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ERM Quarterly, Quarter 1, April 2016

Eurofound

European Monitoring Centre on Change

European Restructuring Monitor

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Abstract

THIS ISSUE

- Restructuring-related legal regulations in focus: Payment guarantee in case of employer insolvency
- Case in focus: UK steel industry woes mirror EU steel crisis
- Case in focus: Dutch retailerV&D closes with over 8,000 job losses

Keywords

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Comments

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Macroeconomic trends and prospects

In its latest *World economic outlook* (April 2016), the IMF has again lowered global growth forecasts for the coming year. Two factors cited for this more downbeat assessment are weak growth in developing economies, notably China, and 'political discord' in other major economies. This latter reference foregrounds a variety of developments: the UK referendum on EU membership in June, differences between EU Member States over migration, and national politics that are becoming more fragmented and polarised. Ireland and Spain have caretaker governments months after national elections. The IMF's view is that political dysfunction is impacting on economic performance.

Nonetheless, aggregate labour market indicators in the EU continue to be positive. Year-on-year employment growth at 1% is near normal. Nearly six million new jobs have been created in the EU since the post-crisis trough in 2013. Unemployment rates continue to decline and are now lower than 9% in the EU28. Importantly, there is also a sign that indicators are improving for those most affected by the crisis. Youth and long-term unemployment rates are declining, and growth has been above average in countries such as Ireland, Spain and the Baltic states.

The major restructuring story of the quarter – still unfolding – relates to the steel sector, where EU-based producers are succumbing to the pressures of weak international prices and a global supply glut with its origins in China. Possible closure of the Tata steel plants in the UK may cost tens of thousands of jobs.

Job creation and job loss at a glance

The ERM recorded a total of 368 cases of restructuring between 1 January and 31 March 2016. Of these, 166 were cases of announced restructuring involving job loss, and 193 were cases involving announced job creation; 2 cases involved both job loss and job creation. These cases comprised a total of 76,093 job losses and 62,784 job gains. (In addition, there were seven large transnational cases.)

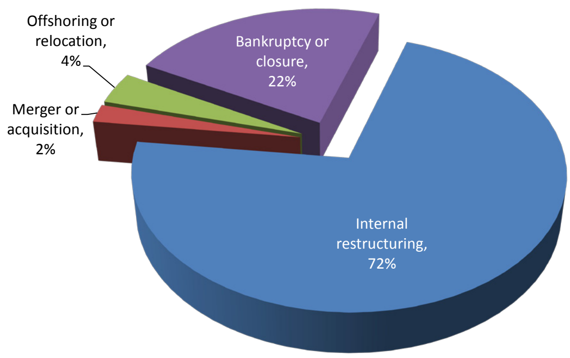
Internal restructuring accounted for 72% of the announced job losses; this is a small decrease since the last quarter (76%). The proportion of announced job loss attributed to offshoring and relocation remained stable at 4%. In terms of geographical distribution, the UK recorded the greatest number of job losses (13,403 jobs), followed by Germany (11,544) and the Netherlands (10,450). Poland recorded the greatest number of job gains (10,073), followed by the Czech Republic (9,133) and the UK (6,840).

2016 Q1	Announced job loss	Announced job gain
EU28 + Norway	76,093	62,784
EU28 + Norway, change on previous quarter	+ 25%	+ 29%
Big increases* by country	Greece ++, Netherlands ++, Denmark ++, Estonia ++, Belgium +	Austria ++, Czech Republic ++, Spain +, Ireland +, France +, Romania ++, Slovakia +
Big increases* by sector	Utilities (energy) +, Retail ++, Education ++, Professional services ++, Administration & support services +	Utilities (energy) ++, Accommodation & food services ++, Information & communication +

* Comparing the quarter to the four-quarter moving average; ++ = >100%; + = >50%; excludes country or sector if quarter average and 2015 Q4 <1,000 job losses or gains.

Source: ERM, January–March 2016

Reasons for announced job losses



Note: Percentages refer to announced job losses.

