

## **MEMORANDUM TO THE COMMISSION**

By letter dated 18 July 2007 the Finnish authorities applied for a contribution from the European Globalisation Adjustment Fund ("EGF") in order to assist workers made redundant in the Finnish production plants of the Finnish company Perlos Oyj, hereinafter "Perlos".

The application is based upon a total of 908 redundancies resulting from the Perlos factory closures. These redundancies were brought about by major structural changes in the pattern of world trade, in particular a delocalisation of the manufacturing of mobile phones to Asia. The scope and the effects of these changes are of a sufficiently important nature to justify an application to the EGF according to the criteria laid down in Regulation (EC) No. 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the EGF.

The application has been thoroughly examined and assessed by the services of the Commission, in accordance with Regulation (EC) No 1927/2006, in particular with Articles 2, 3, 5 and 6 thereof. The application meets the intervention criteria of Article 2(c) (redundancies in "small labour markets <...> duly substantiated by the Member State(s) concerned <...> when redundancies have a serious impact on employment and the local economy") and the proposed measures are active labour market measures made available to the workers affected for a limited period of time, in conformity with Article 3. Accordingly, it is proposed to mobilise the EGF in this case.

The actions proposed to assist the workers include i.a. job search assistance, occupational guidance, training and retraining, outplacement assistance, entrepreneurship promotion, job search allowance, mobility allowance, measures to stimulate older and disadvantaged workers and examination of ability to work.

The total annual budget available for the EGF is EUR 500 million. So far, 2 cases have been proposed for funding to the budgetary authority for an aggregated amount of EUR 3 816 280. The Commission proposes a contribution of EUR 2 028 538 from the EGF to co-finance a coordinated package of actions designed to assist the re-integration into employment of 1 050 redundant workers following the closures of the Perlos factory as well as to cover administrative expenditure. The Finnish state will contribute an equivalent amount.

### **THE COMMISSION IS INVITED TO**

- Approve the conclusions on application EGF/2007/004/FI/Perlos submitted by Finland as set out in the present Communication**
- Submit to the budgetary authority a proposal to authorise appropriations corresponding to EUR 2 028 538 and a request for a transfer of this amount in commitment appropriations from the reserve budget line 40.0243 to budget line 04.0501 (European Globalisation Adjustment Fund)**
- Authorise the transfer of an identical amount in payment appropriations from budget line 04.0201 (Completion of European Social Fund) to budget line 04.0501 (European Globalisation Adjustment Fund)**

## **COMMUNICATION TO THE COMMISSION**

### **on an application EGF/2007/004 FI/Perlos received from Finland for a financial contribution from the European Globalisation Adjustment Fund**

Finland submitted application EGF/2007/004 FI/Perlos for a financial contribution from the European Globalisation Adjustment Fund, hereinafter 'EGF', following the redundancies in the Finnish production plants of the Finnish company Perlos Oyj, hereinafter called 'Perlos'.

1. The application was presented to the Commission by the Finnish authorities on 18 July 2007. It was based upon the specific intervention criteria of Article 2(c), relating to small labour markets, of Regulation (EC) No 1927/2006<sup>1</sup> of the European Parliament and of the Council and was submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.
2. The application meets the conditions for deploying the EGF set out in Article 2 of Regulation (EC) No 1927/2006.

#### **SUMMARY OF THE APPLICATION AND ANALYSIS**

##### **(a) Analysis of the link between the redundancies and major structural changes in world trade patterns:**

3. The application relates to redundancies in the two Finnish production plants of Perlos. The redundancies were caused by the decision of Perlos to discontinue production activities in Finland and to close down its two factories located in Joensuu and Kontiolahti, Northern Karelia, by September 2007. In order to establish the link between the redundancies and the major structural changes in world trade patterns, Finland indicates that the redundancies follow from a general trend amongst mobile phone manufacturers towards a delocalisation of their production (mainly to China and India), closer to their customers, to mass markets and / or in areas of cheaper labour costs. The main reasons for this delocalisation are in the first instance comparative manufacturing cost advantages, but also the proximity of technology partners and a strong increase in local demand. Between 2005 and 2008 the world-wide demand for mobile phones is estimated to increase by 9%, for the same period this increase is estimated at around 5% in Europe and about 13% in China.
4. A key factor determining the delocalisation is the speed of the production cycle. Suppliers in the mobile phone industry are now expected to respond to orders within 2 hours, "Just In Time" (JIT), so as to save storage costs and respond without delay to the demands of the market. This necessitates moving manufacturing sites to the immediate vicinity of the large brands. It also cuts transport costs, which is especially important for the new generation of cheap mobile phones.
5. Between 2001 and 2006, the world production of mobile phones increased from 400 million up to 991 million units. In 2001, production in China reached 80 million

