

European restructuring monitor *quarterly*

Issue 3 – autumn 2010

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Country codes

EU27

AT	Austria	LV	Latvia
BE	Belgium	LT	Lithuania
BG	Bulgaria	LU	Luxembourg
CY	Cyprus	MT	Malta
CZ	Czech Republic	NL	Netherlands
DK	Denmark	PL	Poland
EE	Estonia	PT	Portugal
FI	Finland	RO	Romania
FR	France	SK	Slovakia
DE	Germany	SI	Slovenia
EL	Greece	ES	Spain
HU	Hungary	SE	Sweden
IE	Ireland	UK	United Kingdom
IT	Italy		

Other countries

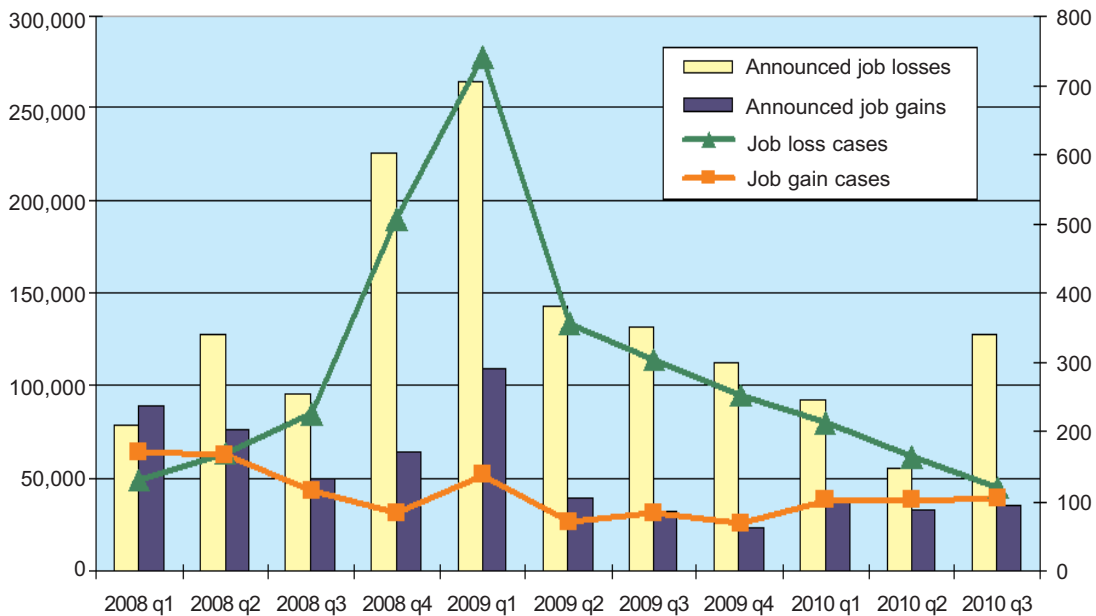
NO	Norway	JP	Japan
		US	United States of America

Summary

The pace of recovery following the 2008–9 economic crisis has picked up somewhat throughout 2010 with the EU forecast to register 1.7% growth in 2010. Uncertainty however persists on a number of fronts. Fears of a double dip recession in the US economy have been reinforced by recent weak employment and growth data. Global growth appears increasingly to depend on demand from developing countries, notably the BRIC bloc. However, EU competitiveness in global markets is coming under strain as the euro appreciates against other major currencies. And the hangover from the ‘great recession’ persists in the form of major public and private debt overhangs which are likely to serve as a continuing brake on investment and consumption.

Unemployment has been stable at 9.6% over the last six months but labour market performance – in line with overall economic performance – continues to vary widely across EU Member States. Overall, the return to growth has yet to translate into jobs.

Figure 1: Number of cases of restructuring and total announced job losses and gains over the last ten quarters



Source: ERM

The ERM continued to record lower levels of restructuring activity. One notable development during the quarter was a series of major public sector restructuring announcements in Romania where 50,000 local government job cuts were announced by the Ministry of Administration and Internal Affairs (see feature). Over the last quarter (1 July to 30 September 2010), the ERM reported 224 cases of restructuring.¹ Of these, 120 were cases of restructuring involving job loss. Total announced job losses totalled approximately 128,000 in the quarter as against announced job creation of just over 35,000.

¹ Additionally, there were 5 cross-national world and EU cases of restructuring. Job loss and gain totals do not include world and EU cases in order to avoid double counting.

Current macroeconomic trends and prospects

The European economy which has been severely hit by the financial and economic crisis of 2008 and 2009 is gradually recovering. The revival of the EU economy is evident in increased external trade volumes and an upswing of domestic demand reflected in increases in industrial production.² During the second quarter of 2010 economic output in the EU27 increased by 1% compared to a marginal 0.2–0.3% increase recorded in each of the previous three quarters.³

Other economic indicators also continue to show signs of steadying. Although unemployment at around 10% remains at decade-high levels, labour market conditions have stopped deteriorating. During the last half-year the EU27 unemployment rate has been stable. Recent internal flexibility arrangements – short term contracts, part-time work, temporary lay-offs and job share schemes – as well as improvements in the general macroeconomic climate have helped to stabilise labour markets.

The principal economic concern remains the issue of public debt allied to large budget deficits in a number of Member States. Economic policy in many is increasingly geared towards fiscal consolidation and austerity measures.⁴ These have in recent months triggered strikes in Spain, Portugal, Ireland, Slovenia and Lithuania and a demonstration in Brussels by tens of thousands of workers from across the EU as part of a European day of action against public spending cuts.⁵

Opinions differ on the timing of the budget consolidation and withdrawal of fiscal stimulus at this stage of recovery while the EU economy is still fragile. Critics point out that fiscal consolidation with prolonged unemployment will weigh on nominal wages. In this context, private consumption may lose momentum with negative knock-on consequences for domestic demand. Also softening global demand for the European goods in the second half of 2010 could pose a risk for EU exports.

