TRADE

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TRADE AND LABOUR ADJUSTMENT IN EUROPE: WHAT ROLE FOR THE EUROPEAN GLOBALIZATION ADJUSTMENT FUND?

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ABSTRACT

Trade agreements have become a growing source of concerns due to potential job losses that some sectors can incur as a result of increased competition. Although the economic literature shows that the overall results of trade liberalization are positive, some sectors may be adversely affected, leading to job losses and adjustment costs.

One instrument designed to deal with such adjustment costs is the European Globalization Adjustment Fund (EGF), established by the European Commission in 2006. By jointly funding with EU Member States active labour market policies, the EGF is a tool that supports workers who lost their jobs due to globalisation. Despite the relevance of the EGF as trade adjustment mechanism, the existing evidence suggests that its use is still limited compared to its potential. The paper tries to review some of the constraining factors identified in the latest mid-term evaluation by the European Commission and suggest several avenues for further improvement.

[1] The views expressed herein are those of the authors and do not necessarily reflect an official position of the European Commission.

Introduction

This year we mark the tenth anniversary of the European Globalization Fund (EGF). Set up in 2006 by the first Barroso Commission, the EGF was welcomed by many, including EU Member States, trade unions and other social actors, international organisations, etc.

Launching the European Globalisation Adjustment Fund, Commission President Barroso stated: "*The fund will express the Union's solidarity towards those severely and personally affected by trade-adjustment redundancies. In this way, it will provide a stimulus to respond appropriately and effectively to the adverse impact of market opening. The fund will help workers made redundant back to work because we want a competitive, but also a fair EU.*" (European Commission, 2006)

A decade later Commissioner Thyssen remained equally resolute: "*The Globalisation Fund is Europe's main instrument to show solidarity with those harmed by the crisis and it has proven its worth over the years*" (European Commission, 2016).

The issues that led to the creation of the EGF have not faded away. Quite the contrary. The current political context brought these issues even more acutely to the fore. Anti-trade opinions and the claims of trade-related negative effects on labour are not just regularly in the pages of newspapers, but it was also one of the main issues (alongside migration and income disparity) that influenced the current political situation.

A general reflection on the social impacts of the globalisation has been recently expressed by the European Commission, signed by Vice-President Dombrovskis and Commission Thyssen mainly focus on "*how to adapt our social models to current and future challenges and galvanise Europe's social spirit*." (European Commission, 2017).

Despite having a relatively small budget, little political visibility and somewhat complex procedures, the EGF has delivered tangible results for tens of thousands of workers across Europe. However in the first decade of its existence the EGF has not reached its potential and has remained underutilised.

This paper aims to provide a reassessment of the main issues that can be of relevance for the impact the EGF can have in the future in the trade and globalization debate. Section 1 and Section 2 summarise the main elements in the economic literature and in the current policy debates that are of key relevance to the original rationale and current functioning of the EGF. On the basis of existing ex-post evaluation and additional information, section 3 tries to identify the strengths and weakness of the EGF in its current form. Section 4 concludes with some suggestions for the future, in particular on those areas that could make the EGF better fit to face the old and new globalization challenges ahead for the European economy.

1. Trade liberalization and the labour market

1.1 Beyond FTAs: adverse impacts of import competition in a globalized world

There is a consensus among economists that trade liberalizing policies are beneficial for trading partners as they improve the variety of goods for consumers and foster firms' productivity by relying on their comparative advantage. However, gains from trade might be unevenly distributed among countries and within countries either by increasing short-term adjustments costs incurred by shrinking sectors or by making some people worse-off in absolute terms (Obstfeld, 2016).

A recent literature survey (Hornok and Koren, 2016) summarizes the main sources of welfare gains coming from trade liberalization. First, trade liberalization fosters specialization according to comparative advantage of each commercial partner. Second, it allows access to bigger markets, reduce prices due to economy of scale and increase consumers' choice. Finally, resources are reallocated in such way that the most productive firms thrive and the least productive ones lose market share and sometimes, exit the market. Indeed, trade liberalization is beneficial for firms whose comparative advantages increase when bilateral tariffs are removed and this is good for the economy as a whole.

This trade-induced competitive specialization involves labour churning. The so-called *losers* from trade tend to experience an *adjustment* period during which the workers re-locate themselves to the most competitive firms and sectors of the economy that expand thanks the trade reforms. The duration of the adjustment period can undermine the initial benefits especially in periods of limited economic growth. In this respect, institutions can play a significant role by taking care of those adversely affected by trade liberalisation. In the EU "Trade for All" strategy this aspect is specifically acknowledged. In particular the strategy recommends a more pro-active response to deal with trade-related labour adjustment costs:

> "*Actively managing change is therefore essential to making sure the benefits of globalisation are fairly distributed and negative impacts are mitigated. The social consequences of market opening must be addressed*"[2]