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<sup>1</sup> OJ L 406 of 30.12.2006, p. 1

units or 20% of world production. In 2006, China produced 450 million units or 45% of world production. In 2002, 46% of the Chinese mobile phone production was exported, in 2006, the export share increased to 75%, i.e. 340 million units out of the 450 million produced.

6. Before the closure of its Finnish plants, the staffing of Perlos (including temporary workers) was distributed as follows: EU 4,207 (Finland, Sweden and Hungary, including 1,105 temporary workers), Asia 7,612 (mainly China and India, including 4,605 temporary workers), North and South America 1,125 (mainly Brazil and Mexico, including 5 temporary workers). Perlos employed 1,600 people in Finland at the end of 2006 (with no temporary workers).

As regards its factory setup, while Finland in the first quarter of 2007 still provided 26 % of the Perlos global factory space in terms of square metres, with China at 41 % and India at zero during the same quarter, this changes drastically for the second half of 2007, when Finland provides zero factory space, China rises to 58 % and India appears for the first time at 12 %.

7. In conclusion, the appreciation of the Commission services is that the redundancies in Perlos Corporation in Finland can be linked, as required by Article 2 of Regulation (EC) No 1927/2006, to major structural changes in world trade patterns, in particular to the delocalisation of the production of mobile phones to countries in Asia, specifically China and India.

(b) Demonstration of the number of redundancies and compliance with the small labour market criterion :

8. Finland submitted this application under the intervention criterion of Article 2(c) of Regulation (EC) No 1927/2006, related to small labour markets. The application demonstrates a total of 899 redundancies in Perlos during the period of reference (from 7 March 2007 to 6 July 2007), plus another 9 redundancies in subcontractors and downstream operators, i.e. a total of 908 redundancies resulting from the Perlos factory closures during the four-month period. A further 7 people were given their notice by Perlos between 10 and 31 July and are also eligible for the measures to be implemented.

On 15 January 2007, Perlos announced that it would engage in co-operation negotiations in order to discontinue all production activities in Finland. These negotiations concerned 1,400 persons in Finland (of whom 1,300 in Northern Karelia). The negotiations ended on 5 March 2007, when the company issued a Stock Market notification, confirming that the redundancies would concern 1,132 persons (of whom 1,104 would be given notice and 28 would settle for pension arrangements). Of these, 1,074 persons are from the Perlos plants in Northern Karelia. 906 of these workers were given their notice between 7 March and 31 July 2007; it is these, plus 9 from three suppliers / downstream operators, who are the subject of this application.

9. The factories being closed are located in Northern Karelia, in the East of Finland. The region is remote from the main population centres of Finland, as well as from the rest of the EU. It is the Easternmost region of the EU, and has a long land frontier with Russia. In respect of the Structural Funds, it is the only part of Finland which is

classified as a "Phasing-In" region, while all others are "Competitiveness and Employment" regions. It is a thinly populated area with a population density of 9 per km<sup>2</sup> (Finland average 17 per km<sup>2</sup>, EU-25 average 117<sup>2</sup> per km<sup>2</sup>). The region has been suffering population losses over the past several years. There is heavy age dependency. The regional authorities are seeking to attract new jobs to the area, so as to support a declining population level and offer new opportunities to the workers laid off by Perlos. This programme is targeted to bear fruit early in 2008.

In this context, the 908 job losses in Perlos and its suppliers and downstream operators are sufficient to comply with the small labour market criterion of Art 2(c) of Regulation (EC) No 1927/2006.

(c) Explanation of the unforeseen nature of those redundancies:

10. At the end of 2006, Perlos employed a total of 1,600 people in Finland. In the labour market review for 2007 prepared by the Employment and Economic Centre of Northern Karelia, the position of Perlos as a significant employer was discussed, together with the Perlos announcement that it had completed the labour cutbacks already implemented. A decrease in total unemployment in the Province was forecast. The situation changed dramatically on 15 January ("Black Monday"), when Perlos announced the factory closures and redundancies in all of its Finnish locations. This resulted in the retention of only 200 personnel in Finland, staffing the head office in Vantaa, as well as technology and support services in Turku, Vantaa, Ylöjärvi and Joensuu.