² European Commission (September, 2010) *Monthly Labour Market Monitoring Report*
<http://ec.europa.eu/social/main.jsp?catId=120&langId=en>

³ Eurostat (October) *Euro area and EU27 GDP up by 1.0%*
http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-06102010-AP/EN/2-06102010-AP-EN.PDF

⁴ IFO Euro-zone Economic Outlook (06/10/2010) *Growing at a lower pace*
<http://www.cesifo-group.de/portal/page/portal/ifoHome/a-winfo/d2kprog/30kprogeeo>

⁵ The Guardian (01/10/2010) 'Global unemployment to trigger further social unrest, UN agency forecasts'
<http://www.guardian.co.uk/business/2010/oct/01/job-market-recession-social-unrest-ilo>

Table 1: GDP growth seasonally adjusted third quarter 2010 compared to previous quarter (bold), compared to same quarter previous year (underlined)

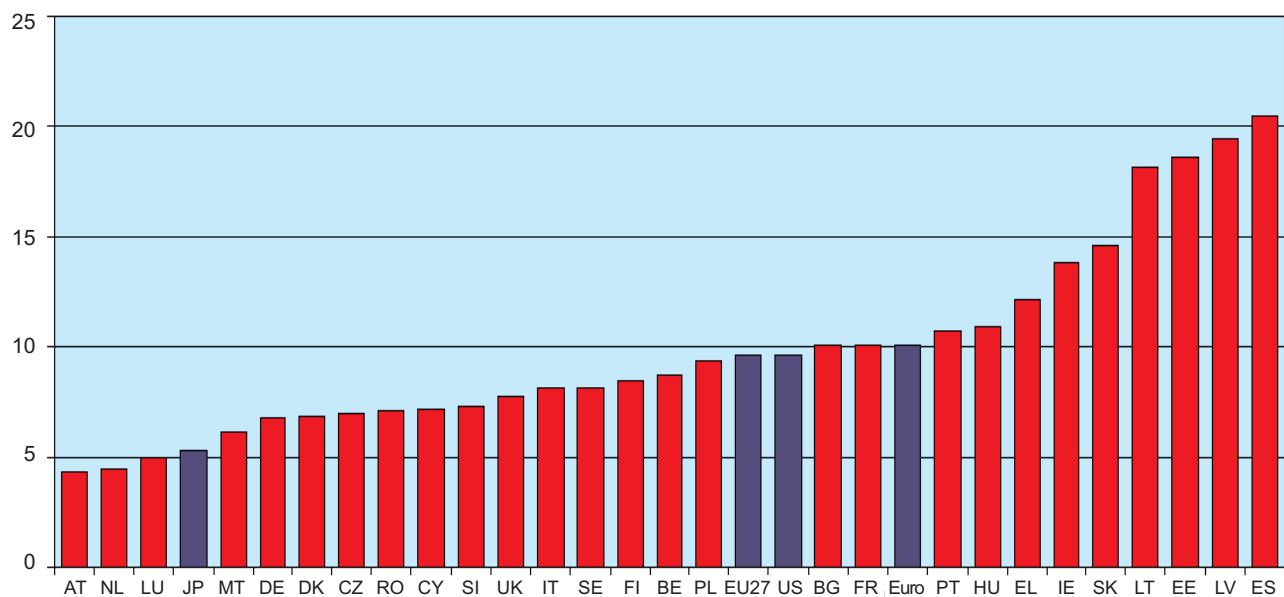
Austria	1.2	<u>2.3</u>	France	0.7	<u>1.7</u>	Luxembourg	-0.3	<u>5.3</u>	Spain	0.2	<u>-0.1</u>
Belgium	0.9	<u>2.4</u>	Germany	2.2	<u>3.7</u>	Malta	0.1	<u>3.7</u>	Sweden	1.9	<u>4.5</u>
Bulgaria	0.5	<u>-0.3</u>	Greece	-1.8	<u>-3.7</u>	Netherlands	1.0	<u>2.7</u>	United Kingdom	1.2	<u>1.7</u>
Cyprus	0.6	<u>0.2</u>	Hungary	0.0	<u>0.1</u>	Poland	1.1	<u>3.8</u>			
Czech Republic	0.9	<u>2.4</u>	Ireland	-1.2	<u>-1.8</u>	Portugal	0.3	<u>1.5</u>	EU27	1.0	<u>2.0</u>
Denmark	1.7	<u>3.8</u>	Italy	0.5	<u>1.3</u>	Romania	0.3	<u>-1.5</u>	United States	0.4	<u>3.0</u>
Estonia	1.9	<u>3.0</u>	Latvia	0.8	<u>-2.9</u>	Slovakia	1.2	<u>5.0</u>	Japan	0.4	<u>2.4</u>
Finland	1.9	<u>3.4</u>	Lithuania	3.2	<u>0.6</u>	Slovenia	1.1	<u>1.5</u>			

Source: Eurostat EuroIndicators, 6 October 2010

The EU economy has been expanding for nearly a year. While growth was anaemic in late 2009 and early 2010, it showed signs subsequently of accelerating and returning towards more normal levels of growth. All EU members, except Luxembourg and crisis-hit Greece and Ireland, achieved positive growth in the most recent quarter (see Table 1). The European economy as a whole grew by a modest – but, given prior circumstances, comparatively healthy – 1.0%. In the second quarter of 2010, fastest growth was recorded in Lithuania (3.2%) followed by Germany (2.2%), Estonia, Finland and Sweden (all 1.9%). The annualised data is more encouraging as the EU recorded 2% GDP increase compared to the second quarter of 2009. Meanwhile, the other two major world economies – US and Japan – are expanding at a faster pace.

The highest year-on-year growth rates were in Luxembourg (5.3%), Sweden (4.5%), Slovakia (5%) and Poland (3.8%) – the only Member States which managed to avoid recession. Also hard-hit Baltic countries started to show signs of recovery although soaring unemployment remains a concern.