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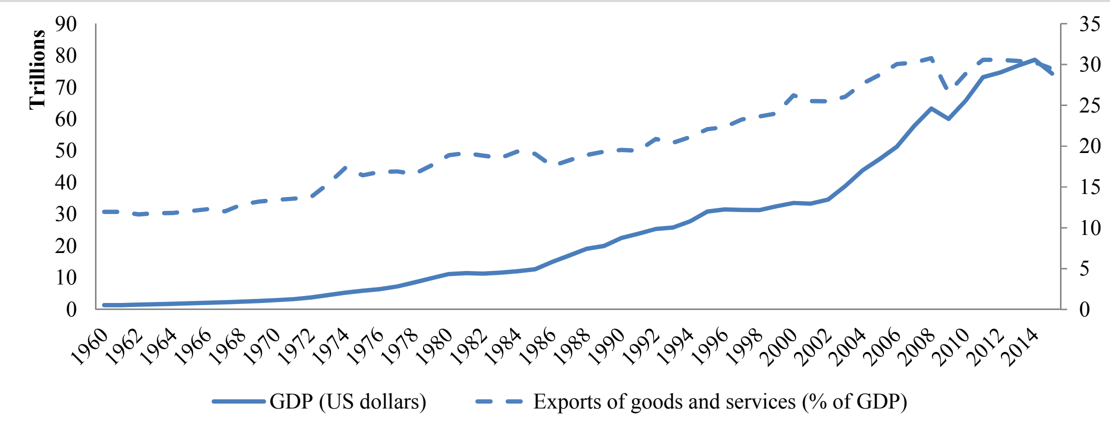
[2] http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf

There is a growing popular perception that the signature of bilateral and multilateral free trade agreements is the main cause of income inequality. However, the picture is much more complex and economic interdependence is nowadays not a reversible process.

Box I: Globalisation and Income inequality: trade *vs*. technology

In the last 50 years the world has experienced a strong globalisation process. There are many ways to define globalisation but one metric is the increasing share of foreign trade in the overall economic activity, measured by the world GDP (Figure 1). The economic literature agrees that increasing trade openness had a positive role on world GDP growth, see Helpman (2016) for instance.

Figure 1 World GDP and World exports of goods and service (right-hand axis, % GDP)



Source: World Bank (2017)

However, during the same period many countries have witnessed a growing income inequality. While it is clear that several factors have contributed to this outcome, the econometric evidence finds that the role of foreign trade is not so important in explaining the rise of high skilled real wages compared to low-skilled ones (Katz and Murphy, 1992, Krugman, 1995; Borjas, Freeman and Katz, 1997).The studies mentioned above showed that a big part of the wage inequality comes from different skills levels *within* sectors and not among different sectors or countries. These differences are most likely attributable to technological changes that altered the demand of different skilled jobs by increasing wage inequality[3]. Even if this statement needs further

[3] Higher demand for high and low skilled jobs turned into a decline in employment for medium skilled jobs creating the phenomenon of *job polarisation.* It is worth noticing however that in the recent literature on the functioning of labour market, trade integration is only one among several determinants of such polarisation,

empirical validation, Helpman (2016) concluded that the view according to which globalization and foreign trade exposure are the main responsible factors of wage inequality has no empirical evidence, although import competition might have adversely affected certain workers.

The importance of ICT and knowledge transfer compared to trade liberalization in job displacement has been also recently discussed in Baldwin (2016). He explains that the globalization process has reached a new stage in which the knowledge transfer has a much more important role compared to movement of goods and services. According to his recent work, the development of global value chains has facilitated the movement of ideas by allowing countries historically considered only "assembly centres" to promote themselves as manufacturers. In this context, protecting part of local production by raising tariffs would not bring back the off shored jobs (more often low-skilled jobs) but will only make more expensive the required inputs.

Recently, the economic literature started to identify long-term effects of the globalisation process in some industries and countries. In particular, Autor *et al*. (2013) analysed the role of the Chinese export-oriented policy in the decline of US manufacturing industry. The authors estimated the net impact on the aggregate demand and reallocation effects; they found that growing imports from China between 1999 and 2011 led to an employment reduction of 2.4 million workers in the US. This figure includes both the impacts on the manufacturing sectors directly exposed to Chinese competition and the ones indirectly linked to it. The previous analysis is partially confirmed by Lawrence (2014) who analysed the effect of Chinese imports on job displacements in the US between 2000 and 2007. He noticed that even if the displacement of US workers effect was substantial in some sectors, it only represented one-fifth of the annual total displacement in the US manufacturing industry (the sector most affected by strong Chinese competition) and less than 5% of the job displacement in the overall economy.
These labour adjustment costs may suggest that trade with a large, low-wage emerging economy necessarily leads to negative overall effects in the importing partner. Without diminishing their importance, these results must nevertheless be framed in the right context: first, trade-related displaced workers represent a small fraction of the normal labour churn happening anyway in the overall economy. Second, whenever such labour displacement effect takes place, the gains from trade liberalization are typically large enough to ensure that displaced workers can be covered by trade adjustment assistance programmes like the ones discussed in this paper.

