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**COMMUNICATION TO THE COMMISSION**

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contribution from the European Globalisation Adjustment Fund**

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### **on application EGF/2009/010 LT/Snaigė received from Lithuania for a financial contribution from the European Globalisation Adjustment Fund**

Lithuania submitted application EGF/2009/010 LT/Snaigė for a financial contribution from the European Globalisation Adjustment Fund, hereinafter 'EGF', following the redundancies in AB Snaigė and two of its suppliers.

1. The application was received by the Commission from the Lithuanian authorities on 23 July 2009.
2. The application meets the conditions for deploying the EGF as set out in Article 2(c) of Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund<sup>1</sup>, and was submitted within the deadline of 10 weeks referred to in Article 5 of that Regulation.

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

##### (a) Analysis of the link between the redundancies and major structural changes in world trade patterns or the financial and economic crisis

3. The application relates to 651 redundancies in AB Snaigė, a manufacturer of refrigerators, and two of its suppliers, who were made redundant during a period slightly longer than the normal reference period of four months.
4. In order to establish the link between the redundancies and the financial and economic crisis, Lithuania argues that the global economic and financial crisis has had a serious impact on the market for refrigerators and refrigerating equipment. Snaigė has seen its sales in the EU and in the rest of Europe plummet since mid-2008, with the inevitable consequence of redundancies.

Snaigė exports approximately 97 % of its production, with around 60 000 units per quarter being shipped to western European markets (largely the EU and the EEA) during the period from 2006 to 2008, and around 36 000 units being shipped to eastern European markets (largely Ukraine and Moldova) per quarter during the same period.

In the fourth quarter of 2008, as the economic crisis gathered strength, sales to both western and eastern European markets collapsed, dropping to 10 108 units in 2009 Q2 in Western Europe, and 3 561 units in 2009 Q2 in Eastern Europe. For sales to Western Europe this represents a drop of 83 % compared to the average quarterly sales during 2006-2008. For sales to Eastern Europe the drop over the same period is 90 %.

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<sup>1</sup> OJ L 48, 22.2.2008, p.82

These steep drops in sales are consistent with trends seen elsewhere in the EU, where manufacture of electrical equipment has suffered declines of over 22 % in 2009 Q1, and a further drop of 27.5 % in April 2009 alone<sup>2</sup>.

5. In conclusion, the opinion of the Commission services is that the 651 redundancies in Snaigė and its suppliers can be linked, as required by Articles 1 and 2 of Regulation (EC) 1927/2006, to the financial and economic crisis, which has led to a sharp reduction in sales of refrigerators in the firm's main markets.

(b) Demonstration of the number of redundancies and compliance with the criteria of Article 2(c)

6. Lithuania submitted the application under the intervention criterion of Article 2(c) of Regulation (EC) No 1927/2006. This provision allows applicants to derogate from the requirements of Articles 2(a) and 2(b) in small labour markets or in exceptional circumstances when redundancies have a serious impact on employment and the local economy. In this case the applicant must specify which of the main eligibility requirements its application fails to meet, and thus from which it is seeking a derogation. Lithuania has specified that its application seeks to derogate from Article 2(a), where the normal threshold is at least 500 redundancies over a 4-month period. The redundancies in Snaigė took place in two major waves, peaking in November 2008 and February-March 2009, and there was no single four-month period that captured at least 500 redundancies, even though the total redundancies exceeded that figure and reached 651 by adding around six weeks to the reference period. All of these redundancies were calculated in accordance with the second indent of paragraph 2 of Article 2 of Regulation (EC) No 1927/2006, i.e. from the date of the *de facto* termination of the contract of employment before its expiry.
7. In order to justify the exceptional circumstances of these redundancies, Lithuania referred to the particularly difficult economic and labour market situation in Alytus, where Snaigė is based. Alytus has already suffered from large-scale redundancies, particularly in the textile sector, which was the subject of an earlier contribution from the EGF towards the reintegration of workers from the firm Alytaus Tekstilė in 2008<sup>3</sup>. The redundancies therefore have a serious impact on employment and the local economy.
8. The application demonstrates 651 redundancies during the period between 10 December 2008 and 20 May 2009, as follows :
  - 601 in Snaigė,
  - 21 in its supplier, UAB Jugos kabeliai,
  - 29 in its supplier UAB Hoda.

It is the opinion of the Commission services that the total number of job losses in Snaigė and its suppliers during a period slightly longer than that specified in Article 2(a), along with the pre-existence of serious economic disruption in Alytus, combine to meet the criteria of Article 2(c) of Regulation (EC) No 1927/2006.

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<sup>2</sup> Impact of the economic crisis on key sectors of the EU, June 2009. Published by DG Enterprise and industry, 29 June 2009.

<sup>3</sup> Decision of the European Parliament and of the Council of 22 October 2008 (2008/818/EC). OJ L285, 29.10.2008, p. 13.

(c) Explanation of the unforeseen nature of those redundancies

9. The speed and depth of the global economic crisis were not foreseen by any firms or governments. The nature of the recession as far as the manufacturing sector was concerned, with large-scale destocking and a rapid slowdown in new orders was unprecedented in recent times. The redundancies in Snaigė could not, therefore, have been foreseen or easily prevented.

