed up’ the activities of the new Enterprise Strategy Group and boost indigenous industry. ‘The Government must see the error of its over-reliance on foreign direct investment which is now being easily attracted out of Ireland to lower cost economies’, he said. He called on the government ‘to stop playing PR games with people’s lives and get serious about building local economies and supporting the home-grown enterprise sector”.

The north Kildare deputy indicated that: ‘It is incumbent on the government to put together a definite recovery package for the area’.

Employer representatives also voiced concerns. The announcement of job losses at Schneider Electric Manufacturing in Celbridge represented another devastating blow to the engineering sector, according to the Irish Engineering Enterprises Federation (IEEF). At the time, the IEEF Director said it was a continuation of a pattern of job losses in the engineering sector and urgent action was needed to stop this trend. It called for national policy to address the strategic needs of the engineering sector and, in particular, to examine aspects such as grants and/or tax credits for research and development (R&D), support for investment in automation, training support and assistance with business management improvements including processes, supply chain management, outsourcing and purchasing.

Despite the adverse consequences of the Schneider job losses, employment in other activities remained quite strong in the Celbridge and Kildare area. For instance, US chip maker Intel has a manufacturing large plant in Leixlip in County Kildare. It is the company’s largest manufacturing site outside the United States of America (US) and its fourth largest manufacturing site overall. The Intel Leixlip plant employs about 3,200 people. The US pharmaceutical company, Wyeth, also has a number of large plants in the vicinity of Celbridge and County Kildare.

**Thompson Technicolor – departure from Luxembourg**

A rationalisation of the production of DVDs and CDs by a major group international group led to the closure of its Luxembourg plant, with the loss of some 244 jobs. The rationalisation process was quickly carried out, despite the protests of the trade union that the works council had not been correctly informed and associated, and despite earlier interventions by the Luxembourg government. From a labour market perspective, the most notable feature is the fact that virtually all those who lost their jobs in Luxembourg were cross-border workers, the great majority of workers were coming from France.

**Company profile**

**From Luxembourg to Poland**

The Thomson group specialises in digital video technologies and is made up of three business divisions – services, systems and technology. The turnover of each of the three divisions amounts to €2.67 billion for systems, €2.4 billion for services and €0.53 billion for technology.

The technology division develops video technologies and sells them through licences, software and integrated circuits; the systems division supplies and integrates systems and solutions dedicated to video, while the services division manages video networks on behalf of its clients.

The Foetz site in southwestern Luxembourg was one of the company’s three plants – the other two being in Wales in the UK and Poland – which formed part of the Thomson Technicolor Entertainment Service (THES) unit. THES produces DVDs and CDs, copies cinema films onto DVDs and produces music CDs and computer programmes

In 2006, the three THES sites generated an operating profit of €57.5 million from a turnover of €338 million, which was composed as follows: €42.88 million from the Luxembourg site, €69.75 million from Wales and €185.72 million from Poland.

© European Foundation for the Improvement of Living and Working Conditions, 2008
In the negotiations, the Luxembourg Confederation of Independent Trade Unions (Onofhängege Gewerkschaftsbond Lëtzebuerg, OGB-L) noted that there was an error in the figures supplied by the company management: the 2006 cost of sales for the Foetz site had been copied from the 2005 data, suggesting a negative operating result for the site of €1.96 million, whereas the correct 2006 figures gave a positive result of almost €2.4 million.

**Relocated activities and reasons**

A relocation of the Luxembourg activities to Poland was announced in mid-January 2007 and the plant was transferred to Poland in June 2007.

Some 244 workers were made redundant in Luxembourg. However, only seven out of the entire group of employees were Luxembourg residents. All of the other workers were cross-border workers, including seven Belgian, three German and 207 French citizens, and were for the most part low-skilled. In terms of age, the great majority were between 30 and 49 years old.