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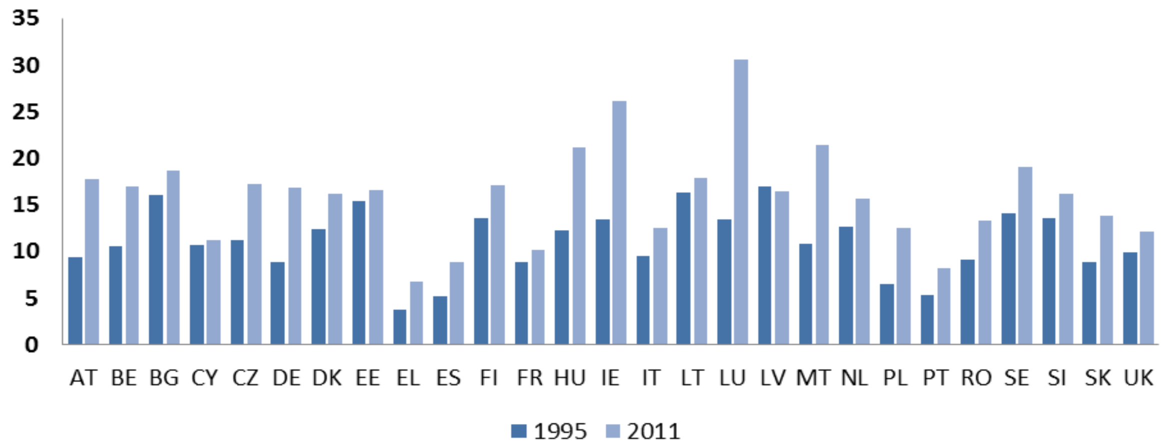
alongside skill-biased technological progress, increasing importance of services sectors, and industrial restructuring (see Beblavy et *al*., 2014).

1.2 Job reallocation effects and trade liberalization reforms in Europe

One of the main pillars of the EU trade policy is to support trade liberalization by establishing free trade agreements with its main commercial partners. The main objective of these trade initiatives is to exploit any possible source of growth to support employment in all EU Member States and our trading partners. Recent data shows that exports of each EU Member State not only support jobs in their domestic market but also in other member states whose production is directly or indirectly contributing along the complex supply chains created by the Single Market. For instance, in 2011, in France 10.1% of total employment was supported by exports of the whole EU to the rest of the world (Arto *et al*., 2015). Thus, in recent decades international trade has been a strategy that supported a growing share of total EU jobs (from 9% in 1995 to 14% of total EU employment in 2011), reaching over 31 million jobs across Europe (Rueda and Sousa, 2016).

In recent decades international trade has been a strategy that supported a growing share of total EU jobs

Figure 2: Employment supported by EU exports as a percentage of total employment, by Member States (1995 and 2011, %)



Source: Arto *et al*. (2015)

Moreover, trade is an important vehicle for the successful internationalization of European SMEs. Over 600'000 EU SMEs engage in direct exporting activities beyond the Single Market and they employ over 6 million workers (Cernat et *al.*, 2014). Many more SMEs stay competitive by benefitting from

Although, trade may be beneficial to the entire economy, some sectors might suffer, and some adjustments measures might be needed to compensate those sectors cheaper imported intermediates, or by being engaged indirectly in international trade as suppliers of larger firms along the supply chain.

Therefore, the international market interdependence made possible by growing global value chains (GVCs) allows also small and medium enterprises which are not able to export their products to be part of the GVCs by providing intermediates to bigger firms. Firms engaged in international trade not only employ a growing number of EU workers but also offer a wage premium. Compared to a non-exporting firm, workers in exporting firms, regardless of their skill level, enjoy a wage premium ranging from 5% for low-skilled workers to 16% for high-skilled workers (Cernat and Sousa, 2015). However, while trade had a clear net positive effect on jobs and wages in Europe, the analyses mentioned above do not investigate the labour adjustment impact created by increased imports, due to several data and methodological constraints.

The current state-of the art technique to assess the economic impact of trade liberalizing reforms is to use the computable general equilibrium (CGE) models. The CGE models are able to quantify the long term potential gains deriving from a free trade agreement, but are less useful to assess the impact of free trade agreement on employment. CGE models typically deliver estimates on job reallocation between sectors, once the bilateral tariffs are eliminated and the cost of non-tariffs barriers is reduced. The full or partial removal of trade barriers between two commercial partners by unlocking trade flows can lead to the expansion of some sectors, while others will shrink. Although overall the agreement may be beneficial to the entire economy, some sectors might suffer, and some adjustments measures to compensate those sectors might be needed to better exploit the overall benefits.

The analyses performed by CGE models can provide an indication on sectors that might benefit or suffer from the trade agreement in order to eventually target and design compensating schemes in an efficient way.

2. Trade adjustment costs and assistance mechanisms: a brief economic survey

2.1 How to define trade adjustment costs

As indicated previously, trade liberalization is only one of the many facets of globalization, which can redistribute income across sectors and countries. In order to mitigate possible adverse effects, compensating policies can support those who are adversely affected and improve the overall benefit.