Figure 2: Seasonally adjusted unemployment rates, August 2010 (%)



Source: Eurostat

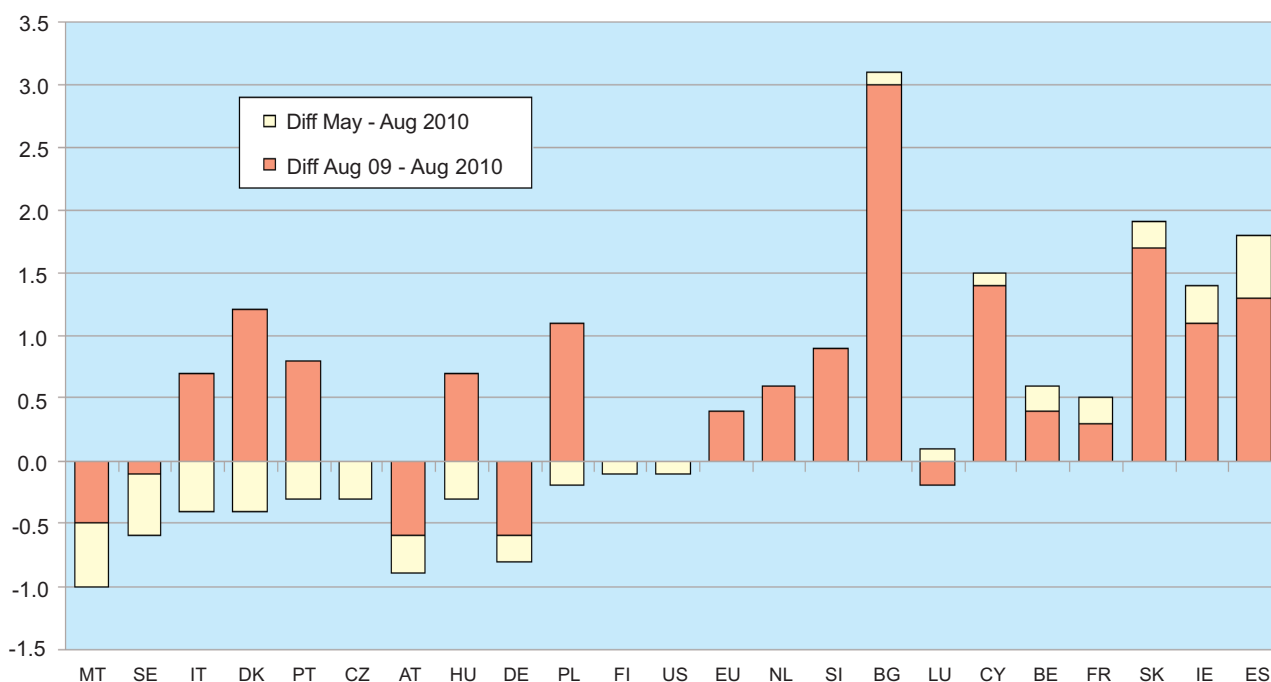
Note: Data for EE, EL, LT, LV, RO and UK are from June 2010, JP from July 2010.

According to latest Eurostat data, seasonally adjusted unemployment data for the euro zone rose to 10.1% (see Fig 2). The EU27 unemployment rate was 9.6% in August 2010 and unchanged compared with July. The EU rate has stabilised at the same level as that observed in the US but is much higher than that of Japan (5.2%).

As in previous quarters, the lowest unemployment rates were recorded in Austria (4.3%) and the Netherlands (4.5%), followed by Luxembourg (5.0%). The highest levels were again recorded in Spain (20.5%) as well as the Baltic States Latvia (19.5%), Estonia (18.6%) and Lithuania (18.2%). Compared with a year ago, the unemployment rate decreased in seven Member States, remained stable in one and increased in nineteen. The largest falls were registered in Malta (7.2% to 6.2%), Austria (5.2% to 4.3%) and Germany (7.6% to 6.8%).

The highest year-on-year increase in unemployment has been in Estonia (+5.1 percentage points between second quarter of 2009 and second quarter of 2010) and Lithuania (an increase of 4.7 percentage points). For both countries, no more up-to-date data was available. Based on more recent monthly estimates, Bulgaria recorded an increase of 3.1 percentage points from August 2009 to August 2010).⁶

Figure 3: Changes in seasonally adjusted unemployment rates (percentage points), in the three months and the year leading up to August 2010



Source: Eurostat

Note: No data for EE, EL, LV, LT, RO, UK and JP.

⁶ Eurostat (October, 2010) 'Euro area unemployment rate stable at 10.1%' http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-01102010-AP/EN/3-01102010-AP-EN.PDF

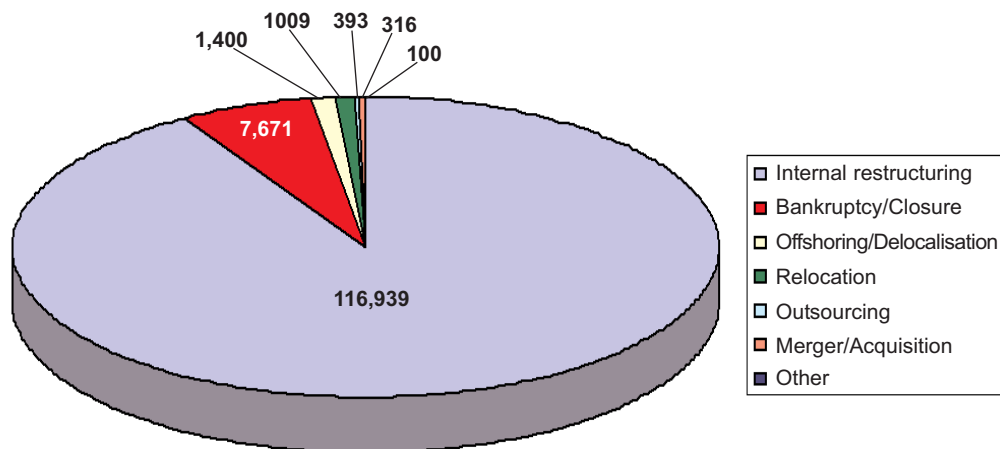
The EU27 unemployment rate has remained stable since May 2010 and year-on-year change narrowed to 0.4 percentage points (see Fig 3). Nonetheless, at 9.6% the August unemployment rate is still 2.7 percentage points above the rate observed two years ago (6.9%). There are currently around 23.1 million unemployed Europeans, a figure nearly 7.1 million (around 45%) higher than in March 2008, when EU unemployment levels bottomed out.

