

## **European Globalisation Adjustment Fund: an adequate and effective reaction to a seemingly inexorable phenomenon called globalization?**

“BenQ slashes German workforce by 10%”<sup>1</sup>, “Nokia to shift 2,300 German jobs to Romania”<sup>2</sup>, “Aus für letztes Handy-Werk in Deutschland”<sup>3</sup> (End of Germany’s last plant for mobile phones). Headlines of this kind, pointing to the fears and severe consequences of globalisation, regularly capture the covers of European print media. In Germany, the closure of two plants, BenQ and Nokia, and in France especially the offshoring of automobile suppliers, has fuelled the debate over how best to protect European Union (EU) citizens from globalisation.<sup>4</sup> At this point, the EU gets into a dilemmatic situation, i.e. on the one hand to promote the opening of markets in WTO-rounds and strengthening the own established Single Market, and on the other hand not to neglect potential or actual “losers” due to this created open, competitive situation. In order to take care of the latter and to gain continual support for the former, the European Commission introduced the “European Globalisation Adjustment Fund” (EGF).

This essay shall analyse the 2007 implemented common policy, specifically its *justification*, *functioning* and *effectiveness*. For this reason, the context shall be first exposed (I), in order to then see how the EGF fits into it and how it functions *theoretically* (II), and also within a overall policy framework tackling EU’s present and future challenges (III). The second part of this paper looks at how the EGF worked so far *in practice* (IV) and finally evaluates its functioning, pointing out deficiencies and giving possible improvements (V). This shall give an answer to whether the EGF is an adequate and effective reaction to globalisation.

### **Europe within a (self-constructed) globalised world- threats and opportunities**

Today, globalisation, as opposed to earlier centuries, cannot be any longer equalized with “Westernisation”.<sup>5</sup> Instead, “a growing internationalisation and intensification of the number and pace of the socioeconomic, institutional and cultural flows is being experienced, whose influence and development are increased every day in all directions of the planet”.<sup>6</sup> Over the last few decades, we have been witnesses of a drastic increase in (trade-related) cross border-

movement of capital, technology and labor-force. This has led to a six-fold increase of world production in the last four decades, while trade flows have multiplied fifteen-fold.<sup>7</sup>

This newly, extensively activated exchange of goods can be attributed to a considerable technological progress in transport and communications. In this situation, there emerged a discrepancy between high net-benefits recorded for a long time by European countries and lowering benefits of less-skilled workers- within these same countries- that either needed to accept (negative) salary adjustments or dismissals. Most often workers were displaced as protected sectors opened to competition from elsewhere. Richard Freeman gives one substantial reason, namely the “doubling of the global labour force” within the last fifteen years.<sup>8</sup> He means the entry into the global economy of new workers, mainly from Brazil, Russia, India and China (BRIC), that were initially deprived of access to capital. Parallel to this, deteriorating the labor situation of less-skilled workers even more, “technological advances embodied in new capital (robots, computers, telecom equipment etc.) substituted for low-skilled workers, as simple tasks could be replaced this way”.<sup>9</sup>

This increasingly borderless world economy, defined by the increased use of technology, stretched transportation facilities and a concomitant liberalization of economies and markets, made it possible for firms from the outside to export into the EU and for companies inside the EU to gain from this opening by moving “parts of the value added chain” abroad.<sup>10</sup> Offshoring, i.e. the relocation of production- entities abroad, and Outsourcing, i.e. subcontracting of a business process to a third party, have become important key words, or rather actions<sup>11</sup> in European economy today, leading to a situation in which “production and trade have become intertwined”.<sup>12</sup>

Within these new economic conditions, it is Europe’s trade specialisation that has put it “*on the side of globalisation’s winners, as its advantage is actually strengthened by the entry of new players.*”<sup>13</sup> This explains how European exports could thrive in recent years, prior the financial and economic crisis of 2008/2009. Parallel to this trend, we have seen in Europe a positive shift in demand for “more-skilled” workers “at the expense of less-skilled workers”.<sup>14</sup> Having elaborated on the reasons behind this trend, it suffices to say, that Europe has chosen the promising trend of change, i.e. changing whole industries, focusing on its expertise, bringing less-skilled workers on the right track. This is all made necessary by a politically, economically and socially transformed, in a globalised way, environment.

