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ERM Quarterly, Quarter 3, October 2016

Abstract

In this issue

- Support instruments in focus: innovative business transfer measures
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- Case in focus: Planned Caterpillar closure at Gosselies

Keywords

Eurofound, business transfer measures, job creation, job loss, employment

Comments

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EMCC | European Monitoring Centre on Change

ERM quarterly

Quarter 3 October 2016

Macroeconomic trends and prospects

The IMF, in its October **World economic outlook**, has revised forecasts for global growth downwards to 3.1% in 2016. Sub-par growth in the developed world economies risks perpetuating itself, according to the Fund. The authors of the report draw an important linkage between continuing low growth – and growing inequality – and the political backlash against economic integration and globalisation: the Brexit vote is 'only one example of this tendency'. Potential trade barriers and geopolitical tensions – notably in all areas bordering the EU – contribute to increasing downside risks for the global and European economies.

The closure announced by US equipment manufacturer Caterpillar of its Gosselies plant in Belgium was the most publicised restructuring announcement during the quarter (see 'Case in focus' on p. 4) and bears some similarities to the earlier Renault Vilvoorde case in 1998 – one of the original spurs to starting up the ERM database of restructuring cases.

Job creation and job loss at a glance

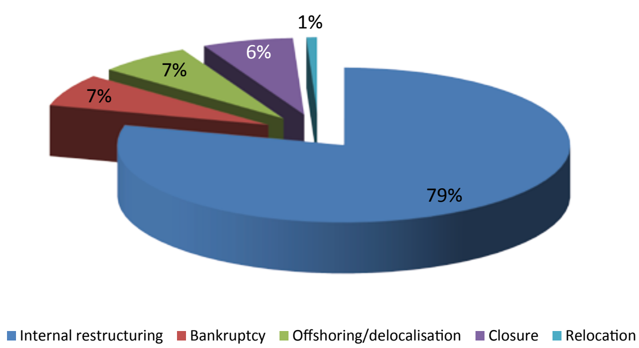
The ERM recorded a total of 327 cases of restructuring between 1 July and 30 September 2016. Of these, 130 were cases of announced restructuring involving job loss and 153 were cases involving announced job creation; 1 case involved both job loss and job creation. These cases comprised a total of 62,923 announced job losses and 51,536 announced job gains. In addition, the ERM recorded nine large transnational cases. Internal restructuring accounted for 79% of the announced job losses, an increase compared to the proportion of announced job losses last quarter (45%). Bankruptcy and closure events accounted for 13% of job losses this quarter. The proportion of announced job loss attributed to offshoring and relocation was 8%. In terms of geographical distribution and absolute numbers, Poland recorded the greatest number of announced job losses (13,796 jobs), followed by the UK (11,197) and France (8,944). The UK also recorded the greatest number of announced job gains (10,811), followed by Poland (8,475) and France (5,493).

2016 Q2	Announced job losses	Announced job gains
EU28 + Norway	62,923	51,536
EU28 + Norway, change on previous quarter	-21%	-24%
Big increases by country*	Poland++ Croatia++ Belgium+ France+ Spain+	Germany+
Big increases by sector*	Mining and quarrying++ Construction++ Public administration++ Information and communication+	Professional, scientific and technical++ Accommodation and food service+

* Comparing the quarter to the four-quarter moving average; ++ = >100%; + = >50%; excludes country or sector if quarter average and 2016 Q3 <1,000 job losses or gains.