The pace of economic growth is very different in different regions of the world. Although EU economy growth is trailing behind some of the advanced and emerging markets, the spillover from growth in those regions may be stronger than expected.⁷ There are already significant increases in trade volumes with the US and the BRIC (Brazil, Russia, India and China) countries.⁸ Concerns remain that global demand may moderate and that servicing public and private debt combined with public spending cuts may diminish domestic demand. With these (large) caveats, the economic indicators are somewhat more benign than a year ago.

Overview of ERM cases July–September 2010

Overall, the ERM recorded 224 restructuring cases (excluding EU/world cases) between 1 July and 30 September 2010. These cases involved 127,828 announced job losses and 35,026 announced job gains. Internal restructuring accounted for over 90% of the announced job losses and bankruptcy/closure for 6%.

Figure 4: ERM job losses by type of restructuring, July–September 2010



Source: ERM, 1 July – 30 September 2010

By a considerable margin, the country with the greatest number of announced job losses was Romania with 61,257 announced job losses – for the most part in the public administration sector. A much lower, albeit significant, volume of job losses is reported in the United Kingdom (13,028 jobs), Italy (12,817 jobs) and France (10,213 jobs).

The five most notable cases of job reduction (national) are listed below in Table 2 while the top five cases of job creation feature in Table 3.

⁷ OECD (September, 2010) 'What is the economic outlook for OECD countries? An interim assessment'

⁸ Eurostat (September, 2010) 'Euro area external trade surplus 6.7 bn euro'
http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/6-16092010-AP/EN/6-16092010-AP-EN.PDF

Table 2: Top five cases of announced job reduction

Company	Jobs	Location	Restructuring type	NACE code (sector)
Ministerul Administratiei si Internelor	50,000	Romania	Internal restructuring	Public administration (75.1)
PKP Cargo	5,000	Poland	Internal restructuring	Transport / communication (60.1)
Unicredit	4,100	Italy	Internal restructuring	Financial services (67.1)
Air France	4,000	France	Internal restructuring	Transport / communication (62)
Assurance maladie	3,950	France	Internal restructuring	Health / social work (85)

Source: ERM, 1 July–30 September 2010

The total announced job losses for Romania recorded in the ERM are mainly attributed to a very large restructuring case in the local public administration announced by the **Romanian Ministry of administration and internal affairs** and resulting in 50,000 job cuts by the end of this year (see feature).

Another significant instance of restructuring, albeit of smaller scale compared to the above mentioned Romanian case, is that of the Polish rail freight carrier **PKP Cargo** which announced a large restructuring programme involving 5,000 job losses to be implemented mainly through early retirement. It should be noted that the job reduction in the land transport sector is almost exclusively due to this large case.

The third large scale restructuring is that of the Italian banking group **Unicredit** which announced the loss of 4,100 jobs between 2011 and 2013. The trade unions have opposed the decision and are now seeking negotiations with the management to discuss alternatives to the job cuts.

A similar number of job losses was announced in France by the airline company **Air France**, unveiling plans to cut 4,000 jobs through voluntary redundancies by the end of 2013.

Staying in France, another 3,950 job losses were announced by the National Health Insurance **Assurance maladie**. This downsizing affects just over 5% of the total workforce.

Ireland: tax questions over ‘leave and return’-type restructurings

The cost-cutting agreement reached at the end of 2008 between Irish airline Aer Lingus and the Services, Industrial, Professional and Technical Union (SIPTU) was greeted by many as an innovative, if controversial, alternative to job cuts. Under the deal, some 715 workers availed of a so called ‘leave and return’ deal,⁹ under which they were entitled to an attractive severance package; the lump sum payments ranged from a minimum of €30,000 up to a maximum of three years of salary, which could be as high as €140,000. At the time, Aer Lingus proceeded on the basis that the severance packages would be afforded favourable tax treatment in common with other redundancy payments. In exchange for the generous tax-free severance package, the volunteers accepted to be re-employed on lower pay and poorer conditions.

Two years after the deal, it transpires that staff who had accepted the ‘leave and return’ option may not be entitled to any tax relief on the lump sum payments and, as result, they may be obliged to refund some of payments to the Irish

⁹ <http://www.eurofound.europa.eu/eiro/2008/12/articles/ic0812029i.htm>

tax authorities.¹⁰ Following the recent launch of a similar ‘leave and return’ scheme by DAA (Dublin Airport Authority), the tax authority has revived the debate around the validity of such schemes as they involve departures which are not redundancies as such – volunteers for redundancies return to work within weeks, mostly doing the same work as before. From the tax authority perspective, no tax relief should apply to lump sums payments under such deals. This is the reason why the Aer Lingus redundancy scheme from last year is now being examined.

Aer Lingus defends their scheme by saying that it qualifies as legitimate redundancies under the terms set out in the Redundancy Payments Acts 1967–2007. The Department of Enterprise Trade and Innovation will decide whether this is the case. In the meantime, the SIPTU spokesperson has already stated that Aer Lingus should bear any costs incurred by its members in case the information provided by the company at the time of the deal turns out to be incorrect.