It is within this context that José- Manuel Barroso, President of the European Commission, says, “*I believe that globalisation offers major opportunities. But we cannot – and should not*



- ignore the pressure on companies and workers resulting from fierce international competition”.<sup>15</sup>

Voilà, the emergence of the EGF.

### **The European Globalisation Adjustment Fund in theory- what is it or what is it supposed to be?**

In the same speech, justifying the implementation of the EGF, Barroso describes the EGF as a “shock-absorber to the powerful engine of globalisation”.<sup>16</sup> So what exactly is the EGF if it is to defend Europe, and especially its less-skilled workers, from globalisation?

The EGF, as its name says, is a fund, a fund that can provide up to 500 Million Euro annually to the member countries of the European Union, hence to its citizens. The stipulated aim is “to help reintegrate into the labour market workers made redundant due to changing global trade patterns”.<sup>17</sup> There are several actions that are seen as appropriate and that are hence funded in pursuit of the mentioned aim: job search assistance, personalised retraining (including ICT skills), promoting entrepreneurship, assisting self employment or allowances for those participating in training.<sup>18</sup> But, the regulation explicitly states that “the EGF shall not finance passive social protection measures”.<sup>19</sup>

Within this framework, redundant workers can be supported up to 18 months. However, not all redundant workers and their countries are eligible to claim this fund. There are two conditions for successful application (which also need to contain pursuant to the EGF regulation several data and explanations):

- 1.) Applying member states must demonstrate the link between job losses and a significant “often unforeseen”<sup>20</sup> shift of global trade patterns in the form of experienced massive offshoring, outsourcing or/ and continual decreases of a given sector of its EU market share.
- 2.) The structural changes need to be massive because the Fund is only triggered if there are at least 1000 workers affected within a sector or company by this “shock”. Moreover, the “job losses must represent at least 1% of the regional employment level”.<sup>21</sup>



These two conditions are to ensure that the support is “concentrated on workers in the most seriously affected regions and economic sectors of the Community”.<sup>22</sup> Only then can a Member State submit an application for a contribution from EGF to the Commission.<sup>23</sup>

This policy is based on an advice by the Commission and a report from October 20th 2005 on 'European Values in a Globalised world'. It was then established by the European Parliament and the Council at the end of 2006 and it came finally into force on 1<sup>st</sup> Jan 2007.

### **The European Globalisation Adjustment Fund- part of an overall European strategy**

On the one hand, one needs to see the limitations of the EGF, above all that it ‘only’ “helps workers finding a new job, while the rest remains the responsibility of national welfare systems”.<sup>24</sup> On the other hand, the EGF widens the horizon and opens doors since there is more to it than it seems at first sight. It’s not only the EGF’s practical attempt to save people from severe consequences of globalisation that is central but also the message of solidarity that it tries to get across. It is in this sense a symbolic act convincing people “that Europe is willing and able to support those negatively affected and help them to adjust to a more competitive environment”.<sup>25</sup>

EU policy is not restricted in its measures to the EGF, aiming to adjust to new ‘realia’. As a matter of fact, it is only one element of the EU’s overall future strategy known as the 'Community Lisbon Program' (CLP) of which the EGF became part in the “updated version” 2005. This program is supposed to develop the Community in several future-relevant aspects, of which the main elements are: supporting knowledge and innovation, simplifying the regulatory framework, completing the internal market for services, removing obstacles to especially labour and academic mobility and supporting efforts to deal with the social effects (hence, job losses) of economic restructuring. The EGF, as we can see, was integrated into the latter point of the CLP that contains actions at member state level, complementing the national action plans for growth and jobs.<sup>26</sup>

The EGF (rather short term aid) is not to be confused with the European Social Fund (long-term instrument). Both, or all measures taken together, are supposed to support Europe in its major change towards “an area of knowledge and innovation”.<sup>27</sup> It would be beyond the scope of this essay to analyse all tools used for this long transition process. This essay shall hence continue to focus on one “crisis mechanism”, the EGF, and find out how effective it was



practically in dealing with significant socioeconomic shocks caused by changing trade patterns.