Source: ERM, July–October 2016

Reasons for announced job losses

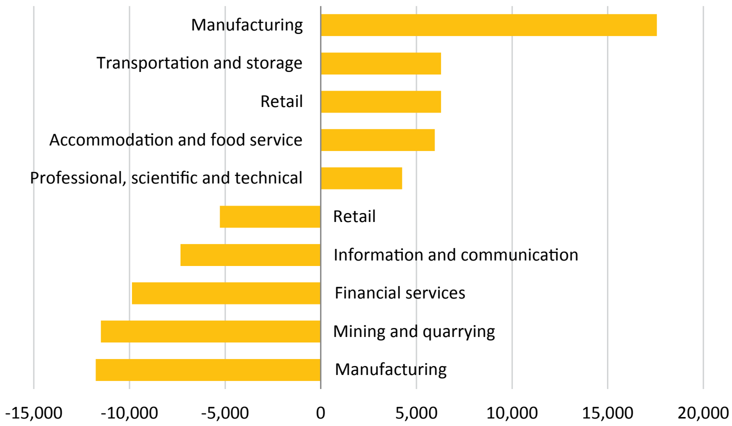


Eurofound

Sectoral distribution of job losses and gains

The figure below plots the top sectors (NACE rev.2 one-digit) in terms of announced job loss and job creation, as reported to the ERM in the third quarter of 2016. In absolute numbers, the largest announcements of job losses were recorded in the sectors of manufacturing (11,769), mining and quarrying (11,501) and financial services (9,869). Manufacturing also recorded the largest announcements of job gains (17,572), followed by transportation and storage (6,280) and retail (6,280). However, retail also appears in fifth place among the announced job losses (5,279).

Announced job loss and job gain: Top five sectors, Q3 2016



Announced job gains

Manufacturing	17,572
Transportation and storage	6,280
Retail	6,280
Accomodation and food service	5,963
Professional, scientific and technical	4,250

Announced job losses

Retail	-5,279
Information and communication	-7,340
Financial services	-9,869
Mining and quarrying	-11,501
Manufacturing	-11,769

Top 5 cases of job loss and job creation

Date	Company	Job losses	Location	Sector	Type of restructuring
02/08/2016	SFR	5,000	France	Information/communication	Internal restructuring
21/07/2016	PGG	4,897	Poland	Mining and quarrying	Internal restructuring
28/07/2016	Lloyds Banking Group	3,000	UK	Financial services	Internal restructuring
21/07/2016	Banco Popular	2,900	Spain	Financial services	Internal restructuring
02/09/2016	Caterpillar	2,101	Belgium	Manufacturing	Offshoring/delocalisation

The biggest case of job loss during the third quarter was that of French telecommunications company **SFR**. In August, it announced 5,000 job cuts over the coming three years. The reorganisation follows the acquisition of the company by Altice and a recent decline in its customer base. In the second-largest case, 4,897 job cuts were announced by Polish mining company **Polska Grupa Górnicza** (PGG – see p. 3). In the UK, **Lloyds** announced 3,000 job cuts, mainly at its branches, citing the increasing preference for online banking; the bank stressed that the decision to cut these jobs was taken before the referendum on EU membership. In the fourth-largest case, **Banco Popular** in Spain announced a restructuring involving 2,900 losses – largely foreseen as voluntary redundancies and early retirement. In the fifth-largest case (p. 4), **Caterpillar** announced over 2,000 jobs cut with the closure of its Gosselies production plant in Belgium.

Date	Company	Job gains	Location	Sector
27/07/2016	McDonald's	5,000	UK	Accomodation/food service
28/09/2016	Deloitte	2,200	France	Professional services
15/09/2016	IKEA	1,700	Spain	Retail
26/07/2016	Porsche	1,400	Germany	Manufacturing
28/08/2016	Deutsche Bahn	1,200	Germany	Transport and storage

The biggest case of job creation reported during the quarter was in the UK, where US fast-food chain **McDonald's** announced the opening of 25 new outlets and the recruitment of 5,000 people on permanent contracts over the next year. Meanwhile, multinational services group **Deloitte** announced the creation of 2,200 new positions across France. About 30% of these will be for engineers, the expansion being linked to digitalisation and big data. The third-largest case of job gains were the 1,700 new positions announced by **IKEA Spain**. Following an increase in consumer demand, the company is going to open new stores and increase its delivery strategy by promoting the use of its online catalogue. Car manufacturer **Porsche** is going to create 1,400 new positions to develop electric sports cars at its German plant based in Stuttgart-Zuffenhausen: 1,200 positions for the production line, and at least 100 IT-specialists and 50 experts for its digital unit. The fifth biggest job gain case is also based in Germany: **Deutsche Bahn** is planning to hire 1,200 train drivers. The vacancies will be filled through new entrants and apprentices.