Table 3: *Top five cases of announced job creation*

Company	Jobs	Location	Nace code (sector)
AUO	2,000	Poland	Manufacturing
IBM	2,000	Poland	Real Estate / business activities
Mura in partnerji	1,100	Slovenia	Manufacturing
Hyundai Motor Manufacturing Czech	1,000	Czech Republic	Manufacturing
Skoda Auto	1,000	Czech Republic	Manufacturing

Source: ERM, 1 July–30 September 2010

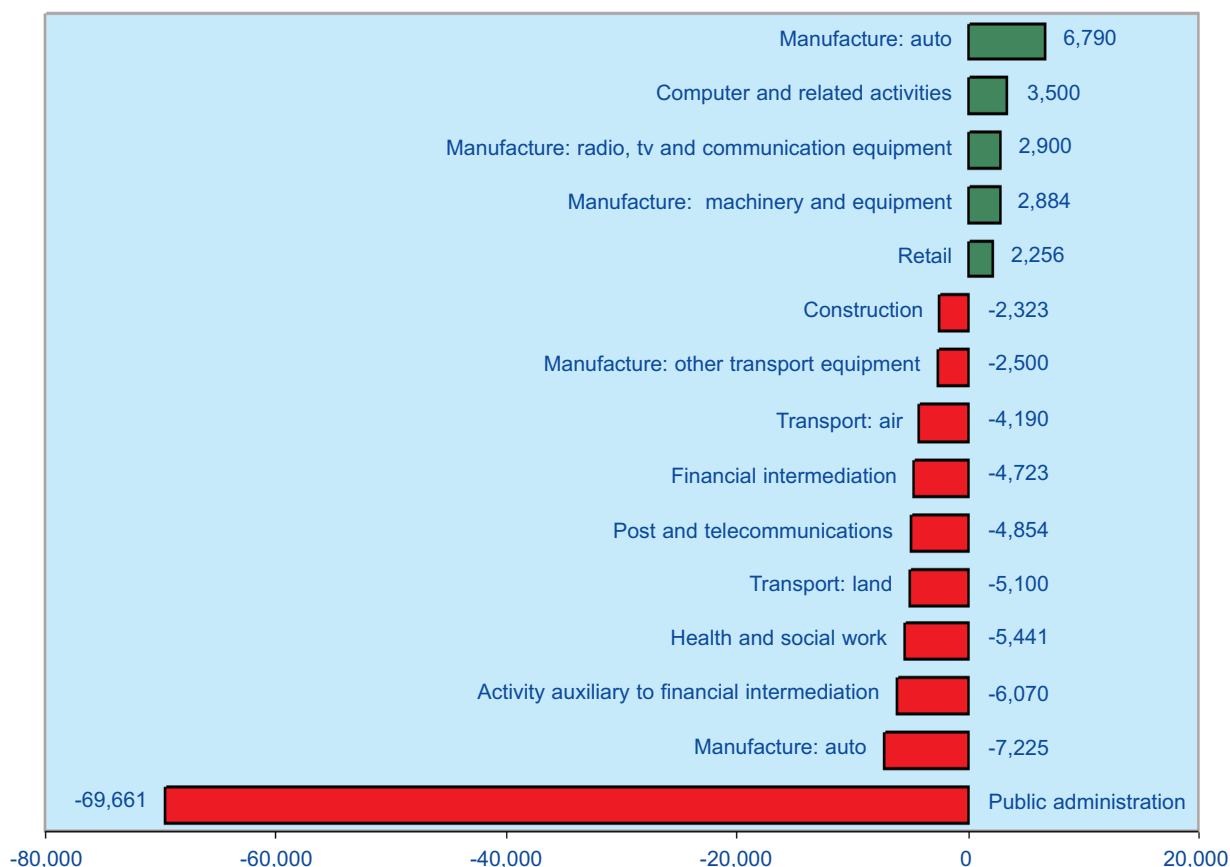
During the quarter, manufacturing was responsible for four of the largest announced cases of job creation. **AUO**, part of BriVictory Display Technology Poland, announced the creation of a new LCD panel factory employing 2,000 people by the end of 2013. The company has already started training the newly hired workers and the construction of the new plant will be finished by November 2010. **IBM**, the American computer and software producer and provider of IT services, announced 2,000 new jobs for a newly opened IT and financial services centre in Wrocław, Poland. Another large case of job creation announced in the quarter was related to Mura, Slovenia’s largest wearing apparel producer that was declared bankrupt in October 2009 causing 2,639 job losses. During the quarter the company re-opened under a new name, **Mura in Partnerji** and it currently employs 1,100 people. The newly created jobs were given to workers who lost their jobs in Mura’s bankruptcy last year. Large job gains announcements were also recorded in the auto manufacturing sector in the Czech Republic. **Skoda Auto**, the largest Czech car manufacturer, announced plans to employ 1,000 agency workers by the end of September 2010 due to increasing demand in car production. **Hyundai Motor Manufacturing CZ** has announced it will create about 1,000 new jobs with the launch of a three shift operation for the production of the new model ix 20 starting in the middle of 2011. Recruitment of the first workers is to begin in January 2011 in order to provide vocational training to the employees.

¹⁰ <http://www.rte.ie/news/2010/1007/aerlingus-business.html>

Restructuring across sectors

Figure 5 plots the top 10 NACE 2-digit sectors in terms of announced job loss and job creation, as reported to the ERM in the third quarter of 2010.

Figure 5: Job gains and reduction for top 10 sectors (Nace 2-digit, revision 1.1)



Source: ERM, 1 July–30 September 2010

Job reduction

During the third quarter of 2010, the public administration sector reported by far the largest number of announced job losses (69,661) followed by auto manufacturing (7,225), activities auxiliary to financial intermediation (6,070), health and social work (5,441) and land transport (5,100).

Around the same time, large scale job cuts were also announced by the **Czech government** affecting 5-8% of public service jobs across all ministries, departments and government organisations. Reportedly, the job cuts are driven by the need to bring more effective public service delivery and increase performance. Overall, 3,500 to 5,600 jobs will be eliminated with the Ministry of Education being the first to initiate the restructuring programme.

In the auto manufacturing sector, the largest case is that of **Opel** in Germany with the loss of 3,400 jobs. After the government rejected Opel's application for credit loans and guarantees from federal government funds, the parent company General Motors decided to proceed with the job losses at Opel's headquarters in Rüsselsheim (1,300 jobs), and the sites in Bochum (1,800 jobs) and Kaiserslautern (300 jobs).