### The European Globalisation Adjustment Fund in practice- a look into cases, into successful cases?

There have been twelve applications approved and paid under the EGF so far, totalling over 70 million Euro. These financial means were used in order to help a total of 17.000 redundant workers. EGF cases have so far concerned redundancies in the automotive industry in France, Portugal and Spain, in the mobile phone sector in Germany and Finland, and in the textile sector in Malta, Lithuania and Italy. All cases involving redundancies follow a general shift, particularly in these industries, in the European Union towards lower-cost expanding non-EU countries and their markets.

The table below illustrates well the sequence of applications in 2007 and 2008, defining when (time span: “application received” (start) and “payment date” (end)), from where (“member State”, “case”, “industry”) and why (no. of “effected workers”) applications were handed in as well as what their outcomes (i.e., “amount paid”). There are two things that need to be clarified: First, the time span (as defined above) can reach up to fourteen months, as in the case of the Italian textile industries (see case no 5-7). This stems from the fact that the evaluation process is complex, involving bodies that decide on a case to case basis. The application first reaches the Commission that evaluates the data, before it goes to the European Parliament and the Council deciding on the mobilisation of the EGF. A final vote then takes place in the European Parliament in Strasbourg before the Fund can be activated to help relevant redundant workers. Secondly, there is obviously a correlation between “amount paid” and “no. of effected workers” to be noticed. However, there are still seemingly disproportionate amounts being paid, for instance comparing a 12.766.150 Euro and 3300

No	application received	payment date	member state	case	industry	amount paid	effected workers
1	11 May 2007	13 December 2007	France	Peugeot suppliers	Car manufacturing	2.558.250 €	1.345
2	11 May 2007	13 December 2007	France	Renault suppliers	Car manufacturing	1.258.030 €	1.057
3	27 June 2007	20 December 2007	Germany	BenQ	Mobile phone manuf	12.766.150 €	3.300
4	18 July 2007	20 December 2007	Finland	Perlos	Mobile phone acces	2.028.538 €	1.000
5	9 August 2007	15 December 2008	Italy	Sardegna	Textiles	13.888.300 €	1.044
6	10 August 2007	15 December 2008	Italy	Piemonte	Textiles	10.901.200 €	1.537
7	17 August 2007	15 December 2008	Italy	Lombardia	Textiles	18.707.500 €	1.816
8	12 September 2007	28 May 2008	Malta	Malta	Textiles	681.207 €	675
9	9 October 2007	29 May 2008	Portugal	Lisboa-Alentejo	Motor industry	2.425.675 €	1.549
10	12 February 2008	15 December 2008	Italy	Toscana	Textiles	3.854.200 €	1.558
11	8 May 2008	3 December 2008	Spain	DELPHI	Car manufacturing	3.854.200 €	1.500
12	8 May 2008	3 December 2008	Lithuania	Alytaus Tekstile	Textiles	298.994 €	600
						<b>73.222.244</b>	<b>16.981</b>

workers (BenQ) with 13.888.300 Euro and “only” 1044 workers in the case of Sardegna. This is due to the fact that there is not only the amount of people affected that plays a role in the allocation of funds, but also the context, i.e. their localization, their chances of acceptance in the job market, hence the degree of severity and therewith connected the differing costs of reintegration into the employment market.

Analysing each case would be too space-consuming. When looking into the European Commission’s press-reviews commenting on each case, one can see that- also for reasons of promotion- Vladimír Špidla, EU Commissioner for Employment, Social Affairs and Equal Opportunities, is justifying and/ or praising the use(-fullness) of the EGF. Regarding the two cases within the mobile phone sector (concerning BenQ and Perlos), he is saying the following:

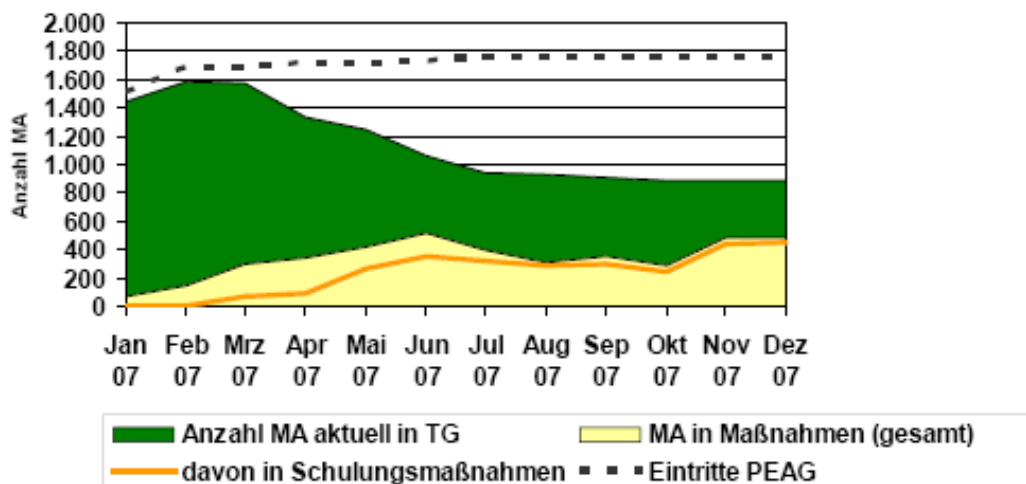
I'm delighted that these payments from our globalisation fund will help the redundant workers find their way back into employment. In Munich, Kamp-Lintfort and Bocholt, and in North Karelia, a remote region close to the Russian border, the support offered by the Fund will be of considerable help to the workers as they embark on new careers.<sup>28</sup>

This comment shall, in the following paragraph, be questioned, asking how helpful the Fund really was in supporting redundant BenQ workers “as they embark on new careers”. Before answering this question, it is however crucial to explain the background.

The application must be seen in the context of a general trend- as explained in part I- towards offshoring (in this case the production of mobile phones and accessories moving to Asia). This is not only due to comparative cost advantages but also due to location advantages, especially the attraction of the increasingly growing Asian consumer markets and the proximity to technology partners. “*One year after taking over from Siemens (in October 2005) BenQ (a Taiwanese company) withdrew all financial support for its German subsidiaries: BenQ Mobile GmbH&Co OHG and Inservio GmbH, causing insolvency in both subsidiaries*”.<sup>29</sup> Parallel to this, BenQ, with only one manufacturing side left in Brno (Czech Republic), is expanding operations in the region of Asia where it recently experienced annual growth rates of 31% in the mobile phone sector.<sup>30</sup> For this mere microeconomic reason, BenQ needed to dismiss workers from three sites: München (1342 redundancies), Kamp-Lintfort

(1719 redundancies) and Bocholt (242 redundancies); all together 3303 abrupt redundancies. The following application by the German government contained a request of 12.8 Million from the EGF. After approval, the funds could flow into short term allowances and mobility allowances as well as training measures, placement and counselling for BenQ redundant workers.<sup>31</sup>

