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**COMMUNICATION TO THE COMMISSION**

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### **on application EGF/2009/016 LT/Manufacture of furniture received from Lithuania for a financial contribution from the European Globalisation Adjustment Fund**

Lithuania submitted application EGF/2009/016 LT/Manufacture of furniture for a financial contribution from the European Globalisation Adjustment Fund (hereinafter "EGF"), following redundancies in several enterprises operating in the NACE Revision 2<sup>1</sup> Division 31 (manufacture of furniture) in the NUTS II region of Lithuania (LT00).

1. The application was received by the Commission from the Lithuanian authorities on 23 September 2009, and supplemented by additional information received on 16 October 2009.
2. The application meets the conditions for deploying the EGF as set out in Article 2(b) 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>2</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 the financial and economic crisis

3. The application relates to 1 469 redundancies in the furniture manufacturing industry during the reference period of nine months between 16 October 2008 and 15 July 2009.
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 consumer expenditure in Lithuania and in the industry's export markets, as well as severely reducing the industry's access to financial credits. As a result, the volume of furniture production in Lithuania has fallen in each of the quarters of the reference period specified in point 3 compared with the previous quarter: 2008 Q4 -5.90 %, 2009 Q1 -17.33 %, and 2009 Q2 -7.23 %, with the redundancies as a consequence.

The Lithuanian furniture industry exported over 50 % of its production in 2008, but exports dropped by 20.1 % in value terms during the first half of 2009.

The slow-down in construction activity, both in Lithuania and elsewhere, has had a negative effect on the market for furniture. As the construction sector in the EU has

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<sup>1</sup> Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE 2 Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC regulations on specific statistical domains.

<sup>2</sup> OJ L 48, 22.2.2008, p.82

been directly affected by the decrease in residential and commercial investment caused by the financial crisis, the reduction in furniture sales can be seen as a clear indirect consequence of the crisis.

These steep drops in production are consistent with trends seen elsewhere in the EU, where manufacture of furniture has suffered declines of over 19.6 % in 2009 Q1 and 18.2 % in April 2009 compared with the corresponding periods of the previous year<sup>3</sup>.

5. In conclusion, the opinion of the Commission services is that the 1 469 redundancies in the furniture manufacturing industry 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 furniture in Lithuania and in export markets.

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

6. Lithuania submitted the application under the intervention criterion of Article 2(b) of Regulation (EC) No 1927/2006, which requires at least 500 redundancies to occur within a nine-month period of reference in a NACE 2 division in one region or two contiguous regions at NUTS II level.
7. The application demonstrates 1 469 redundancies in 49 enterprises, all operating in the NACE Revision 2 Division 31 (manufacture of furniture) during the period between 16 October 2008 and 15 July 2009. 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.
8. The entire territory of Lithuania forms a single region at NUTS II level (LT00).
9. It is the opinion of the Commission services that the total number of 1 469 job losses in the NACE Revision 2 Division 31 (manufacture of furniture) in Lithuania during the reference period meet the criteria of Article 2(b) of Regulation (EC) No 1927/2006.

(c) Explanation of the unforeseen nature of those redundancies

10. The speed and depth of the global economic crisis were not foreseen by either firms or governments. As late as the third quarter of 2008, furniture production in Lithuania was still increasing. 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 the furniture manufacturing industry 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

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<sup>3</sup> Impact of the economic crisis on key sectors of the EU – the case of the manufacturing and construction industries, June 2009 Update. Published by DG Enterprise and Industry, 29 June 2009.

11. The application EGF/2009/016 LT/Manufacture of Furniture concerns a total of **1 469** redundancies in the following 49 enterprises:

AB Balticsofa	57	UAB Malina dizainas	2
AB DILIKAS	253	UAB Medzio idejos	4
AB Venta	34	UAB Mevilanas	14
AB Vilniaus baldai	2	UAB Nabukas	7
Il Dalduva	2	UAB Narbutas ir ko	196
UAB Akai	6	UAB NB baldai	16
UAB Alantas	29	UAB Orange sofa	16
UAB Architektura ir dizainas	7	UAB Paina ir ko	7
UAB Auriksa	5	UAB Plunges baldai	23
UAB Baldista	6	UAB Polikora	16
UAB Baldistra	85	UAB Rastenis	4
UAB Baltfora	137	UAB RISVE & Co	13
UAB Baltic sofa	25	UAB Rivaka	7
UAB Baltijos marmuras	4	UAB Saikirta	25
UAB Emira	5	UAB Sendvario baldai	16
UAB Europlius	4	UAB Sofa Brands	79
UAB GDBS	17	UAB Softimus	35
UAB Ginsta	28	UAB TP idejos	26
UAB Gojaus baldai	10	UAB TRIVILITA-INTERSCALIT	2
UAB Inwood	11	UAB Vibaltpega	4
UAB Jures ažuolas	17	UAB Videlena	71
UAB Kriolis	6	UAB Virbalio baldai	33
UAB LB baldai	5	UAB Zbiga	25
UAB Limenta	17	UAB Zeimių baldai	54
UAB Luonato ranga	2		

12. Of the 1 469 dismissed workers, 636 are targeted for assistance. Of these 44 % are male and 56 % are female. 79 % belong to the 25 to 54 years age group, 13 % belong to the 55 to 64 years age group, and 8 % belong to the below 25 years age group. None are over 65 years of age. In terms of categories<sup>4</sup>, 29 (4.6% of those targeted for assistance) workers belong to the category 'manager'; 27 (4.2 %) belong to the category 'professionals'; 43 (6.8 %) to the category 'technicians and associate professionals'; 13 (2 %) belong to the category 'clerks'; 8 (1 %) belong to the category 'service workers and shop and market sales workers'; 10 (1.6 %) belong to the category 'skilled agricultural and fishery workers'; 352 (55.3 %) to the category 'craft and related trades workers'; 62 (9.7 %) to the category 'plant and machine operators and assemblers'; and 92 (14.5 %) to the category 'elementary occupations'. 24 of the workers targeted for assistance have a long-standing health problem or disability. All of the redundant workers and all of the targeted workers are EU citizens.

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

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

13. The entire territory of Lithuania is affected by the redundancies in the furniture manufacturing industry, though the industry is largely based in rural areas.

The main stakeholders include the Lithuanian Labour Exchange, the district and county labour exchanges, the municipalities, 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

14. The application argues that since the furniture manufacturing industry was largely located in rural districts with unemployment levels higher than the national average, the redundancies will exacerbate the labour market problems of these districts. At national level, unemployment has risen sharply since the start of the financial and economic crisis, which has manifested itself in Lithuania as a severe recession. GDP has contracted during the three quarters covered by the reference period of this application (2008 Q4, 2009 Q1 and Q2). Eurostat statistics show that Lithuanian GDP in 2009 Q2 is 20.2 % lower than that of a year earlier.

The redundancies in the furniture manufacturing industry, amounting to approximately 0.1 % of the entire employed labour force, and to approximately 10 % of the numbers employed in the furniture manufacturing industry at the start of the crisis, add to a situation that is already causing enormous social and budgetary difficulties in Lithuania.

15. In conclusion, in such circumstances, the redundancies can be seen to have a negative effect on the national and local economies 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

16. 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:

- 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. The actions will last for an average of five months, and it is estimated that 150 workers will benefit from this measure.
- Outplacement assistance, through the form of supported employment according to the national law on support of employment, will be offered in three different formats:
  - (a) For those workers who are particularly disadvantaged or over 50 years of age,

employment subsidies will be provided to stimulate them to remain in or return to the labour market. It is estimated that 150 workers will benefit from this action, which will last between 6 and 12 months.

(b) Support will be provided for the acquisition of professional skills to 30 workers. This will allow them to acquire new skills directly in the workplace.