Another significant instance of restructuring in this sector is that of the car component company **Delphi Packard Electric CZ**, which announced 1,400 job cuts with the closure of its Czech plant located in Česká Lípa by the end of March 2011. Production activities will be relocated to Romania and partly to Poland. Following negotiations with the trade unions, the agreed severance pay will be at least 7.7 times the average monthly wage. Workers with job tenure of 15 years or more will receive 14.3 times the average monthly wage.

In the financial sector, aside from the 4,100 job losses announced by the Italian banking group **Unicredit**, the second large case concerns another major Italian banking group – the **Monte dei Paschi di Siena** – which announced 1,700 job cuts resulting from the merger with Antonveneta bank. Trade unions have expressed concerns that this restructuring may involve a greater number of job losses in the long run.

Over the last three months the health and social work sector recorded a greater number of job losses compared to the previous quarterly period. The biggest case is the already mentioned **Assurance maladie** with 3,950 job losses. Apart from the **Sct. Hans Hospital**'s closure in Denmark (with the loss of 146 full time jobs), the remaining four instances of restructuring were announced by British hospitals. Of all, the largest job reduction concerns the **Royal Berkshire Hospital** which is to cut up to 600 jobs in a bid to save £60m. The need to cut costs is also cited for the job cuts announced by **Central Manchester Hospitals NHS Trust**. The plan is to cut 350 posts every year over the next four years by not replacing staff who quit. Another 300 jobs are to go at the **Aintree University Hospital** on Merseyside – staff have already been offered voluntary redundancy and flexible working packages. Nonetheless, at both Central Manchester and Aintree University hospitals, compulsory redundancies are not ruled out. Finally, a much smaller restructuring involving 95 job losses was announced by the **Charity Sheffield Futures** due to a reduction in a grant from the City Council.

Job creation

During the quarter, auto manufacturing was the sector with the largest job gains (6,790 jobs). The second-ranking sector was computer and related activities with 3,500 job gains, followed by manufacturing of radio, TV and communication equipment (2,900 jobs), manufacturing of machinery and equipment (2,884 jobs) and retail (2,256 jobs).

As already noted in the summer edition of the *ERM quarterly*, the auto manufacturing sector is slowly recovering from the deep decline of 2008 and 2009. In the current quarter, several auto manufacturing companies that between September 2008 and the end of 2009 dismissed large numbers of employees are now creating new jobs. In Sweden, the Volvo group has been responsible for three cases of job creation announcements. **Volvo Trucks** announced it will hire 200 employees at its plant in Tuve, Gothenburg. The newly hired employees will initially be hired on a six-months contract, but the company hopes to hire them permanently. **Volvo Powertrain** announced it has permanently employed 150 people, who are part of 350 fixed-term recruitments the company made during last year. **Volvo PV** announced that 140 fixed-term employees will be permanently employed at the factory facility in Torslanda. **Volkswagen Slovakia** announced it is to create 1,000 new jobs at its Bratislava plant by September, while **PSA Peugeot Citroën** announced the recruitment of 900 new employees to be employed in various plants across France before the end of 2010. The company also announced it will reintroduce a third shift at its plant in **Portugal**, which was abolished in 2009. This decision will result in 300 new jobs; the third shift will be operative in November and it will last six months. Whether it continues thereafter will depend on market conditions.

In the computer and related activities sector, the largest case of job announcement refers to **HP**, which announced it is to create 700 new jobs at its plant near Glasgow, as the company is setting up an IT service hub. Last year HP announced the loss of 700 manufacturing jobs at the same plant following the decision to transfer production to the Czech Republic. These jobs will be gone by October 2010 but with the newly created jobs in IT services, the plant will go back to employing around 1,300 people. In Ireland, internet company **Google** has announced the creation of 200 jobs for graduates with strong IT skills as a result of a new operations centre in Dublin. The new centre is expected to be

operational by the end of 2010 and it will focus mainly on Google geographical products such as Google Maps and Google Local.

In the manufacturing of radio, TV and communication equipment sector, Chinese **Huawei Technology** announced that it will create 500 new jobs in Hungary by the end of 2010. In Romania, **Alcatel Lucent** announced 200 engineering jobs by the end of the year, while American company **Plexus Romania** announced its plans to open a new site in the country, employing 200 people by July 2011.

In the machinery and equipment manufacturing sector, Slovak **PPS Group** announced 500 new jobs at its Detra unit, while **Embraco**, a company producing cooling compressors, announced 300 new jobs by the end of 2010.

Sector in focus: retail

The retail sector is of great importance to the EU economy, employing over 14% of the workforce. The European Commission characterises this sector as being one of the EU's main employers, and often the entry point into the labour market for many young, low-skilled or unskilled people.¹¹ However, the Commission also notes that a number of issues have an impact on employment and competitiveness in the sector, such as: differences in labour law and collective agreements applicable to retail services; the negative impact of the informal economy on working conditions; and a mismatch between the skills needs of companies and those of staff in the retail sector.

The sector has experienced major job losses over the past two years, due to high levels of restructuring. However, over the past few months, this sector has also seen significant job creation, and it is indeed one of the few sectors currently recruiting workers. In the second quarter of 2010, around 30% of announced job gains in the ERM were in the retail sector. The retail sector is extremely competitive and in the current difficult economic climate, the lower-cost chains are doing well and embarking on business expansion, at the expense of other retail groups.

Recent job creation plans have been announced in a range of retail groups, often the result of multinationals investing in central and eastern European countries. For example, in Romania, in mid-August, hypermarket chain **Kaufland**, part of the German group Lidl & Schwarz, announced the creation of 180 new jobs near Turda (Cluj County) as result of an investment of €80 million in a new regional distribution centre. Kaufland operates 53 stores in Romania; the group intends to open five to six new units in the second half of 2010. Also in Romania, the Romanian DIY chain **Dedeman** announced in late September that it planned to open a new store at Cluj Napoca in February 2011, creating 230 jobs.