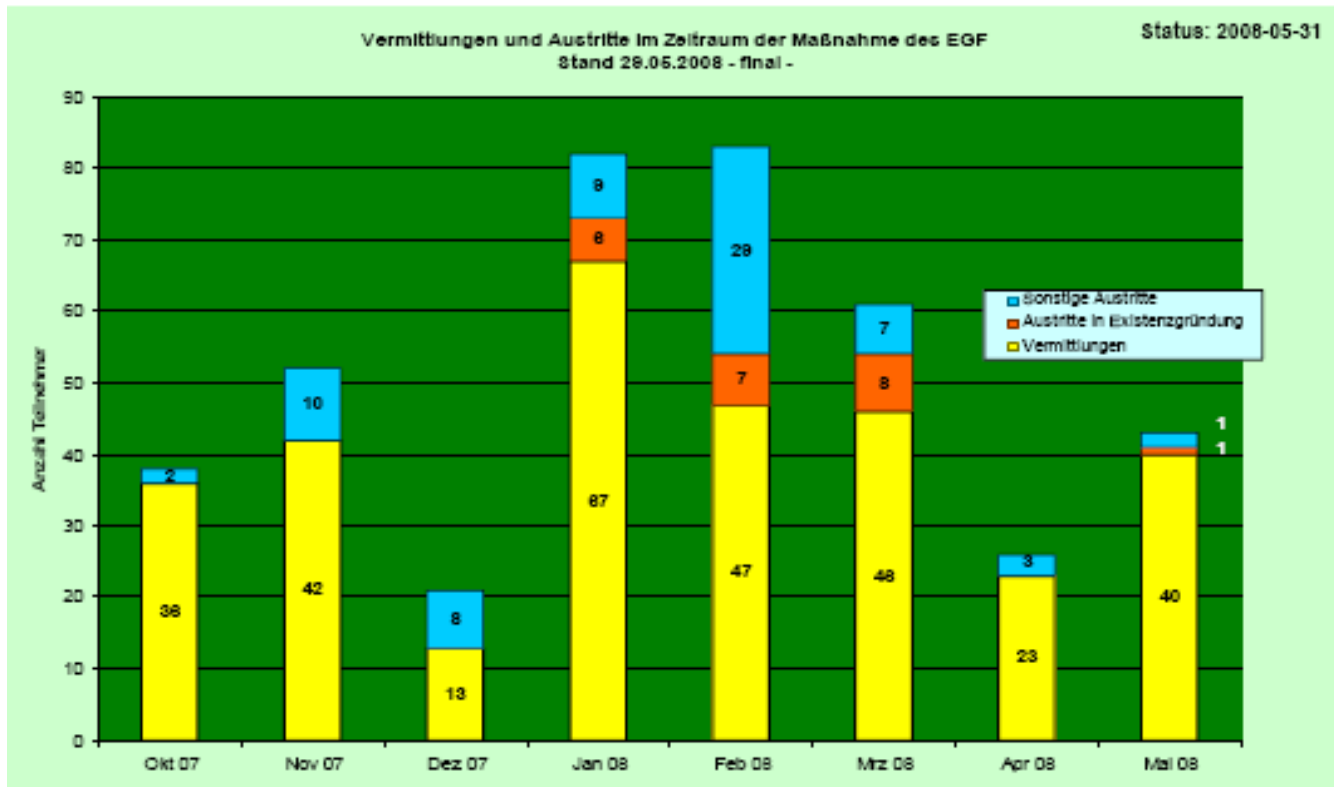
There are three relevant (time-) variables: the timing of the application, of the mass redundancy, and of the activation of the EGF. We see that the mass redundancy took place in January 2007, yet the EGF application-evaluation started in June 2007, so that only after the EU's Approval on 1<sup>st</sup> October 2007 were EGF-sponsored measures offered to all 921 workers who were at the same time participants of the PEAG, a German interim employment company.<sup>32</sup> 76 of them refused EGF sponsored offers in general for reasons of age, disease, child-raising-leave, business start-up plans, problems with child-care etc.<sup>33</sup>



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This diagram (x-axis: number of redundant workers part of PEAG, y-axis: time (months)) is showing the number of redundant workers that are part of PEAG (green colour), the number of people that are currently involved in measures (beige) and the number of workers in retraining programs. We can see that only half of all laid-off workers (1,600 out of 3,300 at the peak in February 2007) register to be part of the interim employment company (thus receiving EGF funds from October 2007). The diagram shows well that eight months later, by October 2007, the EGF could only offer help to around 800 “remaining workers” participating

in the PEAG, less than one fourth of the total number of redundant workers, and half of the original number of PEAG participants in February 2007. With the activation of the EGF in October 2007, we can observe increased worker participation in general and worker participation in retraining programs specifically. If we look at the period that the EGF was applied, from October 2007 to May 2008, we see that the EGF funds only slowly fulfilled its function, that is, to provide jobs. The following diagram gives a good overview:



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On the x-axis we can see once again the number of participants and on the y-axis the time (in months). The yellow part of the pillar indicates “successful placements”, orange shows “leavings for business start-ups” and blue “other leavings”. The placement rate rises considerably in January 2008 to 67 and 82 in total. During this time the number of people involved (845) was divided into two groups. One general group involved in counselling and placement programs and the one special peer group (210 participants) for people that are difficult to place, “*e.g. being a single father/mother, being severely disabled, or having longstanding health problems, being unskilled etc.*”<sup>36</sup>

Looking at the diagram above, one can see that until the end of December the EGF placed 91 participants and in the period January to May a total of 256 participants. Counting together and dividing 845 (number of participants) by 347 (total number of people placed), we get to a

placement rate of over 24%. However, the EGF together with the interim employment company (from January 2007 to May 2008) account for 82% (1415 participants and 1158 placements).<sup>37</sup> All in all, a mitigated result. What to learn from it?