(d) Identification of the dismissing enterprises, suppliers or downstream producers, sectors, and the categories of workers to be targeted:

11. The application concerns the redundancies as a consequence of factory closures of the company Perlos Oyj in Northern Karelia. The factory sites are situated in Joensuu and Kontiolahti. A total of 906 persons are affected directly in Perlos, plus another 9 persons in suppliers and downstream operators. The application estimates that, in the worst case scenario, job losses of up to 2,400 in Joensuu and Kontiolahti could result, which would correspond to almost 8 % of the total 31,000 jobs in the two districts. The neighbouring districts of Liperi, Pyhäselkä and Eno are also affected, being the places of residence of about 260 Perlos employees.

Those losing their jobs directly in Perlos and with the subcontractors will increase the absolute numbers of unemployed by nearly 40 % in Kontiolahti, 20 % in Liperi, 18 % in Joensuu and Pyhäselkä and approximately 15 % in Eno.

All 915 workers are being targeted for assistance. Of the 906 ex-Perlos workers, 67 % are male and 33 % are female. The largest part, i.e. 86 %, belong to the 25 to 54 years age group, 4 % are over 55 years old and 10 % are under 25 years of age. In terms of professional categories<sup>3</sup>, 65 % fall within the group "plant and machine operators and assemblers", 16 % within the group "technicians and associated professionals", 7 % within the group "legislators, senior officials and managers", 4 %

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<sup>2</sup> Eurostat, Statistical Yearbook 2006 : [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-AF-06-001-01/EN/KS-AF-06-001-01-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-AF-06-001-01/EN/KS-AF-06-001-01-EN.PDF)

<sup>3</sup> Categories based on the International Standard Classification of Occupations, 1 digit, (ISCO-88)

within the group "craft and related trades workers", 4 % within the group "clerks", and 3 % within the group "professionals". 50 workers with long-standing health problems or disabilities are included.

(e) Description of the territory concerned and its authorities and stakeholders:

12. All the relevant stakeholders are involved and working together to help the redundant Perlos workers. The main responsible authority is the Employment and Economic Development Centre of Northern Karelia in co-operation with the Joensuu Region Employment Office. Other partners and important authorities in the area include Joensuu Regional Development Company Josek Oy, North Karelia Educational Federation of Municipalities, North Karelia Federation of Enterprisers, North Karelia New Enterprise Agency (Jobs and Society), the Regional Council of Northern Karelia and the State Provincial Office of Eastern Finland.

On 9 March 2006, the national Ministry of Trade and Industry established the Working Group on Responding to Structural Change, the task of which is to monitor the effects of redundancies nationally, to co-ordinate the tasks of the central government and to support regional level measures to reduce and eliminate problems. The Employment and Economic Development Centre of Northern Karelia established in April 2006 a Working Group whose task was planning measures to create replacement jobs for those made redundant in the branches of Perlos located in the City of Joensuu and Kontiolahti Municipality. Several other working groups are looking at specific projects being planned in response to the Perlos crisis.

(f) Expected impact of the redundancies as regards local, regional or national employment:

The application describes the situation of the local labour market in which the redundancies have taken place. According to the Ministry of Labour's employment exchange statistics, the unemployment rate for women was 13.7 % and for men 14.7 % in Eastern Finland in 2005, averaging 14.2 %, which was clearly higher than the national average in Finland (10.2 %).

13. At the end of December 2006, the share of unemployed jobseekers in the labour force according to Ministry of Labour statistics in the area of the Employment and Economic Development Centre in Northern Karelia was 15.0% (national figure 9.5%), which was the third highest in the country in a regional comparison. In the region of Joensuu Employment Office, the number of the unemployed was 5,769 and the unemployment rate 13.6% at the end of December 2006. There were 342 vacancies. Those losing their jobs directly in Perlos and with the subcontractors increase the absolute numbers of unemployed in the municipalities where the redundant workers live : by nearly 40 % in Kontiolahti, 20 % in Liperi, 18 % in Joensuu and Pyhäselkä and approximately 15 % in Eno.
14. In conclusion, in these circumstances, the redundancies can be seen to have a significantly negative effect on the local economy, in particular in and around Joensuu and Kontiolahti.