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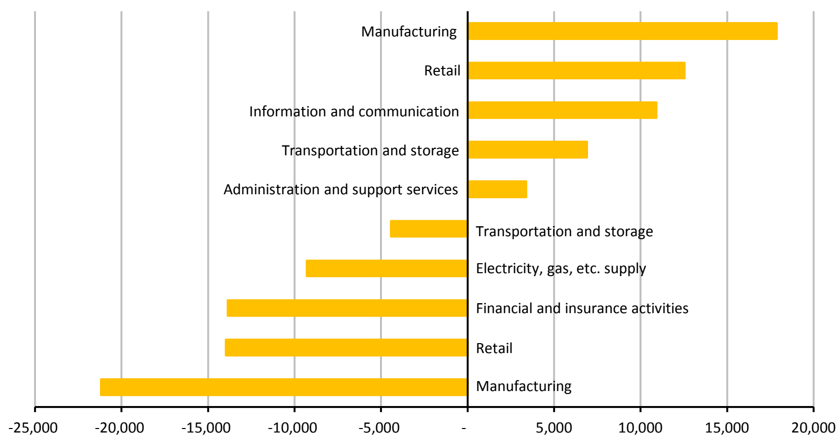
Sectoral distribution of job losses and gains

The figure plots the top NACE Rev. 2 one-digit sectors in terms of announced job loss and job creation, as reported to the ERM in first quarter of 2016. The manufacturing and retail sectors reported the most job losses (-21,193 and -13,982, respectively), but each sector also showed large increases in the number of jobs created (17,882 and 12,557, respectively). The financial services sector accounted for 22% of job losses, with 13,857 job cuts announced.

ERM-announced job losses and gains, top five sectors, Q1 2016



Announced job gains

Manufacturing	17,882
Retail	12,557
Information and communication	10,920
Transportation and storage	6,902
Administration and support services	3,402

Announced job losses

Transportation and storage	-4,433
Electricity, gas, etc. supply	-9,289
Financial and insurance activities	-13,857
Retail	-13,982
Manufacturing	-21,193

Top 5 cases of job loss and job creation

Date	Company	Job losses	Location	Sector	Type of restructuring
16/02/2016	V&D	8,000	Netherlands	Retail	Closure
15/01/2016	EDF	3,550	France	Utilities	Internal restructuring
03/02/2016	Unicredit	2,700	Italy	Financial services	Internal restructuring
06/03/2016	Npower	2,400	UK	Utilities	Internal restructuring
10/02/2016	NMBS-SNCB	2,293	Belgium	Transportation & storage	Internal restructuring

The biggest job loss recorded by the ERM in the first quarter of 2016 relates to the bankruptcy of Dutch retailer **V&D**. The closure affected not only employees of the company but also many contractors whose businesses were ancillary activities for V&D (see the 'Case in focus' below). In France, 3,550 jobs will be cut nationally by **EDF**, the utilities company. This follows the end of the regulated tariffs for professional customers, which will impact EDF's market share by 30%. The utilities sector has seen job losses in the UK as well. **Npower**, a German-owned energy company, experienced difficulties with its billing system and lost 6%–7% of its UK customers in 2015; in early March 2016, it announced 2,400 job cuts. The third-biggest case of job loss was in the banking sector in Italy, where **Unicredit** bank announced 2,700 job cuts. After negotiations, it was agreed that these would take the form of incentivised early dismissals, compensated in part by the recruitment of at least 500 people on new apprenticeship contracts. In Belgium, the national rail transport company **NMBS-SNCB** is undergoing a restructuring following a new management contract with the Belgian government that foresees a 20% gain in productivity, 6% of which is to be achieved through staff cost reductions.