In the Czech Republic, towards the end of August, **AAA Auto**, one of the largest used car retailers in Europe, announced that it has created 200 jobs in the first six months of 2010. The company, operating in the Czech Republic and Slovakia, reported substantial profits despite a decline in sales.

¹¹ Retail market monitoring report 'Towards more efficient and fairer retail services in the internal market for 2020'. COM(2010)35 final. 5 July 2010. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0355:FIN:EN:PDF>

In Estonia, in mid-August, **Maxima Eesti**, a member of the international retail chain Maxima Grupe, announced the creation of 120 new jobs by the end of 2010 in three new stores. Maxima Grupe is based in the Lithuanian capital and is one of the largest employers in the Baltic States with approximately 25,500 employees. Also in Estonia, in mid-August, the Estonian retail sale company **OG Elektra** announced that 200 new jobs will be created by the end of 2010 in six new stores. Between January and August 2010, the company created 130 new jobs by opening five new stores, mostly in the capital Tallinn.

The UK supermarket chain Tesco has been expanding into central and eastern Europe. In Hungary, in mid-August, **Tesco Hungary** announced the opening of two new supermarkets, in Bicske and Tolna, creating 200 new jobs in total. Over the past 16 years, Tesco Hungary has opened 108 supermarkets and has around 22,000 employees in the country. **Tesco** is also expanding in Ireland: in mid-July, it announced an expansion that will result in seven new stores and the creation of approximately 750 jobs during the course of 2010, the majority of which will be outside Dublin.

Other job creation announcements in the older EU Member States include the announcement in mid-September by the furnishing retailer **Ikea** that it is to create 240 new jobs, with the opening of a new store in Catania (Sicily, Italy). The new store will be opened in March 2011. Ikea already has 18 stores and 6,300 employees in Italy. Also in mid-September, the French retail group **Mestdagh** announced its intention to hire between 250 and 300 workers before 1 October in Belgium, in order to run the 16 stores that the group bought from the French retailer Carrefour. In Ireland, the American fashion retailer, **Forever 21**, announced in early October that it is to open a new fashion outlet in Dublin in November 2010, which will create 250 new jobs. This chain has over 500 shops in 15 countries. Finally, in the UK, in early August, the US cash and carry company **Costco** announced the creation of 130 jobs in Coventry, with the opening of a new warehouse.

Although the emphasis over the past quarter has been on job creation, there also has been some restructuring involving job losses. In Sweden, for example, computer repair company Infocare announced towards the end of August that it is to cut 100 jobs in Växjö and Linköping, due to declining sales. In the UK, in early August, the car parts and bike retailer **Halfords** made 126 staff redundant in Redditch, Worcestershire, after the company decided not to relocate to a new distribution centre in Coventry.

In Greece, one of the main job loss events has been the announcement by the German multinational discount supermarket **Aldi** that it is to withdraw from Greece, with the loss of 700 jobs by the end of 2010. Furthermore, Prime Motors, one of the biggest car retailer companies in the Peloponnese, announced bankruptcy in mid-July, resulting in 150 job losses. In addition, in early July, the French retailer **FNAC** announced that it will close its three stores in Greece, resulting in 200 job losses.

The future is likely to hold more restructuring activity in the retail sector, as private equity firms are reported to be engaged in renewed takeover activity in this sector. Although takeover activity has dropped sharply over the past year – there were only €8.7 billion worth of retail takeover deals in Europe last year, which is down from €15.2 billion in 2008 and €44.5 billion in 2007, according to data from Thomson Reuters– there are reports that many retail chains, including some well-known high street names, could become targets for takeovers in the months ahead.

Public sector restructuring in Romania

The global economic crisis has led to a surge in public deficits across the European Union, evidenced by an increase in EU27 government deficits from 2.3% of GDP in 2008 to 6.8% of GDP in 2009.¹² Accordingly, a number of Member States are embarking upon budget consolidation ('austerity') programmes to steer government finances towards balance and sustainability. Such programmes invariably envisage public sector restructuring and retrenchment with detrimental consequences for public sector employees.¹³ A total of 69,661 restructuring-related job losses in the public sector were reported by the European Restructuring Monitor (ERM) in the third quarter of 2010 compared to marginal job gains over the same period.

Public sector unions have responded to such measures by staging mass rallies in their respective Member States, culminating in a 100,000 worker protest in Brussels on 29 September 2010 organised by the European Trade Union Confederation.¹⁴ It is notable that austerity packages have not been restricted to Member States with high or sharply increased levels of public debt or budget deficit. In July 2009 the German government agreed to a large cut in public spending.¹⁵ At the same time, the budget imbalances caused by the financial crisis have motivated a number of Member States (for example Ireland, Czech Republic, Greece, Italy) to implement public sector wage cuts or freezes.¹⁶

One of the larger recent public sector restructuring announcements has been that of the Romanian government. The global financial crisis resulted in a sudden drop in Romanian exports and after several years of economic growth driven by foreign direct investment, capital inflows began to dwindle during 2008.¹⁷ Real GDP declined by 7.1% in 2009. This prompted the Romanian government to implement an austerity programme to contain the effects of the economic downturn and re-establish fiscal balance. It did so with the assistance of the IMF who agreed to lend 20 billion euro as part of a 24-month stand-by arrangement starting in June 2009. Commitments included an extensive series of policy reforms designed to gain control of the fiscal deficit, restructure the public sector wage system, and improve public sector efficiency, among other goals.¹⁸

¹² http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22042010-BP/EN/2-22042010-BP-EN.PDF

¹³ <http://www.eurofound.europa.eu/emcc/erm/templates/displaydoc.php?docID=56>

¹⁴ <http://www.epsu.org/a/6878>

¹⁵ See: <http://www.eurofound.europa.eu/emcc/erm/templates/displaydoc.php?docID=56> for further information