As far as the management of Technicolor was concerned, it was a commercial and strategic decision. A comparison of production costs had showed that it was more profitable to concentrate activities in one location rather than have them spread across the three sites in Luxembourg, Poland and the UK.

Although Luxembourg legislation was apparently respected by the company, OGB-L considered that the European works council had not been correctly informed and consulted – an internal agreement with the Thomson group stipulated that, where an entire sector of activity is concerned, the European works council should be consulted, which was not done in this case.

As soon as the relocation was announced, OGB-L referred the question to the European works council, which demanded an additional study of the group’s strategy. The trade union also disputed the company’s claim that production costs were 54% higher in Luxembourg than in Poland.

The restructuring plan presented by the management evaluated the overall cost as €25 million over one year. Workers’ representatives from Thomson’s European works council put forward a proposal to reduce production to eight lines at the Luxembourg site and to undertake a three-year, €25 million-worth investment programme to convert the site to the new HD and BlueRay technologies.

**Relocation process**

In 2005, rumours of a possible relocation were already circulating, which were denied by the management. When the company made the announcement at the beginning of 2007, the employee representatives in Luxembourg were not consulted.

The relocation took place in one go and the plant was entirely closed.

While the Luxembourg Employment Administration (Administration de l’Emploi, ADEM) played its part in terms of providing information and guidance to those affected, no additional specific actions were taken in this case.

**Impact in departure areas**

During the negotiation of the redundancy plan, additional redundancy payments were negotiated over and above the minimums laid down by legislation. A sum of €50,000 was allocated to a training fund. Several outplacement services were offered.

Seven people found a new job during the course of the procedure and two workers were transferred to one of the other group’s sites. No information is available regarding the other employees, most of whom were cross-border workers. No workers were eligible for early retirement.

According to the government, the Minister for the Economy and Foreign Trade had been in contact with the European management of Technicolor and the general management of the Thomson group (Technicolor’s parent company) from the end of 2004 onwards, in order to examine the possibility of retaining all or part of the activity in Luxembourg or, alternatively, of introducing other activities in Luxembourg.

The government stated that it regretted that these efforts had not succeeded and that no viable long-term option had been identified. OGB-L, for its part, expressed disappointment that the government
had not at any point invited the trade unions to attend the meetings with the company management, as well as with the fact that they had received no information whatsoever concerning the courses of action examined.

It should be noted that certain Luxembourg members of parliament have demanded that the subsidies and tax credits allocated to the company by the authorities be reimbursed.

**Texas Instruments – departure from the Netherlands**

A branch of the international group Texas Instruments reduced its workforce in a Dutch plant. It consulted the works council and the trade unions in advance, and provided some support for workers affected. The job reduction was spread over a period of 16 months. Unfortunately, there seems to be not much more information available.

**Company profile**

Texas Instruments produces electronic parts of dashboards for motor vehicles. It is situated in Almelo in the Twente area close to the German border in the eastern Netherlands. The Dutch plant employed 315 people. In February 2005, the relocation of activities was announced and took effect in the second half of 2006. After the relocation, only 200 workers remained at the plant.

**Relocated activities and reasons**

Texas Instruments produces sensors for motor vehicles. Most of the workers are men. The main reason for relocating activities from the Netherlands was cost cutting.

**Relocation process**

The relocation was announced nine months in advance. Both works council and trade unions were consulted and the relocation process was spread over a period of 16 months.

**Impact in departure areas**

Some support was provided for redundant workers such as outplacement, assistance with start-ups and redundancy payments. Only a handful of workers could get another job in the plant.

Some 10 engineers were hired by a start-up company. It can be assumed that, because of the very tight labour market in the Netherlands, the majority of workers affected have been able to find other comparable jobs.

The plant was sold to an investment group during the relocation process in April 2006.

**Arrival case studies**

**Conta – arrival in the Czech Republic**

The transfer of refrigerator production from Italy to an area of high unemployment in the Czech Republic has resulted in a significant creation of new jobs in the Czech region. It has also helped to encourage other companies. However, Conta has encountered difficulties in recruiting suitable labour locally, citing the generous social security system in the Czech Republic as a disincentive to seek work. On the other hand, the trade unions and local employment services blame the company’s low pay policy.