(g) Co-ordinated package of personalised services to be funded and a breakdown of its estimated costs, including its complementarity with actions funded by the Structural Funds:

15. The following types of measures are proposed, all of which combine to form a co-ordinated package of personalised services aimed at re-integrating workers into the labour market:
- Job-search assistance : In order to help the redundant workers, a dedicated Perlos Service Unit has been set up. This was necessary because of the large numbers of workers suddenly needing support and advice, which could not be fulfilled by the regular employment services. The majority of Perlos workers were employed for extended periods without needing to seek for jobs, and their job-seeking skills are poor. They require in-depth counselling and advice and need urgent support in drawing up plans and personal projects.
  - Occupational guidance : This involves vocational guidance, skills audits and examinations of ability to work in certain occupations for some of the dismissed employees.
  - Training and re-training : Training will be implemented as (1) joint purchase training, (2) re-training through individual placements (vocational training) aiming at a basic or vocational qualification, (3) degrees in universities of applied sciences in sectors with employment opportunities, such as technology or the social and health care sector, (4) training in computer skills and (5) other preparatory labour force training.
  - Entrepreneurship promotion : Measures relevant to promoting entrepreneurship include an ideas incubator, an Entrepreneur Training project offering advice, consultations and support and giving start-up grants for new entrepreneurs. The dismissed employees will also be offered support in self-employment.
  - Mobility allowance : The two forms of mobility allowance are travel cost allowance and removal cost allowance. Travel cost allowance is given to a redundant worker who travels outside the normal commuting area to a job interview, negotiation on an employment contract or a new job. Removal cost allowance is paid for the removal of a job-seeker's personal property to a new place of residence and work.
  - Other support measures : Other measures contained in the plan include pay subsidy vouchers to support a job seeker's employment by decreasing the wage costs of a new employer. The purpose of a job arranged by the pay subsidy voucher is to improve the vocational skills, competence and labour market position of the unemployed person. This support would be especially targeted towards those aged 50 or over or in a disadvantaged position.
16. The administrative expenditure, which is included in the application, in accordance with Article 3 of Regulation (EC) No. 1927/2006, covers preparatory activities, administrative follow-up of the services provided, information and publicity activities and control activities.

17. The personalised services that are part of the co-ordinated package presented by the Finnish authorities, are active labour market measures that fall within the eligible actions as defined in Article 3 of Regulation (EC) No. 1927/2006. The total costs of these services are estimated by the Finnish authorities at EUR 3,878,075, and the administrative expenditure at EUR 179,000 (approximately 4.5 % of the total amount). The total requested contribution from the EGF is EUR 2,028,538 (50 % of the total costs).

Actions	Estimated number of workers targeted	Estimated cost per worker targeted (in EUR)	Total costs (EGF and national cofinancing) (in EUR)
Personalised services (Article 3(1) )			
Job-search assistance	400	240	96,000
Occupational guidance	1,050	40	42,000
Training and retraining (joint purchase training)	250	1,500	375,000
Training and retraining (individual placement)	100	4,320	432,000
Training and retraining (degrees in universities and colleges)	10	5,000	50,000
Training and retraining (computer skills)	200	1,500	300,000
Training and retraining (other preparatory training)	200	1,500	300,000
Outplacement assistance	1,000	260	260,000
Entrepreneurship promotion (start-up grant)	60	5,900	354,000
Entrepreneurship promotion (ideas incubator)	150	833	124,950
Entrepreneurship (entrepreneur training project)	40	3,750	150,000
Job-search allowances (vocational skills and competence)	350	270	94,500
Mobility allowances	300	233	69,900
Measures to stimulate older workers (50 and over)	80	5,140	411,200
Measures to stimulate disadvantaged workers (subsidy vouchers)	100	3,084	308,400



Measures to stimulate disadvantaged workers (subsidy vouchers in conjunction with training)	75	4,935	370,125
Examination of ability to work (as part of vocational guidance)	70	2,000	140,000
<b>Subtotal personalised services</b>			<b>3,878,075</b>
Technical assistance for implementing EGF (Article 3(3))			
Total administrative expenditure			179,000
<b>Total estimated costs</b>			<b>4,057,075</b>
<b><i>EGF contribution (50 % of total costs)</i></b>			<b><i>2,028,538</i></b>

(h) Date(s) on which the personalised services to the affected workers were started or are planned to start:

18. Personalised services to the affected workers included in the co-ordinated package proposed for co-financing to the EGF were started by Finland on 5 March 2007. This date therefore represents the beginning of the period of eligibility for any assistance that might be awarded from the EGF.