SUPPORT INSTRUMENTS IN FOCUS

Innovative forms of business transfer

Business transfer and succession, the handover of ownership and management from one entrepreneur to another, is a recurring topic on the policy agenda at EU and Member State level: a successful business transfer has the potential to safeguard jobs. Nonetheless, this form of internal restructuring has proven to present many challenges in practice.

The European Commission, recognising the importance of the topic, issued Directive 2001/23, which aims at protecting the acquired rights of affected employees. At the same time, expert groups have discussed how to **support entrepreneurs in successfully enacting business transfers**. At national level, Member States have devised different ways of facilitating business transfers: some measures entail some kind of financial support while others focus on providing information and advice to companies.

In terms of information and advice, in a number of Member States the succession bourse option is available to companies interested in a business transfer – in **Austria**, **Belgium**, **Luxembourg**, **France**, **Germany**, and **the Netherlands**. The succession bourse is a tool aimed at listing buyers and sellers (almost always anonymously) and facilitating a match. In many cases, they are run by a chamber of commerce with the support of national funds. In Austria, Luxembourg and Germany, the listing is free of charge. In Belgium and the Netherlands, the listings are accessible only to members of the chambers of commerce. In Luxembourg, the Netherlands and Germany, there is a matching service: the bourse helps companies find a possible buyer (or seller) and facilitates the process with meetings, documentation support and advice.

There are also some regional bourses in which different chambers of commerce collaborate. For example, **Transenterprise in France** covers 16 regions. Potential buyers can consult the regional bourse database for free, while sellers must pay a fee of €150 to publish an offer (which includes support for drafting it). Professional advice and guidance are provided: companies have access to a network of 600 technical advisers and 2,700 notaries, chartered accountants and real estate agents. Workshops and network activities such as meetings and exhibitions are also organised. In the Wallonie region in **Belgium**, an annual flat fee is charged to buyers for the use of the platform. An additional success fee for direct buyers also applies if matching was achieved through the database.

Austrian law provides for financial support in the form of exemption from stamp duty and fees for national administrative documents and for formal procedures related to a transfer. Property taxes are applicable only over a value of €7,500. Another form of financial support to companies undertaking a business transfer is a contribution towards employees' salary: in the **Czech Republic**, national funds can be used to cover up to 50% of the minimum wage for a maximum of six months. This applies in cases where an employer taking over an existing business is not in a position to guarantee the contracted number of hours to its workers.

For further information, please visit Eurofound's ERM **database of restructuring support instruments**.

CASE IN FOCUS

Restructuring in Polish coal-mining sector

Nearly 13,000 jobs have been lost in the Polish mining sector since the beginning of 2016, arising from large-scale restructurings recorded by the ERM. The sector is suffering the effects of the slowdown in demand of coal worldwide, despite a commitment by the newly elected Polish government to continue using coal as a source of energy. Two key bodies are involved in the sector's restructuring: Mines Restructuring Company (SKR) and **Polska Grupa Górnicza** (PGG).

The restructuring of the Polish coal business is assigned to SKR, a company fully owned by the State Treasury. Its mandate is to manage the process of closing down mining companies, including the assets of liquidated mines. One of the biggest cases involving the transfer of mines concerns **Jastrzębska Spółka Węglowa**. The company will cut 2,900 positions by the end of 2017 as part of a long-term restructuring plan (from 2016 to 2025) in which some subsidiaries (the Ruch Jas-Mos and Krupiński coal mines) will be transferred to SKR, and others (Spółka Energatyczna Jastrzębie and Wałbrzyskie Zakłady Koksownicze Victoria) will be sold.