**Company profile**

Conta s.r.o. manufactures refrigerators. In 2005, part of its production was relocated from Italy to Podbořany in the Ústí nad Labem region in north Bohemia in the Czech Republic. A specific site in the Alpka industrial zone has been set aside for new investors by the municipal authorities. The company leases the land but owns the building and production facilities.
Relocated activities and reasons
The relocation concerned the manufacture of refrigerators. No people were employed on the Czech site before the relocation since it was a greenfield site. Some 197 workers were initially employed, but subsequent business expansion has increased this number to 608 employees, working mainly in blue-collar jobs.

The main reasons for the relocation, according to the company, included the difficult competitive situation in the refrigerator market and the need to cut operating costs.

Relocation process
The plant in the Alpka industrial zone in Podbořany was built in 2000 and production started in 2002. The company now employs 608 workers and would welcome more, but it has had problems recruiting employees. According to the human resources (HR) director, Conta was unpleasantly surprised by the lack of interest in working for the company among the people living in the region. In the company’s view, this was due to the generous the social security system in the Czech Republic, which was demotivating people to work and encouraged a high sickness rate.

However, the director of the local Louny Labour Office considers that the problem is a result of the fact that the company opted for the wrong recruitment strategy: it offered low starting wages, compared with standards of the region, while making considerable demands on employees.

Impact in arrival area
Foreign employers in the Czech Republic have to abide by the same labour legislation as national companies, regardless of whether this conforms with labour legislation or business customs in their country of origin.

Alongside the labour offices and work inspectorates, the Czech trade unions also monitor compliance with the labour legislation, including occupational health and safety at work regulations. However, the company is said to pay wages that are among the lowest in the region. Low levels of pay and the availability of skilled labour are seen as the two main factors behind the company’s decision to relocate production.

Trade unions are present in the company and a collective agreement has been concluded which only provides for the minimum entitlements as laid down by the Czech Labour Code. However, the Italian owners are supposedly willing to negotiate with the trade unions on a ‘motivational wage component’. The trade unions, on the other hand, report that negotiations are complicated and that cooperation with the company management is difficult.

When the company built its plant in 2000, it received an investment incentive in the form of state aid which amounted to 50% of the investment, tax relief based on legal persons’ income tax discount, material support for job creation, material support for training and retraining, as well as the transfer of a land parcel with state-owned utilities providing services at a discounted price. In fact, the company was the first foreign company to have its investment plans approved by the Czech government under Act No. 72/2000 Coll. on investment incentives.

The company is disappointed by the shortage of labour in the area and by jobseekers’ lack of interest in the jobs offered. Although this is one of the regions with the highest unemployment rate in the Czech Republic, the company is unable to find sufficient good quality labour, as a result of which it employs foreign workers, mainly Slovakian citizens. It regards the ‘demotivating’ social insurance system as the problem and complains about high labour turnover.

Despite these difficulties, the company’s arrival is seen to have had a positive impact in a region with a long-standing high level of unemployment. Conta was proposed as a regional candidate for the local ‘Employer of the region 2007’ award.

In terms of the local economy, the company had made use of a network of local subcontractors in building its manufacturing complex and uses local subcontractors in sourcing components.

It was the second Italian investor in the Podbořany industrial zone after Logit, which makes nylon fibres for carpet manufacture. It was followed by the Italian Trafiflix company, producing drawn and peeled steel. Therefore, it is reasonable to assume that this industrial zone has helped the region’s
development by successfully attracting investors thanks to the experiences of previous Italian investors.