### **Evaluating the European Globalisation Adjustment Fund: Suggestions and outlook**

The EGF, or at least some support for redundant workers, as this paper argued, is, in the light of clear global trends in trade and production, a necessity; a necessity which is part of an “obvious political logic in the EGF. As trade agreements are practically the sole prerogative of the European Union, then the negative consequences of trade liberalization agreements should also be dealt with by the Union”.<sup>38</sup> Therefore, a structural fund like the EGF or the ESF can be justified on political economy grounds at the EU level because trade policy is also partly decided at the EU level.<sup>39</sup>

When making general remarks about the EGF on the basis of the evaluation of the BenQ case, we see three striking, critical points: 1.) The Fund often reaches the people in need too late 2.) This delay (as well as people’s reservations towards the EGF) lets less people get involved than possible 3.) The efficiency of the Fund may be questioned considering a worker placement rate of “only” 24.43%. The very basic question that comes up is: how can the EGF better reach people?

This question is crucial since, on top of this, we have seen, that the EGF activated within two years “only” 73 Million Euro, even though it can allocate up to 500 Million, while it aimed to help “only” 17.000 people, of which, as we have seen, not all make use of the Fund.

The European Commission’s evaluation in the official EGF Review, making “suggestions as to immediate and longer term ways to improve its performance”<sup>40</sup>, is close to our elaborated points (or rather vice-versa). In this EGF review, the Commission states that “€ 500 million per year is not an expenditure target”. This figure indicates a possibility which simply wasn’t made use of in recent years, “partly due to the favourable economic climate in 2007”.<sup>41</sup> At the same time, the Commission acknowledges that the limited take-up “could also reflect Member State uncertainty about eligibility for funding”.<sup>42</sup>

All together, the Commission gives a positive conclusion about the first year of existence of the EGF and makes five concrete proposals on how to improve the Fund and make it even more ready for future challenges: 1.) Simplifying procedures, 2.) Promoting exchange of experience and good practice, 3.) Covering redundancies not directly attributable to changes



in trade patterns 4.) Expanding the scope of the EGF to smaller redundancy events, 5.) Expanding the duration of EGF assistance.<sup>43</sup> All measures are aiming at expanding the scope and reach of the EGF after two years of rather reserved acceptance and application. This is trying to be reached by presenting the Fund more transparently and clearly to the outside and by taking care of article nine of the original EGF regulation, i.e. “Information and publicity”. In my point of view, both points are necessary in its implementation because when gathering information one quickly remarks how complicated and incoherent the application and the process is, as also claimed by the Bruegel think tank, “current EGF rules leave too much room for discretionary decisions”.<sup>44</sup> Moreover, there is a evident lack of representation of the EGF; sometimes Špidla (EU Commissioner for Employment, Social Affairs and Equal Opportunities), another time Neelie Kroes (EU Commissioner for competition), then Verheugen (EU Commissioner for enterprise and industry) or occasionally Barroso comments representatively on the EGF. Secondly, the EGF is indeed “underrepresented”, hence underestimated by European Media. At least, in the German BenQ case, it was clear to see that neither of the “big” German newspapers, “Die Welt”, “Süddeutsche”, “Frankfurter Allgemeine Zeitung”, reported on the EGF and how it was helping redundant workers in the German mobile phone sector. For all this, it is necessary to increase transparency, raise awareness and introduce clear-cut criteria. Only then will the EGF find its place among EU member states and their citizens’ hearts and minds. This will simultaneously bring Europe on the promising path which the “Lisbon program” represents.

To conclude, one can qualify the question that was initially posed by saying, yes, the EGF is an adequate reaction to shifting global patterns’ in trade and no, the EGF is not yet effective in its function but, after proposals recently made by the Commission, it is likely to become so.

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<sup>1</sup> <http://www.ft.com/cms/s/0/ff120e56-1141-11db-9a72-0000779e2340.html> Accessed 16 Jan. 2008

<sup>2</sup> <http://www.ft.com/cms/s/0/245b1c34-c357-11dc-b083-0000779fd2ac.html> Accessed 16 Jan. 2008

<sup>3</sup> [http://www.welt.de/welt\\_print/article1561804/Aus\\_fuer\\_letztes\\_Handy\\_Werk\\_in\\_Deutschland.html](http://www.welt.de/welt_print/article1561804/Aus_fuer_letztes_Handy_Werk_in_Deutschland.html) Accessed 16 Jan. 2008

<sup>4</sup> Fabian Zuleeg, “Europe, globalisation and the Single Market: lessons and comparisons “ in Economic Policy Forum (Brussels: European Policy Centre, March 2008) p.1

<sup>5</sup> Robert E. Westerfield, “Current Issues in Globalization”, 1st ed. (New York: Nova Science Publishers, 2004) p. 9

<sup>6</sup> Ibid.