Date	Company	Job gains	Location	Sector
04/02/2016	Amazon	3,000	Czech Republic	Retail
22/01/2016	Amazon	2,500	UK	Retail
15/01/2016	Skoda Auto	2,000	Czech Republic	Manufacturing
01/01/2016	Lufthansa	1,850	Germany	Transportation & storage
09/02/2016	GFI Informatique	1,800	France	Information & communication

The two biggest recruitment cases in the last quarter were those announced by Amazon. The US online retailer will hire 3,000 workers in the **Czech Republic** and 2,500 in the **UK**. In both cases, the new positions encompass warehouse and office personnel. **Škoda Auto**, also based in the Czech Republic, will create 2,000 new jobs to extend the production capacity of its plant in Kvasiny, catering for the production of two new car models for the Volkswagen Group. **Lufthansa** announced 1,850 new jobs, mainly for pilots, first officers and some crew staff. In total, the company seeks to create 4,000 new jobs across Austria, Germany and Switzerland. **GFI Informatique**, an IT services company located in France, has announced it will recruit 1,800 employees in 2016, targeting mainly engineers, technicians and supervisors.

RESTRUCTURING-RELATED LEGAL REGULATIONS IN FOCUS

Payment guarantee in case of employer insolvency

EU Directive **2008/94/EC** on the protection of employees in the event of the insolvency of their employer invites Member States to implement a system that maintains a wage guarantee fund to ensure the payment of claims arising from an employment relationship that are not yet settled at the point of time of insolvency of the employer.

According to the directive, funds for the payments are provided by the state, but governments can choose to raise funds through employers' and employees' contributions to complement the fund in part or in full. According to the information collected in the ERM database, six countries use state funds exclusively: Croatia, the Czech Republic, Estonia, Germany, Norway and Spain. Other countries, such as Belgium, Ireland, the Netherlands and the UK, require additional employee contributions. In Bulgaria, employers have not had to contribute to the fund since 2015. In general, the fund maintenance is assigned to a central agency or institution, but in Sweden payments are delegated to regional entities.

Some Member States extended the coverage of their wage guarantee funds to other categories of workers than those indicated in the directive (full-time, part-time, fixed-term and temporary salaried workers). For example, Austria, the Czech Republic, Denmark, Estonia, Germany, Luxembourg, Norway, Poland, Slovenia and the UK include domestic workers in their coverage. In the Netherlands, domestic workers are covered only if their working time is more than three days per week. In most countries, legislation explicitly excludes fund access for relatives and shareholders of a company, while in Croatia and Estonia top managers are excluded from the guarantee.

The maximum amount of payments guaranteed ranges from the average pay of the last three months indicated in the directive – applied, for example, in Estonia and Romania – to a sum related to number of years worked for the insolvent employer and established by law, such as in France.

Wage guarantee funds across the EU vary in terms of wage components covered: in Italy, all claims related to income (including sickness, pregnancy and holidays) and some payments related to the termination of the employment contract are eligible, while in Slovakia, for example, severance pay is excluded.

Different practices are in place for the application-filing process; in many countries, employees are responsible for filing the application directly with the institution managing the fund. The process is slightly different in Hungary, where the public employment services deal with application filing, and in France, where applications are filed by the administrator of the insolvency procedure. In Belgium, access to funds is automatic for workers in sectors where collective agreements are in place, and claims are paid out by the employment services.

Workers' claims usually have priority over those of other creditors. The interval between approval of a claim and payment ranges from 5 days under French law to 12 months under Belgian law. In Hungary, workers are treated like all other creditors and their claims do not have priority.

An example of the effectiveness of such wage guarantees in case of employer insolvency is that implemented in Germany. According to the **German Federal Employment Agency**, in April 2015, 130,649 workers' claims were satisfied and 8,075 were rejected. In 2014, the number of satisfied claims was 93,152 and 6,858 claims were rejected.

Details of **wage guarantee funds in each of the Member States and Norway** are included in the ERM database on restructuring-related legislation. The database provides an overview of selected national legislative rules related to restructuring. You can browse the database, leave comments on specific legislation or give general feedback at: **www.eurofound.europa.eu/observatories/emcc/erm/legislation**.

CASE IN FOCUS

UK steel industry woes mirror EU steel crisis

The UK steel industry faces a worrying future with the announcement in recent months of large job losses. The main factor is an international slump in steel prices, primarily due to the oversupply of steel from China. An additional problem for UK producers has been relatively high energy prices.