**ECG – arrival in Lithuania**

ECG is a new garment producing company in Lithuania – based on Belgian finance and Lithuanian expertise – is growing rapidly, using a Lithuanian-based design and coordination team, as well as a wide network of subcontractors. It targets its finished products on specific EU markets, while subcontracting its production work to a large number of companies in a wide range of countries, including Lithuania. In the latter country, it is claimed that the company is responsible for creating 4,000 jobs.

**Company profile**

In 2001, the Belgian group SCF, together with Edmundas and Co., which had been operating in Lithuania since 1993, established UAB ECG in Lithuania. Edmundas and Co. had started its business in CMT – cut, make and trim – activities, but later it developed into a manufacturer of tailored garments and flat knitwear. This has become the business of the new company, ECG. According to the ECG’s director, the only activity left in Belgium was trade, while the rest of the business such as production organisation was relocated to Lithuania.

ECG is a garment manufacturer with products sold under the company’s trademark. However, the work of the company is primarily in the design of cloth, creation of collections and organisation of production. The company’s employees create models, supply manufacturers with the necessary fabrics and equipment, buy products from them, and carry out all other pre-sewing and post-sewing activities. The production process itself, namely garment sewing, is carried out in many countries, including Lithuania, Belarus, Moldova and China.

ECG mainly produces for the Belgian, French, Lithuanian and Scandinavian markets.

**Relocated activities and reasons**

ECG was established in Kaunas, the second biggest city in Lithuania, where Edmundas and Co. was based. Today, ECG employs some 50–60 highly skilled experts, including designers, developers and logistics specialists.

The manager of the company could not say how many more workers were employed as a result of the merger with SCF as Edmundas and Co. has been growing rapidly. However, it can be noted that the company’s turnover increased from €125,000 in 1994 to €37 million in 2003. The main reason for this growth spurt, as indicated by the current company director, was the availability of skills and general competency of the employees, although the relatively low labour costs in Lithuania would also have played an important role.

Given the previous close cooperation between the Belgian company and Edmundas and Co., a smooth merger process took place. According to ECG’s manager, the decision to relocate some business to Lithuania was taken quickly within one or two months since both companies had similar goals.

The activities of the company were not exposed to substantial changes: production processes were organised in Lithuania and production was also in place in many Lithuanian companies before the merger. The scope of production started expanding rapidly after the merger; it was a period when almost 70 Lithuanian companies – regular partners of ECG – were making products for the company.

**Impact in arrival areas**

According to the manager of ECG, the investment of Belgian capital improved the employment conditions for the company’s workers. The main reasons for such improvement included better perspectives, ‘broader’ activities and better career opportunities.

It can be noted that a collective agreement has never been signed in the company and, according to the manager of ECG, public authorities at local, regional and national levels did not play any role in the relocation process.
According to the director of the company, ECG business activities, particularly orders to local and foreign companies, have had a significant effect on the region, and established about 4,000 jobs in Lithuania.

However, in 2002–2003, ECG started developing its activities in Belarus and more basic production tasks have been relocated there. According to the director of the company, Belarus was chosen because of its cheap labour, and favourable business conditions. ECG has constructed a new building in Grodno FEZ where some Lithuanian sewing undertakings – former ECG partners – have started producing for ECG.

Samsung Electronics – arrival in Slovakia

This case involves a rather conventional concentration and expansion of assembly line work production in a relatively low wage and high unemployment area of Slovakia at the expense of a relatively high wage economy – the UK. The company, Samsung, had already established production facilities in Slovakia. Its move served to increase employment substantially in the region and to encourage other investment in the area (including in subcontracting companies), as well as to increase the company’s profitability.

Company profile

Samsung Electronics Slovakia s.r.o. is part of the global Samsung Group. It is located in the city of Galanta in the southwest of Slovakia and produces computer monitors and television receivers. It has been operating at this location since late 2002 with close to 200 employees, but this relocation resulted in a 10-fold increase in employment by the company in the country.

It is understood that the Slovakian government promised to provide the company and local municipality with state aid in order to facilitate the creation of new jobs, including the improvement of the local road network for transport vehicles.