Well-functioning credit schemes and a sufficiently flexible labour market can make compensation schemes much more efficient allowing displaced workers to be easily re-located and restore quickly the competitiveness of the firms

It is important to bear in mind that re-allocation of production factors (people, capitals) between sectors is inevitable to unlock the net economic benefits of trade liberalization. Moreover, policy makers keep track of adjustment costs that such re allocation process might bring. The size of adjustment costs can be small compared to the overall economic benefits for society but in the medium term such adjustment costs can be potentially harmful for some specific group of workers.

Adjustment costs are defined as the costs incurred by the economy in the transition period between a lower to a higher level of overall welfare, before and after the entry into force of the trade reform[4]. Depending on the characteristics of the domestic labour market, such costs may take effect in the short run or they can last longer, affecting the long run equilibrium level. Such costs can be expressed as the discounted value of annual losses incurred in the transition period. Discounted rate, duration of transition period and level of expected gains influence significantly the impacts of adjustment costs. These variables are also strongly influenced by the condition of domestic markets and labour market institutions. Their influence is important and can modify the size of the adjustment costs. Well-functioning credit schemes and a sufficiently flexible labour market can make compensation schemes much more efficient allowing displaced workers to be easily re-located and restore quickly the competitiveness of the firms. Finally, the quality of domestic infrastructures reduces adjustments periods for firms by reducing transaction, information and communication costs (Bacchetta and Jansen, 2003). Due to data and methodological limitations, normally adjustment costs are considered negligible in trade

[4] Francois, J. M. Jansen and R. Peters (2011) Trade adjustment costs and Assistance: The labour market dynamics

models but when expected gains are relatively low in the long run, adjustment costs might persist and, if relatively large, can undermine the initial predicted gains from trade.

Table 1: Components of adjustment costs

Social Adjustment Costs	Private Adjustment Costs	Labour	Unemployment Lower wage during transition Obsolescence of skills Training costs Personal Costs
		Capital	Underutilised capital Obsolete machines or building Transition cost of shifting capital to other activities Investments to become an exporter
	Public-Sector Adjustment Costs		Lower tax revenue Social safety spending Implementation costs of trade reforms

Source: Francois et *al*. (2011)

Table 1 singles out the possible components of adjustment costs. According to the literature, social adjustment costs might be split mainly in two components: private and public sector adjustment costs. In this context, we only discuss to private costs affecting the workers and investors. In particular, private adjustment costs are more often subject to uneven distribution in particular where referred to labour market. It is also the cost component that can be more easily compensated by labour market policies.

Policy makers that are facing opposition by the public opinion because of persisting adjustment costs can adopt three options: at one end of the spectrum they can continue to do "business as usual" by adopting the unchanged trade liberalization strategies. At the other extreme, they can succumb to mounting pressure to align their policies to views that would put in place sweeping protectionist measures and other inward-looking policies, with all the negative economic consequences that history taught us such a misguided strategy would entail. Alternatively, in between these two extreme options, the optimal policy mix would involve pursuing an ambitious pro-growth trade agenda, coupled with properly calibrated active labour market measures that assist workers negatively affected by trade liberalisation to find new jobs. The design and the

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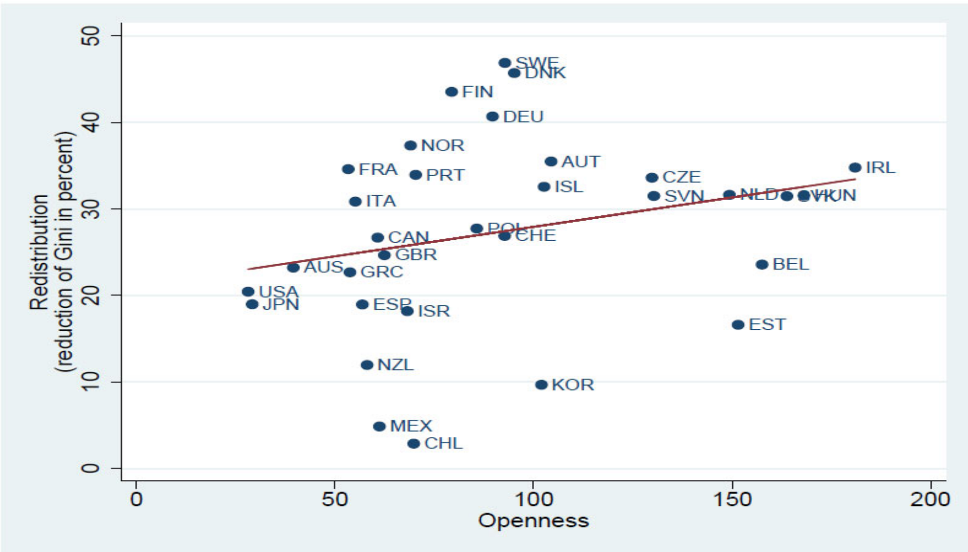
effectiveness of trade assistance programmes aiming at compensating private adjustment costs related to labour market will be discussed in the following paragraphs.

2.2 How to define the policy response: the role of assistance mechanisms

Trade assistance programmes are institutional policy responses designed to compensate and/or assist workers and/or firms that are adversely affected by trade liberalization. Such compensating or assistance schemes, in different forms, are often a tool to quickly exploit the full benefits of trade liberalization. As Lechtaler and Mileva (2014) suggests, there is a positive correlation between openness to trade and redistribution policies (Figure 3)

Figure 3: Openness and redistribution



Source: Lechtaler and Mileva, 2014.