¹⁶ See http://www.eurofound.europa.eu/eiro/sectors/1_2010.htm for a sample

¹⁷ <http://www.imf.org/external/pubs/ft/survey/so/2009/int050409a.htm>

¹⁸ <http://www.imf.org/external/np/sec/pr/2010/pr10307.htm>

Based upon prior consultation with the IMF, in May 2010 the Romanian government drafted and then ratified an act stipulating: (1) a 25% wage cut for public sector workers; (2) an increase in the VAT rate to 24%; (3) a reduction in unemployment benefits; and (4) a cut in transfer payments.¹⁹ Although the Romanian government had announced their intentions to reorganise the public sector in March 2009 – and at end of 2009, their intentions to dismiss 8,000 public sector workers – it was not until spring 2010 that the government officially announced that upwards of 100,000 public sector employees could lose their jobs in the short-term.²⁰

In total, the ERM has reported 60,533 announced job losses in the Romanian public sector during the most recent quarter. While the dismissals span across a multitude of government departments, the largest cut to date was announced by the Ministry of Administration and Internal Affairs, which announced 50,000 direct dismissals on 11 August 2010. Job cuts were also announced at other ministries (including their territorial units) – the **Ministry of Agriculture and Rural Development** (3,866 jobs), the **Ministry of Labour, Family and Social Protection** (2,484 jobs), the **Ministry of Education, Research, Youth and Sports** (1,809 jobs) and **Ministry of Health** (1,621 jobs), **Ministry of Foreign Affairs** (476) and **Ministry of Economy, Commerce and Business Environment** (277 jobs).

Romania's national trade union confederations have launched a series of demonstrations against the government's austerity measures. In June 2010, Romania's five national trade union confederations joined forces to lodge a complaint against the government with the International Labour Organization (ILO).²¹ The unions claim that the government's austerity measures encroach upon the rights of union members and violate the ILO Protection of Wages Convention 95/1949.

¹⁹ <http://www.eurofound.europa.eu/eiro/2010/08/articles/ro1008019i.htm>

²⁰ http://ue.mae.ro/pdf/2010.06.07_highlights23.pdf

²¹ <http://www.eurofound.europa.eu/eiro/2010/08/articles/ro1008019i.htm>

²² <http://www.eurofound.europa.eu/eiro/2010/08/articles/ro1008019i.htm>

Restructuring research notes

* **Blog brief:** ‘The headquarters effect’

Source: ‘British jobs, for German workers’, Robert Peston on BBC website, October 7 2010:

The BBC’s business editor speculates about ‘the propensity of multinationals to favour their respective countries of origin when it comes to decisions about where to put new investment or where not to impose draconian job cuts’. If such a tendency exists, it is more likely to manifest itself during a downturn.

Background: Siemens and IG Metall in Germany have agreed a deal which constrains the company to seek alternatives to compulsory redundancies when restructuring on an indefinite basis for all of the company’s 128,000 strong German workforce. This commitment may imply that the company’s ability or willingness to retain staff in other Member States is undermined.

Relevant research: ERM data was used to investigate one aspect of this so-called ‘headquarters effect’ in the 2007 ERM annual report. It was found that offshoring accounted for a significantly higher share of restructuring job loss amongst local (European) units of US and Japanese-headquartered companies than among Europe-headquartered businesses.

References:

Robert Peston’s blogpiece on the BBC website

http://www.bbc.co.uk/blogs/thereporters/robertpeston/2010/10/british_jobs_for_german_worker.html

‘Siemen’s unsackable staff’, Financial Times

<http://www.ft.com/cms/s/0/d54c7252-cbe9-11df-bd28-00144feab49a.html>

Restructuring and employment in the EU: the impact of globalisation

<http://www.eurofound.europa.eu/publications/htmlfiles/ef0768.htm>

ERM: note on methodology and interpretation of data

The European Restructuring Monitor (ERM) is a tool that monitors the announced employment effects of large-scale restructuring events in the EU27 and Norway. The monitor relies on reports in selected media titles (between three and five per country) covered by a network of 28 national correspondents. All announcements involving the reduction or creation of at least 100 jobs, or affecting 10% of the workforce in sites employing 250 people or more, are taken into account.

The ERM database is updated daily. Readers can access more details of individual cases cited in this issue by going to www.eurofound.europa.eu/emcc/erm and clicking on ‘Fact sheets’. The ERM also enables the compilation of aggregate data: to do this, click ‘Statistics’ on the same web page. These statistics are based on the information available in the database (over 11,000 restructuring cases, covering 2002 to the present) broken down by sector, type of restructuring, country and time period. Only those fact sheets in the ERM database that refer to a specific country are included in the statistical analysis. Fact sheets referring to European or worldwide restructuring events are not considered in order to avoid double counting.

Given that the ERM relies on selected media titles, its coverage of restructuring activity in each Member State is indicative and cannot be considered representative. In view of size thresholds for case inclusion, the ERM reports almost exclusively on restructuring in medium-sized and larger firms; this size bias in turn leads to an over-representation of the manufacturing sector where company size tends to be larger. Variability of national-level media coverage of restructuring events from country to country leads also to country biases. This is reflected in higher levels of ERM reporting in some Member States (such as Poland, or the UK) and lower levels in others – Greece and Bulgaria, for instance.

In spite of these biases, ERM data does generate a picture of labour market restructuring, especially in relation to sectoral restructuring activity, which is broadly consistent with data coming from more dedicated sources such as the European Labour Force Survey (ELFS). It has also tended to anticipate – reasonably well – overall trends in (un)employment in European labour markets while providing unique data on the proportion of overall larger-scale restructuring-related job loss accounted for by different forms of restructuring (offshoring, internal restructuring etc). Other positive advantages of the ERM as a data source are its timeliness, its identification of individual cases of restructuring based on publicly available information and its uniqueness as an EU-wide dataset of larger-scale restructuring events.

The data for this report was extracted on 5 October 2010. As the ERM continually updates cases in light of new information on recent cases, data reported here may not correspond exactly to later extractions. For previous editions of the quarterly as well as other ERM-related publications, you can visit the website at www.eurofound.europa.eu/emcc/erm.

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