Relocated activities and reasons

The relocation concerned the production of laser printers, DVDs, satellite receivers and other communications means. This production relocation created 1,100 new jobs in Galanta.

It is a typical manufacturing process in the electronics industry, with a combination of manual work performance and machine operations, including automated workplaces. Semi-skilled and skilled manual workers predominate.

The average age of employees is 29 years, of whom 60% are women. Most of the employees have secondary-level education, while up to 10% of employees have third-level education.

The main reasons given for the relocation were the availability of well-qualified and relatively cheap labour in the region and the country, a ‘convenient’ taxation system and a good geographical location for the purposes of logistics. The final decision to relocate the production activity was made in February 2002, following discussions between the trade union and management in Norway one month earlier. Production was mainly relocated during the summer of 2002.

It should be noted that Samsung Electronics Slovakia already had production premises in operation in Galanta at that time, and knew that additional labour was available given that the unemployment rate was then 13%.

Relocation process

The relocation was announced in Slovakia in April/May 2004 and the production of relocated products began in late 2004. The relocation was a continuous process, covering a period of six to seven months.

The company moved into an existing site, namely a factory facility previously occupied by a furniture company, which Samsung rebuilt and updated. Production started at the end of 2002 and was followed by greenfield investment, with a new production plant built during 2003–2004.

© European Foundation for the Improvement of Living and Working Conditions, 2008
Impact in arrival area

The total number of employees in the company doubled after the relocation. In total, 2,200 employees were working at the production site in Galanta in 2004. This number increased further, to 2,700 employees, in 2006. These numbers correspond to those initially planned and announced by the company.

Wages in the Samsung plant are much lower than in the UK, from where the activities were relocated. However, working conditions, as well as health and safety at work, are considered to be at least comparable with those in the departure country. The trade unions in the company claim that the provisions agreed in collective agreements regarding social issues are better than in the UK, although no collective bargaining on terms and conditions of employment has taken place.

The company’s objectives were achieved in that Samsung Electronics Slovakia increased its annual turnover from about SKK 8 billion (€241.7 million as at 15 January 2008) in 2003 to SKK 39 billion (almost € 1.2 billion) in 2004, SKK 65 billion (about €2 billion) in 2005 and SKK 90 billion (€2.7 billion) in 2006. Apart from the production transfer, the company also decided to build a new logistics, research and development, and service and distribution centre for central and Eastern Europe at the site, with some 200 new jobs created in 2005.

This investment was planned in two stages: 2005–2006 and 2006–2010. In total, 500 new jobs were created in 2005–2006 and a further 400 new jobs are planned for the period ending in 2010. This expansion has led to the development of existing infrastructure, with the aim of solving local environmental and traffic problems caused by increasing road transport from and to the company’s location.

At the same time, the company has undertaken a new greenfield investment in Voderady in northern Slovakia, where production of LCD and plasma monitors started in early January 2008.

All of these activities have had a positive effect on employment and led to an improvement in the infrastructure in Galanta and the surrounding region, which encourages the company to further develop its business activities in the region. It has also had a positive impact on other companies in the country and the region, with hundreds of new jobs being created in subcontracting companies, for example in several Slovakian companies such as Jasplastik, Duropack and Plastika Nitra, as well as in the South Korean company Woo One.

Yazaki Wiring Technologies – arrival in Slovakia

The relocation of wiring loom/harness production to Slovakia has brought new employment opportunities to a region of high unemployment where other manufacturing industries – such as shoes and textiles – have been in decline. Relatively low wages together with state aid will have encouraged this investment in the first place, but the continuing expansion of the plant is seen to be related to its strategic location in relation to the company’s main customers in motor car manufacturing.

Company profile

The Yazaki Wiring Technologies Slovakia company has operated in Michalovce in eastern Slovakia, since 2003, producing wiring looms and other electronic components for cars. A further relocation plan was announced in Slovakia in June 2004, and the relocated activities came into operation at the new site in September 2004.