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

10. The application EGF/2009/010 LT/Snaigė concerns a total of **651** redundancies in the following enterprises:

AB Snaigė	601
UAB Jugos kabeliai	21
UAB Hoda	29

11. Of these workers, application EGF/2009/010 LT/Snaigė targets 480 for assistance. Of these 34 % are male and 66 % are female. 77 % belong to the 25 to 54 years age group, 20 % belong to the 55 to 64 years age group, and 3 % belong to the below 25 years age group. None are over 65 years of age. In terms of categories<sup>4</sup>, 1 person belongs to the category 'manager', 28 (6 %) belong to the category 'professionals', 10 (2 %) to the category 'clerks', 327 (68 %) belong to the category 'craft and related trades workers', 44 (9 %) to the category 'plant and machine operators and assemblers', and 70 (14 %) to the category 'elementary occupations'. 16 of the workers targeted for assistance have a long-standing health problem or disability.

(e) Description of the territories concerned and their authorities and stakeholders

12. The application states that Snaigė is situated in Alytus, the main town in the NUTS 3 region of Alytus (Alytaus apskritis) in southern Lithuania. Alytus municipality has a population of 68 300, of whom around 45 800 were of working age. Eurostat figures show that the unemployment rate for Lithuania has increased dramatically over the 12-month period from August 2008 to July 2009, from 6.4 % to 16.7 %. Figures from the Lithuanian Labour Exchange and the Alytus Labour Exchange for the period from June 2008 to June 2009 show an increase in the unemployment rate in Alytus from 4.1 % to 11.4 %.

The main stakeholders include the municipalities of Alytus and Moletai, the Alytus Labour Exchange, the employers and employees organisations, training centres, the Chamber of Commerce, and the Lithuanian state social insurance board and labour inspectorate.

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

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<sup>4</sup> According to the International Standard Classification of Occupations (ISCO) ISCO-08 classification of the ILO adopted in December 2007.

13. The application demonstrates that the redundant workers account for around 1.3 % of the working age population of Alytus, and that their unemployment will add to an already difficult situation in the local labour market. In 2007-2008 another major employer in the area, Alytaus Tekstilė, made 1 089 workers redundant, and the area was only starting to recover from this blow through an earlier EGF contribution when the economic crisis struck.
14. In conclusion, in such circumstances, the redundancies can be seen to have a serious negative effect on the regional and local economy described.

(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 proposed package of personalised measures outlined in the application comprises ten distinct actions, in addition to the technical assistance necessary for the implementation of the package. The ten actions, which combine to form a co-ordinated package of personalised services aimed at re-integrating workers into the labour market, are:
- Job-search Assistance, including the provision of information and counselling to all redundant workers from Snaigė who register at the Alytus Labour Exchange. In order to ensure the fast reintegration of the workers into the labour market, the Labour exchange will provide individual counselling and mediation, and for each worker an individual 'back to work' plan will be drawn up, taking into account the abilities and preferences of the workers. It is estimated that 449 workers will avail of this action.
  - Training and retraining will be provided for workers whose skills are not in demand in the local labour market. Such training will be focussed on providing these workers with skills for which there is a demand. It is estimated that 70 workers will benefit from this action.
  - Outplacement assistance, in three different formats, will be offered. For those workers who are particularly disadvantaged or over 50 years of age, employment subsidies will be provided to assist them back into the labour market. It is estimated that 60 workers will benefit from this action. An additional 20 workers will be assisted to acquire professional skills in the workplace through vocational training, and finally, for those without skills but who are at risk of exclusion from the labour market, special time-limited public work employment will be provided. It is estimated that 70 workers will benefit from this latter action.
  - Training allowances will be paid to redundant workers participating in training and retraining (as described above). An additional allowance will enable the workers to travel to and from such training. 70 workers will benefit from this support.
  - Temporary Financial Aid, aimed at motivating redundant workers to accept a new job at a lower wage rate than their previous job, will be paid to workers who accept a new job under a contract of not less than six months (the contract can be either temporary or permanent). It is estimated that 50 workers will benefit from this action.

- Entrepreneurship promotion – redundant workers setting up their own businesses will be eligible to receive compensation for training or counselling relating to business start-up or business organisation, compensation for the costs involved in registration of self-employment, health and social, insurance costs, and the costs of machinery, equipment and instruments required for the workplace. Under national rules, the total support for entrepreneurship may not exceed 15 times the minimum monthly salary. It is estimated that 10 workers will benefit from this action.
- Support for improving qualifications – this measure will specifically target 10 higher educated redundant workers to acquire new competencies in order to facilitate their reintegration into the labour market.
- Mobility allowances – in order to facilitate geographic mobility, and to allow redundant workers to seek new employment outside the Alytus area, this measure will support the travel costs of an estimated 10 workers for a maximum of three months.
- Job-search allowances – redundant workers involved in active job search activities will be eligible for a time-limited support equivalent to 15 % of the Lithuanian minimum salary for a period of up to three months. It is estimated that 440 workers will benefit from this action.
- Support for child-care and care of disabled family members – in order to facilitate the reintegration of redundant workers with dependent children (up to 8 years of age) or disabled family members with special care needs, an additional allowance will be paid for a maximum period of three months in order to cover the additional costs that the workers will face in order to avail of training or other actions. It is estimated that 10 workers will benefit from this action.