PGG is a limited liability company created in April 2016 in an agreement facilitated by the Polish government involving energy business companies, banks and social partners. Its business plan envisages stricter controls of coal production and a commitment to manage mining companies in difficulty for the next two years. The government is planning to reorganize and regulate the sector, in order to return it to profitability. PGG acquired 11 coal mines with 32,500 employees from Kompania Węglowa, one of the biggest mining companies in Europe. PGG initiated a voluntary dismissals programme in July affecting nearly 5,000 workers and announced a further 660 job losses in administration and management positions in September 2016.

Poland relies on coal for 90% of its electricity generation and the ruling Law and Justice party has signalled that it will support the coal industry, if necessary at the expense of the renewable energy sector. The restructuring involves significant financial support to the industry and will be subject to EU scrutiny for **compliance with rules on state aid**.

CASE IN FOCUS

Caterpillar announces closure of Belgian plant in Gosselies

The crisis in the mining and quarrying sector has had a knock-on effect on associated manufacturing. In September 2016, the US construction and mining machinery manufacturer Caterpillar announced the closure of its facility in Gosselies, Belgium, involving the loss of over 2,000 jobs. Production at the site will be moved to Grenoble in France and to other production sites outside Europe. The company says it decided to close the Gosselies facility because of the large size of the site and its high production costs; the company has also been battling with a decline in demand for its products. The closure is part of a global restructuring plan announced in September 2015, which is expected to entail the loss of between 5,000–10,000 jobs in total. More than 1,300 employees were already made redundant from the Gosselies site in 2013 (it is estimated that the company has reduced its workforce by over 30,000 since the middle of 2012).

This latest announcement has provoked a strong reaction locally and from trade unions; commentators are likening this to the protests against the closure of Renault's Vilvoorde site in Belgium in the late 1990s. The announcement date, 2 September, has already been dubbed 'Black Friday' by locals; it is reported that some workers seized bulldozers and attempted to block the entrance to the Gosselies plant. Gosselies is situated in one of the most economically deprived regions of Belgium, an area that was part of its former manufacturing heartland but which has been in industrial and economic decline for decades. The Caterpillar plant is therefore an important source of employment in the area.

The European trade union IndustriAll has stated that the Caterpillar plant is profitable and should not be closed. Matthias Hartwich, IndustriALL director for mechanical engineering and materials industries, stated: '**This is part of the ongoing deindustrialisation of Belgium**, and shows that Caterpillar cares only about return on investment, and not the sacrifices made by its loyal workforce. This is a profitable plant that will shut because the company has found a way to cut costs further. Throughout this process, there has been no proper consultation with the works council. This is why it is necessary to install genuine social dialogue'.

However, in a press release on 2 September, Caterpillar stated that it had to respond to lower demand for its products. Tom Pellette, Caterpillar group president with responsibility for construction industries, stated: 'We have to contemplate actions to reduce manufacturing capacity and **take operating costs out of our business to align with lower demand**. Should the intention be confirmed, we will support the local leadership in order to mitigate the impact on our employees, their families and the communities where we're located'. The company emphasised that it is committed to complying with the applicable laws and to engaging in a constructive dialogue with employee representatives in order to minimise the social impact of this decision.

There has been a strong political reaction to the Caterpillar decision both in Belgium and at European level. Belgian opposition parties have accused the right-leaning coalition government of not doing enough to support employment and manufacturing in the country. A task force has been established with the participation of the European Commission and Belgian national and regional authorities. Its role will be to monitor the information and consultation processes during the Gosselies restructuring, identify possibilities of EU funding for the affected workers (such as the European Globalisation Adjustment Fund) as well as possible reconversion options for the site.

The company will now begin the formal information and consultation process on the closure.

About the ERM

The European Restructuring Monitor (ERM) is a unique EU-wide dataset on larger-scale restructuring events. It monitors the announced employment effects of restructuring in the EU28 and Norway. The ERM is updated on a daily basis and data can be used for statistical analysis. It relies on reports in selected media titles. The data for this report were extracted on 10 October 2016. For more, visit the **European Restructuring Monitor web page**.

This issue is based on contributions from Eleonora Peruffo, Wendy Jacobs, John Hurley and Andrea Broughton (EU-level correspondent). EF/16/51