This was a ‘brownfield’ investment following a joint venture with Siemens which led to the creation of Siemens Yazaki Wiring Technologies Slovakia, by buying 75% of shares of the German Siemens Automotive AG operating in Michalovce. At the beginning of 2004, Yazaki became the only owner of the company. Yazaki Wiring Technologies Slovakia s.r.o. is a subsidiary of the German-Japanese Siemens Automotive AG and Yazaki Wiring Technologies GmbH joint venture. The performance of relocated activities started in 2004.

Before the relocation, similar activities were performed by the Siemens Automotive AG company operating at the site. The number of employees at the site before the relocation is not available. Some 550 employees were working at the site in 2004 but this number had increased to 1,700 workers in 2007.
Relocated activities and reasons

The activities relocated concerned the production of insulated wiring looms or harnesses for automobile companies, particularly for Ford and then Daimler-Chrysler. Before the relocation, workers dealt with similar activities in Siemens Automotive AG company, although no details of numbers are available.

According to published information, 460 new jobs were directly created by the relocation of activities to the Yazaki Wiring Technologies Slovakia plant in Michalovce.

The work involved is a typical manufacturing process concerning insulated electrical cables and wire harnesses. The work requires mainly semi-skilled manual workers, who typically have low or medium levels of qualification. The workforce is made up of both young and middle-age employees, most of whom are women.

The main reasons for the relocation was believed to be Slovakia’s central location in Europe with respect to an expanding automotive production, both in the country itself as well as in neighbouring countries. It was also seen as a convenient business environment (including in relation to taxation) with a good supply of well-qualified and relatively cheap labour available. Since Michalovce is a region of high unemployment, the company also received state aid for the creation of new jobs.

Relocation process

It is believed that there was a five to six-month gap between the announcement of the new investment in Michalovce and the start of the production in the new plant. According to published information, the actual number of jobs created initially corresponded with the initial announcement of 460 new jobs created in 2004.

Impact in arrival area

In order to encourage new investment in this region of high unemployment, the Slovak government provided state aid totalling SKK 150 million (€4.53 million) in 2005–2006. The municipality also provided services and infrastructure to support the new investment.

The company is reported to have made a net profit of more than SKK 200 million (€6 million) in the 2004–2005 financial year. According to available information, the company plans further business expansion at the site in Michalovce, including a completely new factory making wiring looms or harnesses for the BMW car company. Production in the new plant is planned to start in 2008 with a further 530 jobs being created in the period up to the end of 2011.

The relocation has been very beneficial for the Michalovce region. It has provided employment possibilities for people leaving the declining shoe and textiles industries, and helped to reduce the unemployment rate somewhat; however, unemployment was still at over 20% at the end of 2006. The relocation has also provided business opportunities for several subcontractor companies, with estimates that Yazaki has indirectly created more than 1,000 additional new jobs in the region, mainly in the Jas-Elmont company in Snina, Tesla in Stropkov and the SONaP company in Michalovce.
Annex: Questionnaire

The questionnaire for each case study sought to cover the following information.

‘Departure’ country, that is the country from which activity has been relocated

1. Basic facts
Date the relocation of activity was announced and date at which it took effect
Name of company
Name of the group (if any) to which it belongs
Nationality of the group (give location of the headquarters if in doubt)
Main product produced by the company at the site concerned
Main products produced by the group (and approximate split in terms of value-added)
Location of the site
- Number of people employed at the site before relocation of the activity
- Number of people employed in the group before relocation of the activity
- Number of people employed at the site after relocation of the activity
- Number of people employed in the group after relocation of the activity

2. Details of activities relocated
What kinds of activity were relocated?
How many people were previously employed in the activity concerned?
How many jobs were directly affected by the relocation of the activity?
What were the typical characteristics of the people who lost their jobs as a result of the relocation (in terms of gender, age, skills and education level)?