While redistributive policies like the ones underlying the data in Table 1 can take many forms, we are particularly interested in the specific labour market policies aimed at reinserting displaced workers affected by globalization.

As briefly explained in Table 2, there are several ways to facilitate adjustment among which compensating policies are only one possibility. Here we focus on labour market policies, general or trade-adjustment specific. Economic theory finds extremely challenging to establish a causal link between adjustment policies and re-allocation of workers among sectors. Active labour market policies (ALMP) in particular seem to be the most efficient tool even if econometric evidence is scarce due to lack of consistent data on the effects of these measures.

Table 2: Adjustment Policies related to labour market

	Labour market and social policies	**Trade Policies**
Policies to facilitate Adjustment	Passive Labour Market Policies (e.g. Unemployment insurance) Active Labour Market Policies (E.g. training) Social security (e.g. health care)	Gradual/limited liberalization Transition periods, sectoral exclusions, sensitive products, safeguards, etc.
Specific Trade-adjustment Policies	Extending and targeting labour market policies to trade-affected workers (e.g. services in case of mass lay-offs)	Safeguard measures (GATT Art. XIX)

Source: Francois et *al*. (2011)

Asatryan et *al*. (2014) suggest adjustment policies that promote re-employment of displaced workers rather than unemployment subsidies. Even if difficult to evaluate, active labour market policies oriented to update and upgrade job skills profiles can actively relocate redundant workers in sectors that are more competitive. In their analysis, they also summarize the pros and cons of supporting such labour-specific policies.

Active labour market policies oriented to update and upgrade job skills profiles can actively relocate redundant workers in sectors that are more competitive

First, there is the fairness argument. A deliberate policy to promote trade liberalization and stimulate economic growth is legitimate. However, it can be considered unfair to accept that, while the overall economy grows and make people better off, some workers becomes worse-off from trade liberalization, especially if the size of the overall economic benefits can cover those adjustment costs and make everyone better off. Secondly, from a political perspective, appropriate compensating measures can maintain the voters' support that otherwise would be gone if many voters/workers fear that they might the ones "losing" from trade policy. Thirdly, and most importantly, adjustment policies can offset labour market frictions that would otherwise reduce the expected benefits from trade.

Among the arguments against the design of compensating policies, there are the difficulties to identify who the *losers* are and if the programmes can efficiently reduce adjustment costs and speed up the adjustment process toward the new welfare level.

Lechtaler and Mileva (2014) assess different adjustment policies to compensate redundant workers affected by import competition: they found that among different possible tools, the most effective ones seem to be training subsidies. Also Trebilcock (2014) affirms that "trampoline" policies such as active labour market policies are more efficient that "safety net" policies which mainly include unemployment benefits, although both are important compensation measures. Such policies imply long-term investments in education and can be beneficial for the economy besides the trade–related job losses.

3. The European Globalisation Adjustment fund (EGF): strengths and weaknesses

3.1 The EGF: How does it work?

The European Adjustment Globalization Fund is a unique policy tool at the EU level able to support workers made redundant by the effects of globalizations and economic crisis by co-financing active labour market policies. The EGF was firstly established in 2006[5], then amended in 2009 as part of the European Economic Recovery Plan[6] and finally revised in 2013[7] for the duration of the 2014-2020 Multiannual Financial Framework.

The purpose of the EGF is to provide an immediate support to redundant workers that have lost their jobs as consequences of the globalisation process. The EGF objective is to co-fund 60% active labour market policies (such as job search, training, up skilling business start-up etc.) oriented towards the re-training and re-employment of workers, not necessarily within the same sector. In practice, the competent authority, also responsible for the successful implementation of the training, in profiling the needs of the respective workers and designs the measures according to them and allocates the budget accordingly. The competent authorities in each EU Member State (the national, regional or any local competent authority) are also responsible for part of the funding (40%) and must deliver a final report at the end of the programme on the implemented measures.

[5] Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund (OJ L 406, 30.12.2006, p. 1).
[6] Regulation (EC) No 546/2009 of the European Parliament and of the Council of 18 June 2009 amending Regulation (EC) No 1927/2006 on establishing the European Globalisation Adjustment Fund (OJ L 167, 29.6.2009, p. 26).
[7] Regulation (EC) No 1309/2013 of the European Parliament and of the Council of 17 December 2013 on establishing the European Globalisation Adjustment Fund (2014-2020) and repealing Regulation (EC) No 1927/2006

The scope of the support envisaged by the regulation assumes that a financial contribution is needed if workers have been made redundant as a result of globalisation defined as major structural changes in world trade patterns (such as increase in imports, sudden shifts in trade in goods or services, offshoring or decline in market share) or as result of global and financial crisis. According to the current regulations, any economic consequences potentially directly linked to EU policies such as free trade agreement or economic sanctions are not covered unless the applicant shows that the scope and intervention criteria are fulfilled. Applications are accepted if one of the two intervention criteria is fulfilled: first, at least 500 workers have been made redundant (a) over a period of four months or (b) over a period of nine months, if workers belong to the same sector or have been grouped by SMEs. The second intervention criterion consists in proving a serious impact on employment at local, regional or national level.