(i) Procedures followed for consulting the social partners:

19. The Finnish authorities confirmed that the workers' representatives were informed in conformity with Finnish law about the forthcoming closure of the Perlos factories. Co-operation negotiations took place between 22 January 2007 and 5 March 2007.

In 2005, the Ministry of Labour had established the Working Group on the Co-ordination and Monitoring of Finding Employment and Change Security. In addition to the Ministry of Labour, this Working Group includes the representatives of central labour market organisations, the Federation of Finnish Enterprises and the Ministry of Social Affairs and Health.

This Working Group on Co-ordination and Monitoring treated the EGF application in two meetings, on 27 February and 29 May 2007. At the meetings, the Working Group welcomed the possibility of obtaining EGF funding and agreed that it would monitor the preparation of the EGF application. The Working Group accepted the EGF application at its meeting of 29 May 2007. In case of a positive funding decision, the Working Group on Co-ordination and Monitoring will act as the national expert organ for the EGF project.

20. As regards the compliance with national and Community legislation concerning collective redundancies, the application confirms that this was done.

(j) Information on actions that are mandatory by virtue of national law or pursuant to collective agreements

21. As regards the fulfilment of the criteria set out in Article 6 of Regulation (EC) No 1927/2006 Finland provided the following elements:

- Finland has confirmed that the financial contribution from the EGF does not replace measures which are the responsibility of companies by virtue of national law or collective agreements. These concern in particular the obligations which employers, employees and the Employment Office have under the change security operating model. The EGF contribution allows the Finnish authorities to offer more personalised services, which are more far-reaching and more effective than those which can be provided by change security.
- In their application, the Finnish authorities provide evidence that the actions provide support for individual workers and are not used for restructuring of companies or sectors.
- Finland has confirmed that the eligible actions referred to under points 15 to 17 above do not receive assistance from other Community financial instruments.
- Finland mentions a regional ESF funded project, called A Bridge Between Working Life Phases, which is different but complementary to the proposed EGF support. The project is being implemented in Northern Karelia since 1 October 2006. Its aim is to create an operating model for responding to challenges posed by dismissals, to produce a guidebook in which information relevant to dismissals is gathered and to seek out support measures that are complementary to those enabled by change security.

22. Management and control systems

Finland has notified the Commission that the financial contribution will be managed and controlled by the Ministry of Labour, acting as managing and paying (certifying) authority for both the ESF and the EGF.

Conclusion

23. In conclusion, for the reasons set out above, it is proposed to accept application EGF/2007/004 FI/Perlos submitted by Finland relating to the redundancies in the factories closed by Perlos Oyj, as evidence has been provided that these redundancies result from major structural changes in world trade patterns which have led to a serious economic disruption, affecting the local economy. A co-ordinated package of eligible personalised services has been proposed. Therefore, it is proposed to deploy the EGF.

## FINANCING

The total annual budget available for the EGF is EUR 500 million. So far, 2 cases have been proposed for funding, for an aggregated amount of EUR 3,816,280.

Article 12 (6) of Regulation (EC) No. 1927/2006 states that, on 1 September of each year, at least EUR 125 million should remain available in order to cover the needs arising until the end of the year. After deduction of the amount already proposed for commitment, an amount of EUR 496,183,720 remains available.

It is proposed to deploy EUR 2,028,538 from the EGF.

**THE COMMISSION IS THEREFORE INVITED TO:**

- approve the conclusions on application EGF/2007/004 FI/Perlos submitted by Finland as set out in this Communication.
- submit to the budgetary authority a proposal to authorise appropriations corresponding to EUR 2,028,538, as specified in point 17 as well as a request for the transfer of this amount in commitment appropriations to budget line 04.0501 (European Globalisation Adjustment Fund) in accordance with Article 12 (3) of Regulation (EC) No 1927/2006.
- authorise the transfer of the identical amount in payment appropriations from budget line 04.0201 (Completion of the European Social Fund) to budget line 04.0501 (European Globalisation Adjustment Fund).