<sup>7</sup> Ibid., p.26

<sup>8</sup> Richard Freeman, “What Really Ails Europe (and America): The Doubling of the Global Workforce” in “The Globalist” (June 2005)- [www.theglobalist.com/StoryId.aspx?StoryId=4542](http://www.theglobalist.com/StoryId.aspx?StoryId=4542)

<sup>9</sup> Hans-Werner Sinn, “The effects of globalization on western European jobs: curse or blessing?” in “The EEAG Report on the European Economy 2008” (Munich, EEAG, February 2008) p.15

<sup>10</sup> Hans-Werner Sinn, op.cit., p.3

<sup>11</sup> “labour immigration” is another key word that comes up as a factor for challenging less-skilled domestic workers in their professional life

<sup>12</sup> Robert E. Westerfield, op. cit., p.26

<sup>13</sup> Ibid.

<sup>14</sup> Matthew J. Slaughter and Phillip Swagel, “Does Globalization Lower Wages and Export Jobs?” in “Economic Issues No. 11” (Washington D. C: International Monetary Fund, September 1997”) p.1

<sup>15</sup> Speech by José-Manuel Barroso in front of the European Parliament

<sup>16</sup> Ibid.

<sup>17</sup> EGF website [http://ec.europa.eu/employment\\_social/egf/index\\_en.html](http://ec.europa.eu/employment_social/egf/index_en.html). Accessed 19 Jan. 2008

<sup>18</sup> Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund, article 3

<sup>19</sup> Ibid.

<sup>20</sup> Ibid., preamble point 2

<sup>21</sup> EGF website [http://ec.europa.eu/employment\\_social/egf/index\\_en.html](http://ec.europa.eu/employment_social/egf/index_en.html). Accessed 19 Jan. 2008

<sup>22</sup> Regulation (EC) No 1927/2006, op. cit., preamble point 4

<sup>23</sup> Ibid., article 5

<sup>24</sup> Loukas Tsoukalis, “Why we need a Globalisation Adjustment Fund” (Athens, Hellenic Foundation for European and Foreign Policy, October 2005- Discussion paper prepared for the UK Presidency) p.5

<sup>25</sup> Ibid, p.3

<sup>26</sup> Iain Begg, “Lisbon II, Two Years on: an Assessment of the Partnership for Growth and Jobs” (Brussels: Special CEPS Report, July 2007) p.18

<sup>27</sup> Ibid.

<sup>28</sup> Commission Press Release IP/07/1973 - € 14.8 million from EU Globalisation Fund to help German and Finnish mobile phone workers " (Brussels, 20 December 2007)

<sup>29</sup> EGF Fact Sheet "BenQ"

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> Speech by Angelika Preiss (PEAG- interim employment company) at the "European Globalisation adjustment Fund (EGF) Stakeholders' Conference" (Brussels, 4. September 2008)

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> Donald Storrie with Terry Ward, „Restructuring and employment in the EU: The impact of globalization" in "ERM REPORT 2007" (Dublin: European Foundation for the Improvement of Living and Working Conditions, 2007)

<sup>39</sup> Etienne Wasmer and Jakob von Weizsäcker, „Winning Over Globalization's Losers"(Brussels, Project Syndicate, 2007) p.1

<sup>40</sup> Communication from the Commission to the European Parliament and the Council, "Solidarity in the face of Change: The European Globalisation Adjustment Fund (EGF) in 2007 - Review and Prospects" (Brussels, July 2008) p.2

<sup>41</sup> Ibid

<sup>42</sup> Ibid., p.3

<sup>43</sup> Ibid., p.3-4

<sup>44</sup> Etienne Wasmer and Jakob von Weizsäcker, „Winning Over Globalization's Losers", op. cit.