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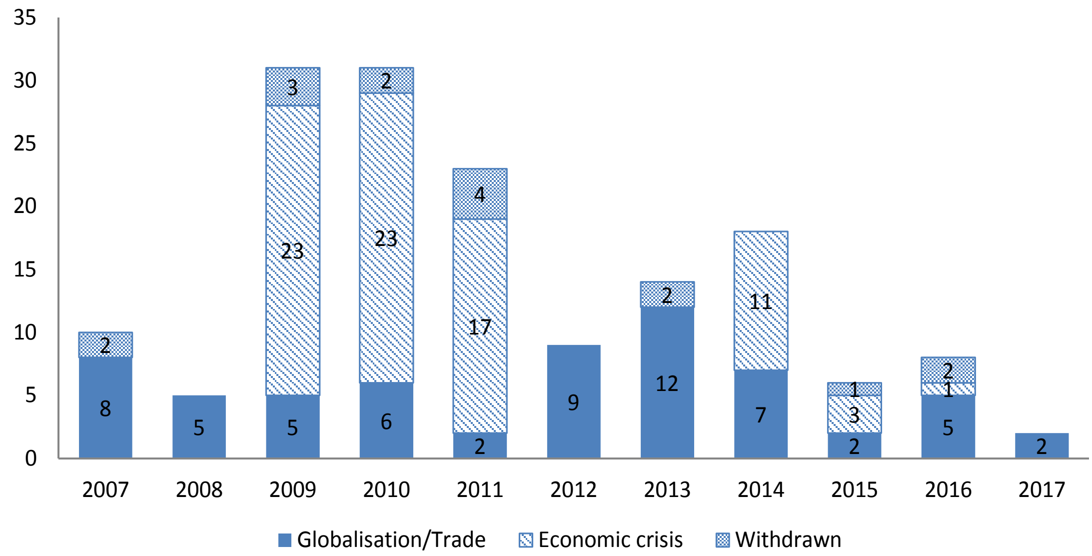
Figure 4: EGF Applications from 2007 until 2017, by scope

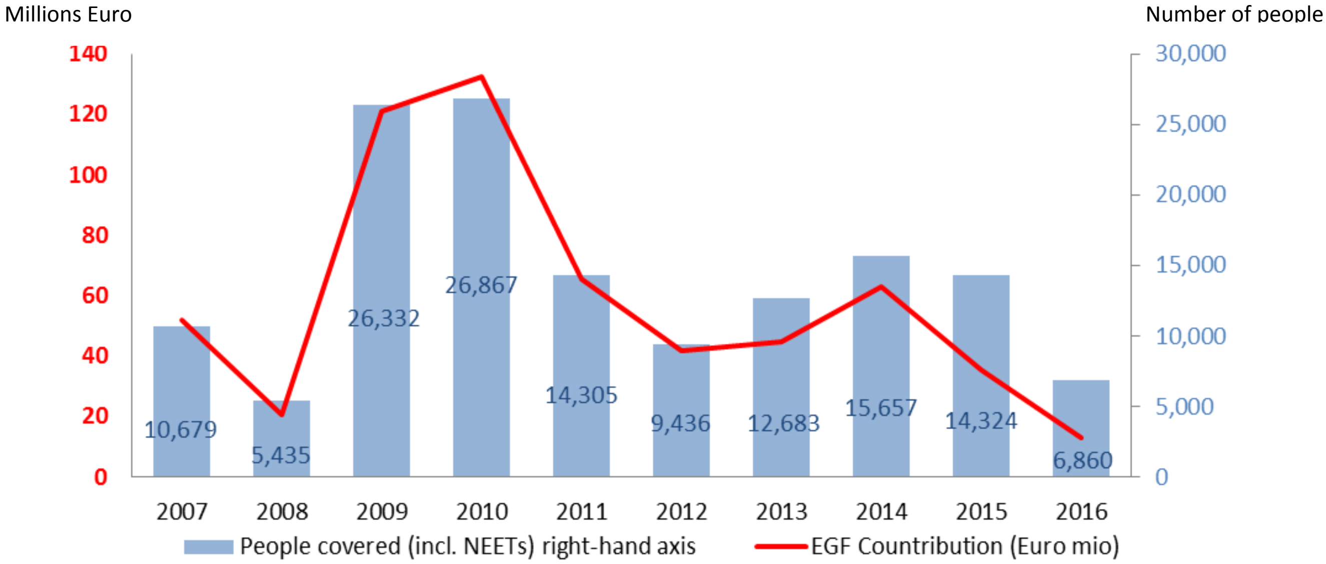


Source: Authors' elaboration based on latest EGF statistics

Figure 4 shows the actual number of applications processed by the European Commission since 2007. It is worth to underline how, except in the period from 2009 to 2011, the main reason for applying has been the increase in imports, off shoring or decline in market shares, as a result of globalization. Out of the 168 applications received, 118 have already concluded the implementation period and are close to the final drafting of the summary report, 25 are under implementation of the adopted measures, 7 under assessment and 18 withdrawn or rejected (only one).[8]

The kind of intervention currently envisaged under the EGF is such that it can provide support only to ex-post, unexpected circumstances. This is the main reason why EGF annual budget was placed outside the standard EU Multiannual Financial Framework (MFF) and, unlike most other EU financial instruments, requires the approval of Budgetary Authority for every application. As a result the approval process of individual cases is longer and procedurally more cumbersome.