(c) For those without skills but who are at risk of exclusion from the labour market, special time-limited public work employment will be provided for a maximum of 6 months. It is estimated that 120 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. 150 workers will benefit from this support, which is estimated to last an average of 5 months.
- Entrepreneurship promotion – two similar measures, differing mainly in their intensity, will be aimed at redundant workers setting up their own businesses. In both the workers 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.  
In the first measure, under national rules the total support for entrepreneurship may not exceed 15 times the minimum monthly salary. It is estimated that 45 workers will benefit from this action.  
It is estimated that an additional 10 workers will benefit from a more intense entrepreneurship promotion measure based upon the national law on the support of employment. The ceiling for assistance is higher.
- Mobility allowances – in order to facilitate geographic mobility, and to allow redundant workers to seek new employment outside the areas in which they currently live, this measure will support the travel costs of an estimated 10 workers for a maximum of three months.
- Employment incentives – to encourage redundant workers to accept new employment as quickly as possible, a bonus equal to three times the minimum salary may be paid to workers who accept a permanent or a temporary contract with a minimum duration of 6 months, within 2 months of registering with the local labour exchange. It is estimated that 30 workers will benefit from this measure.
- 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 30 workers will benefit from this action.
- 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 550 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 30 workers will benefit from this action.  
An additional 10 workers will benefit from an allowance to cover the costs of dependent children (up to 8 years of age) or disabled family members with special care needs, for a maximum of 6 months after taking up new employment.
- Support for improving qualifications – this measure will specifically target 20 higher educated redundant workers to acquire new competencies in order to facilitate their reintegration into the labour market.

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

18. The personalised services as part of the co-ordinated package 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 947 295 and the administrative expenditure at EUR 71 302 (= 7 % of the total amount). The total requested contribution from the EGF is EUR 662 088 (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)			
Training and retraining	150	870	130 500
Outplacement assistance	300	980.50	294 150
Training allowances	150	900	135 000
Entrepreneurship promotion (basic)	45	3 475	156 375
Entrepreneurship promotion (intensive)	10	8 690	86 900
Mobility allowances	10	210	2 100
Employment incentives	30	690	20 700
Temporary Financial Aid	30	690	20 700
Job-search allowances	550	100	55 000
Support for care of children and disabled family members (during training)	30	139	4 170
Support for care of children and disabled family members (while in employment)	10	1 390	13 900
Support for improving qualifications	20	1 390	27 800
<b>Subtotal personalised services</b>			<b>947 295</b>
<b>Technical assistance for implementing EGF</b> (third paragraph of Article 3 of Regulation (EC) No 1927/2006)			
Preparatory			2 500
Management			62 902
Information and publicity			2 500
Control activities			3 400
<b>Subtotal administrative expenditure</b>			<b>71 302</b>
<b>TOTAL ESTIMATED COSTS</b>			<b>1 018 597</b>
<b>EGF contribution (65 % of total costs)</b>			<b>662 088</b>

19. As regards the complementarity with actions funded by the Structural Funds, Lithuania confirms that the measures described above are complementary. The EGF assistance will be directly targeted at mitigating the consequences of mass redundancies associated with the effects of globalisation, while support from the European Social Fund (ESF) is programmed and used to finance active labour market policy measures planned over the 2007-2013 programming period. The ESF support is multi-annual and unsuited to respond quickly to unexpected shocks in the labour market, unlike the EGF.

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

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

This date therefore represents the beginning of the periods of eligibility for any assistance that might be awarded from the EGF.

(i) Procedures followed for consulting the social partners

21. 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.
22. The Lithuanian authorities confirmed that the requirements laid down in national and EU 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

23. 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 16 to 18 above do not receive assistance from other EU financial instruments.

24. (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) funding in Lithuania, and specifically the EQUAL Community Initiative. The managing 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

25. In conclusion, for the reasons set out above, it is proposed to accept application EGF/2009/016 LT/Manufacture of furniture submitted by Lithuania, relating to the redundancies in the furniture manufacturing industry, as evidence has been provided that these redundancies result directly from the global economic and financial crisis, and have led to serious economic disruption affecting employment and the regional and local economy. 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, eight cases have been accepted for funding in 2009, and a further three cases have been proposed to the budgetary authority, amounting to a total of EUR 53 039 047.
- 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 446 960 953 remains available. It is proposed to deploy EUR 662 088 from the EGF for application EGF/2009/016 LT/Manufacture of furniture.

**THE COMMISSION IS THEREFORE INVITED TO:**

- conclude that the conditions for a financial contribution from the EGF to application EGF/2009/016 LT/Manufacture of furniture submitted by Lithuania are met;
- submit to the budgetary authority a proposal to authorise appropriations corresponding to EUR 662 088 as specified in point 18 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 04.0217 (European Social Fund (ESF) - convergence) to budget line 04.0501 (European Globalisation Adjustment Fund).