3. Reasons for the relocation
What were the main reasons given by the company or group for the relocation of the activity concerned?
Were these reasons generally accepted by trade unions or work representatives as being valid and sufficient justification for the move?
Were alternative strategies (including relocation on a smaller scale or a change in working methods or in the terms of employment) considered as a means of achieving the same objective(s)?

4. Process of the relocation
How much advance warning was given of the relocation?
How much consultation took place with trade unions or work representatives?
Did the relocation occur at one point in time or was it spread out over a period?
How closely did the job losses initially planned as a result of the relocation correspond with the actual job losses up until now?

5. Support for the workers affected
What kind and scale of support was provided to the workers who lost their jobs as a result of relocation?
To which extent were the workers affected offered jobs in other parts of the company or in other parts of the group?
6. *Consequences for the workers affected*

Is any information available on what happened to the workers who lost their jobs as a result of the relocation? Have they succeeded in finding other jobs (easily or with difficulty)?

What kinds of job have these typically been and how do they compare in terms of pay and conditions with those that they lost?

Are significant numbers now unemployed? Did a significant number take early retirement? Have significant numbers moved elsewhere?

7. *Role of public authorities/agencies*

What role did public authorities at local, regional and national level play in the relocation, in terms of both trying to persuade the company not to relocate or to reduce its scale?

What role did public authorities play in assisting workers to find new jobs?

8. *Outcome of the relocation*

How far has the relocation of the activity concerned achieved what the company intended in terms of reducing costs and/or increasing profitability and competitiveness?

How far has it safeguarded jobs in other activities in the country concerned or enabled these to be expanded? How far, on the contrary, has it contributed to job losses in other activities?

9. *Consequences for the local area/region*

What has been the effect of the relocation on the local area? Has it had wider adverse consequences for employment and business investment in the area?

How far have any negative effects been offset by expansion in other activities?

‘Arrival’ country, that is the country to which activity has been relocated

1. *Basic facts*

Date the relocation of activity was announced and date at which it took effect

Name of company in which business expansion occurred as a result of the relocation of the activity

Main product produced by the company at the site concerned

Location of the site

- Ownership of the site – did the new company already own the new site? Was it an existing site or a ‘greenfield’ site?
- Number of people employed at the site before relocation of the activity
- Number of people employed at the site after relocation of the activity

2. *Details of activities relocated*

What kinds of activity were relocated?

How many people were employed in the activity before the relocation?

How many jobs were directly created as a result of the relocation of the activity?

What were the typical types of job (skill level, occupational type, qualification requirements) that were created?

What were the typical characteristics of the people employed to undertake the activity concerned (in terms of gender, age, education level)?

3. *Reasons for the relocation*

What were the main reasons given by the company or group for relocating the activity to the country concerned, and to the particular place within the country?

Were these reasons generally accepted as being valid?
4. **Process of the relocation**

Over what time period did the relocation of the activity in question, and the creation or expansion of the jobs associated with it, take place?

How closely did the creation or expansion of jobs initially planned or announced correspond with the actual job gains?

How far was the relocation of the activity associated with job creation in other activities within the company?

5. **Terms and conditions of employment for the workers recruited**

How do the terms and conditions of employment of the workers taken on to undertake the activity relocated compare with those previously employed in the country from which the activity was relocated?

To which extent are these terms and conditions determined through collective agreements with trade unions or worker representatives?

6. **Role of public authorities/agencies**

What role did public authorities at local, regional and national level play in the relocation, including in encouraging the company concerned to locate in the country or local area through financial or other incentives?

7. **Outcome of the relocation**

How far has the relocation of the activities concerned achieved the company’s objectives at the worksite in question?

How far has it led to further business expansion in the company in the country concerned?

8. **Consequences for the local area/region**

What has been the effect of the relocation of the activities concerned on the local area? How far has it had wider beneficial consequences for employment and business investment in the area?

How far has it led to other companies expanding their activities in the local area or other parts of the country?