Figure 5: EGF contribution versus workers covered[9] (right-hand axis) since 2007



Source: Authors' elaboration based on latest EGF statistics.

Although this represents one of the two EU trade-specific adjustment instrument in place, the current EGF annual budget (set at €150 million, in 2011 prices) so far has never been exhausted. The other policy tool dealing with labour adjustments is the European Social Fund (ESF): the ESF is included in the MFF and it represents a complementary policy

[8] These numbers reflect the situation as of March 2017

[9] Workers covered include Not in Employment, Education and Training (NEETs)

measure that deals with the general effects of globalisation. The ESF provides financial support for a long strategic response to the challenges imposed by the globalisation process. It is not meant to support one-off the consequences of a specific restructuring event that caused redundant workers.

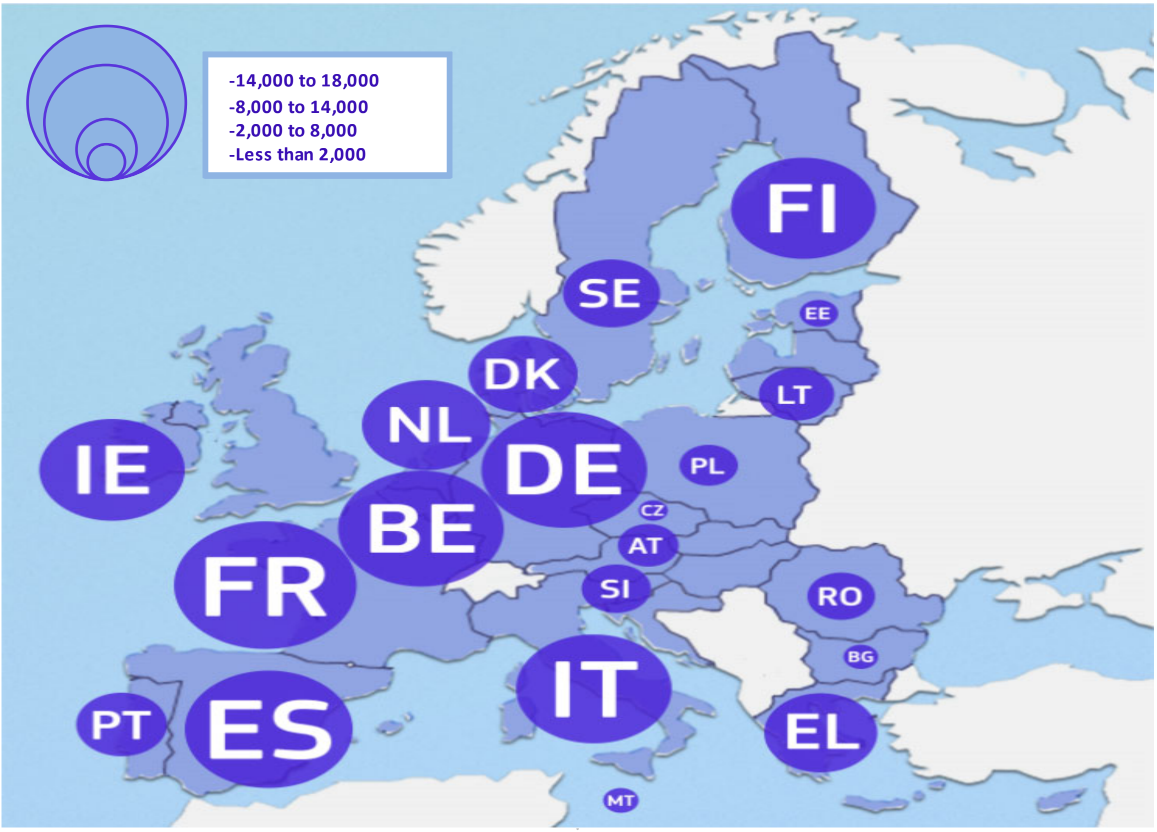
As shown in Figure 4, the number of cases does not offer a clear picture of the dimension of the intervention provided by the EGF and its full potential. In this respect, Figure 5 shows that the annual budget foreseen by the EGF regulation has never been utilised, reaching around Euro 120 million only during the full crisis period. Despite not fully utilising its financial envelope, the figures show that since its establishment, EGF co-funded retraining for almost 142,300 redundant European workers. Leaving aside the 2009-2010 crisis period, the average annual EGF contribution has been around €40 million, less than one third compared to what could be utilised.