16. The administrative expenditure, as described in the application, in accordance with Article 3 of Regulation (EC) No 1927/2006, covers the management and control activities of the application as well as information and publicity.

17. The personalised services as part of the co-ordinated packages presented by the Lithuanian authorities in the application 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 Lithuanian authorities at EUR 369 350 and the administrative expenditure at EUR 27 825 (= 7 % of the total amount). The total requested contribution from the EGF is EUR 258 163 (65 % of the total costs).

Actions	Estimated Number of workers targeted	Estimated cost per worker targeted (in EUR)	Total costs (EGF and national co financing) (in EUR)
<b>Personalised services</b> (first paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Job-search Assistance	449	35.6	16 000
Training and retraining	70	930	65 100
Outplacement assistance	150	677	101 500
Training allowances	70	830	58 100
Temporary Financial Aid	50	650	32 500
Entrepreneurship promotion	10	3 475	34 750
Support for improving qualifications	10	1 390	13 900
Mobility allowances	10	210	2 100
Job-search allowances	440	100	44 000
Support for child-care and care of disabled family members	10	140	1 400
<b>Subtotal personalised services</b>			<b>369 350</b>
<b>Technical assistance for implementing EGF</b> (third paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Management			21 925
Information and publicity			2 500
Control activities			3 400
<b>Subtotal administrative expenditure</b>			<b>27 825</b>
<b>TOTAL ESTIMATED COSTS</b>			<b>397 175</b>
<b><i>EGF contribution (65 % of total costs)</i></b>			<b><i>258 163</i></b>

18. As regards the complementarity with actions funded by the Structural Funds, Lithuania confirms that the measures described above are complementary.



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

19. Personalised services to the affected workers included in the co-ordinated packages proposed for co-financing through the EGF were started by Lithuania on 1 August 2009.

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

20. The Lithuanian authorities confirmed that the package of measures has been designed in full consensus with the social partners and that all measures included in the package were supported by the social partners.
21. The Lithuanian authorities confirmed that the requirements laid down in national and Community legislation concerning collective redundancies have been complied with.

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

22. As regards the fulfilment of the criteria set out in Article 6 of Regulation (EC) No 1927/2006, the application provided the following elements:
- The Lithuanian authorities 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.
  - The Lithuanian authorities demonstrated that the actions provide support for individual workers and are not to be used for restructuring companies or sectors.
  - The Lithuanian authorities confirmed that the eligible actions referred to under points 15 to 17 above do not receive assistance from other Community financial instruments.

23. (k) Management and control systems

Lithuania has notified the Commission that the financial contributions will be managed and controlled by the same authorities and bodies charged with the delivery and oversight of European Social Fund (ESF), and specifically EQUAL Community Initiative, funding in Lithuania. The management authority will however deviate from this arrangement, as the Lithuanian Labour Exchange, under the Ministry of Social Security and Labour, which did not carry out this role under the EQUAL Community Initiative, has been designated for this role.

(l) Conclusion

24. In conclusion, for the reasons set out above, it is proposed to accept application EGF/2009/010 LT/Snaigė submitted by Lithuania, relating to the redundancies in AB Snaigė and two of its suppliers, as evidence of a direct and demonstrable link has been provided that these redundancies result from the global economic and financial

crisis. A co-ordinated package of eligible personalised services has been proposed. Therefore, it is proposed to mobilise the EGF in response to the application from Lithuania.

## **FINANCING**

- The total annual budget available for the EGF is EUR 500 million. So far, four cases have been accepted for funding in 2009, and a further four cases have been proposed to the Budgetary Authority, amounting to a total of EUR 37 107 624.
- 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 any needs arising until the end of the year.
- After deduction of the amounts already accepted and already proposed for commitment, an amount of EUR 462 892 376 remains available.
- Article 2(c) of Regulation (EC) No 1927/2006 states that the aggregated amount of contributions in exceptional circumstances may not exceed 15 % of the annual maximum amount of the EGF. The present application is the first in 2009 to cite exceptional circumstances within the meaning of this provision, and if approved would amount to 0.05 % of the annual maximum amount.
- It is proposed to deploy EUR 258 163 from the EGF for application EGF/2009/010 LT/Snaigė.

## **THE COMMISSION IS THEREFORE INVITED TO:**

- conclude that the conditions for a financial contribution from the EGF to application EGF/2009/010 LT/Snaigė submitted by Lithuania are met;
- submit to the budgetary authority a proposal to authorise appropriations corresponding to EUR 258 163 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 an identical amount in payment appropriations from budget line 04.021700 (European Social Fund (ESF) - convergence) to budget line 04.050100 (European Globalisation Adjustment Fund).