

ERM report 2020: Restructuring across borders

Introduction

The objectives of this report are twofold: firstly, to review recent restructuring activity in the European Union up to and including the first impacts of the Coronavirus (COVID-19) crisis, and secondly, to analyse in some more depth restructuring activity of a transnational character involving multinational enterprises (MNEs). The latter analysis is prompted by the increasingly transnational perspective that these enterprises adopt when making strategic planning decisions, including determinations regarding the location of production sites and employment. In larger MNEs, decisions taken at global headquarters have a growing influence on operations at national and local levels. This poses challenges to worker representation, including European works councils (EWCs), whose purpose is to provide a setting for informing and consulting employees of MNEs on decisions that affect them.

The main source for the analysis is the European Restructuring Monitor (ERM) events database, which has collected details of over 25,000 large-scale restructurings since it began in 2002, including nearly 2,000 since the beginning of 2019. The analysis of transnational restructurings is complemented with case studies based on international relocations of production.

Policy context

EU labour markets in 2020 operate under the shadow of the first wave of the COVID-19 crisis. Initially, at least, the large fiscal response by the EU and Member States has cushioned some of the most-feared impacts. But the repercussions of the crisis, especially in the worst-affected sectors, will necessitate ongoing state support to protect households and businesses and to lay the groundwork for a sustainable recovery. In addition, strategic EU goals such as the objective of carbon neutrality by 2050 will necessitate a transformation of productive activity that will involve extensive restructuring.

MNEs are in general resilient businesses that can play an active role in the recovery and the achievement of these longer-term goals. They account for large shares of global output (28%) and employment (23%) and an even larger share of global trade. The decisions these enterprises make on where to locate their activities affect the employment status of tens of millions of Europeans, as well as the prosperity of their communities and regions. Partly in response to their growing economic influence, the EU has developed policies to support worker representation at a transnational level (the directives establishing EWCs and information and consultation rights) to rebalance social partner prerogatives, notably in the case of transnational restructurings. Retraining funding for workers made redundant as a result of large-scale restructurings has been channelled via the European Globalisation Adjustment Fund (EGF), benefiting hundreds of thousands of European workers.

Key findings

- The COVID-19 crisis has led to a doubling of restructuring job loss in the first half of 2020 compared to the rolling average. The labour market impacts have been highly selective, with two broad sectors – transport (including air transport) and hotels and restaurants – accounting for nearly half of overall announced job loss (compared to less than 10% in ‘normal’ times). These are the sectors that have been most disrupted by physical distancing measures adopted to stem virus transmission. A more comprehensive account of the initial impacts of the COVID-19 crisis will become possible only when the temporary fiscal-support measures adopted by governments to cushion its impacts are reduced or withdrawn.

- Around 1 in 20 cases of large-scale restructuring in the ERM are transnational, affecting activities in at least two countries. The employment effects of such cases tend to be much larger and the restructuring processes tend to be longer and more complex as a consequence. On average, each transnational restructuring case (other than those of business expansion) involves announced employment losses of over 3,000 jobs, around seven times greater than those of restructurings that take place within national borders.
- All restructuring activity is cycle-sensitive, with peaks coinciding with recessions, but transnational restructuring activity is particularly so. Both the frequency of cases and the size of job losses increase relatively faster during economic downturns, including the downturn arising from the COVID-19 crisis.
- Case studies of transnational restructurings found a variety of motives underlying MNEs' decisions to transfer production across borders, but reduced labour costs remain the most important.
- The case studies demonstrate the layering of collective representative structures between local, national, EU and global levels. This can be beneficial in reinforcing linkages and helping to coordinate information-sharing among worker representatives, and possibly action by them, but it may weaken their influence over how transnational restructuring operations are managed.
- Given their scale and their impact across Member State borders, including their potential to give rise to cross-border disputes in cases of production transfer, there is a strong rationale for EU involvement in monitoring transnational restructurings. Funding instruments such as the EGF make provision for cross-border applications, but in practice the majority of case applications for post-restructuring active labour market interventions tend to be national.
- Another area of potential cross-border contention in transnational restructurings relates to the real or perceived use of regional or national subsidies to incentivise multinational firms to relocate production. Such aids, where they exist, undermine the sense that all companies compete on an equal playing field, as larger companies tend to be the main targets and beneficiaries of such aid. They also raise the spectre that corporate decisions that may result in significant job losses and human hardship are motivated as much by subsidy availability as other commercial considerations.
- Human resources policy in MNEs is increasingly modelled at global (rather than EU) level, while most legal requirements on employers (in relation to working time, health and safety, social security and pay) are national. While transnational restructurings fall squarely within the remit of EWCs, their capacity and rights to influence these processes are limited. These limitations are more obvious when multinational decision-making concentrates at the global level, with limited discretion for local or national management.

Policy pointers

- The global financial crisis of 2008–2009 impacted negatively on international investment flows as MNEs reversed trends of international expansion. Foreign direct investment flows in 2018 and 2019 were lower as a share of global gross domestic product (GDP) than in 2010. The COVID-19 crisis will likely bring a further contraction in such flows, a shortening and simplification of global value chains, and some retrenchment of economic activity within national borders.

Further information

The report *ERM report 2020: Restructuring across borders* is available at <http://eurofound.link/ef20024>

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