In October 2015, it was confirmed that the SSI steelworks plant in Redcar was to close with the loss of 2,200 jobs. The plant had been in receivership since earlier in October. The century-old plant had only re-opened in 2012 after a previous closure in 2010.

It is Tata Steel, however, that has had the highest profile in recent months, following the announcement of a number of job cuts, first at the end of 2015 and followed in January 2016 by the announcement of a further 1,050 cuts. At the end of March 2016, it announced that it would sell off its loss-making operations in the UK. Tata has 13 sites in total in the

UK, following its acquisition of the British–Dutch steel company Corus Group in 2007. Port Talbot in South Wales and Scunthorpe in north-east England employ the largest numbers, around 4,000 workers each. The Port Talbot plant is reported to be losing around GBP 1 million a day.

Compensation to steelworkers for lack of job loss notice

In the case of the recent Redcar steel plant closure, three trade unions (the GMB, Unite and the Community Trade Union) made a claim to the UK Employment Tribunal for a protective award compensating employees for an employer's failure to inform and consult about a collective redundancy. The Tribunal ruled that SSI UK (in liquidation) failed to comply with these legal obligations and on 21 March 2016 agreed compensation equivalent to 90 days' pay.

Overall, it is thought that around 40,000 jobs are dependent on the steel industry in the UK. There have been calls for temporary nationalisation in the event that Tata fails to find a buyer for its UK plants. The only company to have made a bid so far is Liberty Steel, although other interested parties are expected to come forward.

Opposition Labour Party MPs have accused the UK government of blocking EU plans to help the EU's struggling steel industry by imposing tariffs on below-cost, subsidised Chinese, Russian and Belarussian steel imports. EU steel producers have not been able to benefit from Europe's rising demand for steel as the car industry and construction sectors recover. The European Commission estimates that China produces 325 million tonnes of excess steel a year, more than double Europe's annual production. The EU steel industry as a whole is suffering as a result; the European Steel Association Eurofer estimates that more than 90,000 jobs in the EU steel industry have been cut since 2009, a 22% reduction in the total European steel workforce.

The European Commission has sought to end the rules under which tariffs on goods dumped on the EU market are calculated. Fixed duties on dumped goods are much higher in the US than in the EU and take effect much sooner after infringements. Although moves to make it easier to impose penalties on dumping countries are supported by France and Germany, they have been actively blocked by the UK and other Member States since first proposed in 2013.

CASE IN FOCUS

Dutch retailer V&D closes with over 8,000 job losses

Dutch retailer V&D, which has been in operation for 128 years, was declared bankrupt in December 2015. The bankruptcy eventually led to the direct loss of at least 5,000 jobs and the closure of 62 stores, as well as a series of redundancies in related companies, which have resulted in the same number of job losses again. In January, the company Coolinvestments declared an interest in acquiring V&D, but the deal fell apart after stakeholders could not agree on a business plan.

La Place, a restaurant chain operating within the department stores, was also declared bankrupt. The supermarket chain Jumbo acquired La Place but will be able to save only the 60 restaurants located outside of V&D premises. The 3,000 workers at V&D locations will be made redundant. Jumbo has also let go the toilet matrons, the independent cleaning contractors who leased the toilets in the chain for a monthly fee.

Two sports retailers, Aktiesport and Perry Sport – both owned by parent firm Unlimited Sports Group – were also declared bankrupt as a result of the V&D closure. At the time of the declaration, Aktiesport employed 1,150 people, and Perry Sport employed 850. A deal was recently reached with UK retailer JD Sports, which will acquire both companies for an undisclosed sum. Of the 187 stores, 55 will close immediately, with a total loss of around 1,000 jobs.

In total, more than 10,000 jobs have been directly affected by the bankruptcy and subsequent closure of V&D, a case study on the interconnected nature of the market and how the closure of such a large company has impacts beyond those on its direct employees.

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 7 April 2016. For more, visit the **European Restructuring Monitor web page**.

This issue is based on contributions from Eleonora Peruffo, Lena Jacobs, John Hurley and Andrea Broughton (EU-level correspondent).

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