Since its establishment, EGF co-funded retraining for over 140,000 redundant European workers

In order to evaluate whether the EGF is reaching its scope, we should properly address if its coverage corresponds to the effective redundancies incurred by the Member states, as a result of restructuring events or more generally due to other factors linked to globalisation and economic crisis. Job redundancies supported by EGF are inevitably affected by the regulatory restrictions, like intervention criteria which set a minimum threshold of redundancies in a specific period of time to be eligible. It can also be argued that the scope envisaged by the regulation (globalisation /economic crisis) limits the use of the EGF even if the definition of globalisation and economic crisis can in principle embrace a larger number of cases. However, due to limited data availability, it is hard to quantify how representative the number of people covered by the EGF is, compared to total redundant workers in the same period.

Another possible perspective to draw some conclusions from the applications received so far is to look at the number of job redundancies supported by EGF retraining programmes by member state since the establishment. Figure 6 reports the number of covered workers by Member State: regardless of the absolute numbers which might be lower than the effective redundancies incurred by Member States, it quite striking the difference between Western and Eastern European states.

Figure 6: Number of people covered by the EGF by Member States in 2007-2017

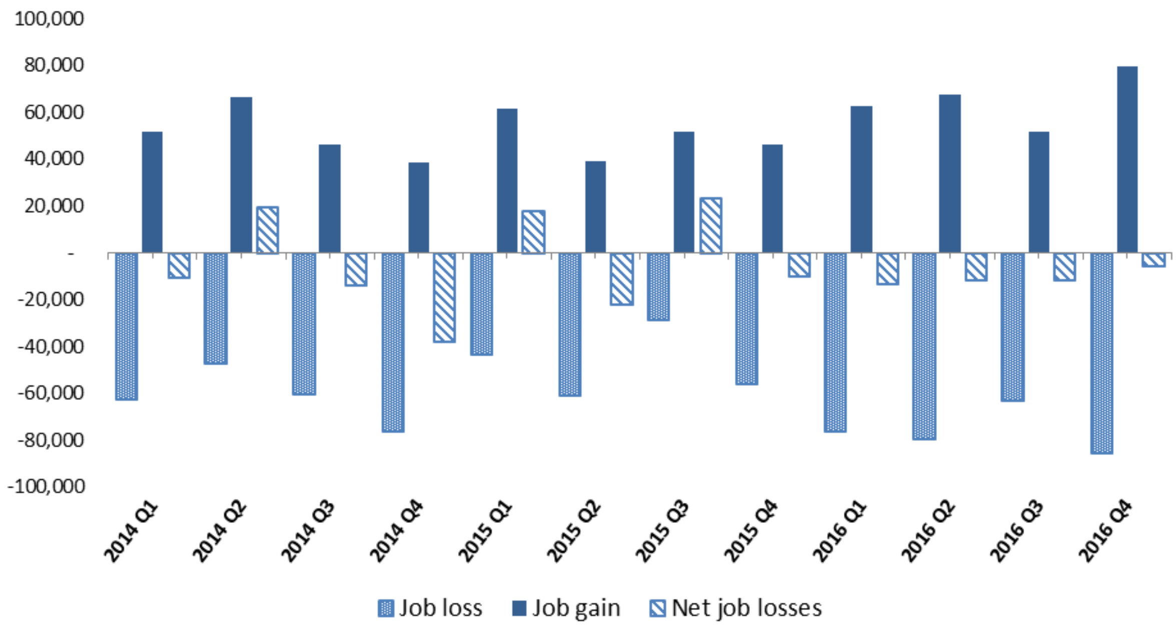


Note: The number of workers under EGF assistance ranges from 17,586 in France to 460 in the Czech Republic.
Source: Authors' elaboration, based on EGF actual cases.

This evidence raises two possible conclusions: either some MSs (mainly in Eastern Europe) have not been so dramatically hit by the adverse consequences of globalisation and economic crisis or they cannot use the funds effectively, due to administrative or budgetary restraints, given the need to put forward well-documented re-training programmes in order to apply for EGF-funded activities. According to the Reg. (EC) No 1309/2013, data collected by Eurofound in the European Jobs Monitors (EJM) could be helpful to understand the economic trend behind the use of the EGF. In particular, the EJM survey allows seeing how many quarterly net job losses were announced in a certain period. In this regard,

Figure 7 reports the number of announced jobs lost and gained since the first quarter of 2014. A job is defined as the single occupation in each single sector and can be off-shored to other EU countries as well as outside the EU. Several preliminary conclusions can be derived from the EJM data. First, on the macroeconomic side, net job losses collected by the EJM must be coherent with general unemployment trend. 2014 was the first year experiencing a decline in the EU unemployment rate below 10%, in particular as a result of employment growth, which has accelerated by 1.6% per annum since 2012. In line with this finding, the picture shows that quarterly net job losses, mainly caused by company internal restructuring, have declined in the last quarter of 2016. Second, it seems that the drivers behind the definition of job loss/gain are mainly related to companies' choices to relocate/restructure/go bankrupt differing from the ones envisaged by the regulation which does not take them explicitly into account.

Figure 7: Announced job losses and gains, quarterly.

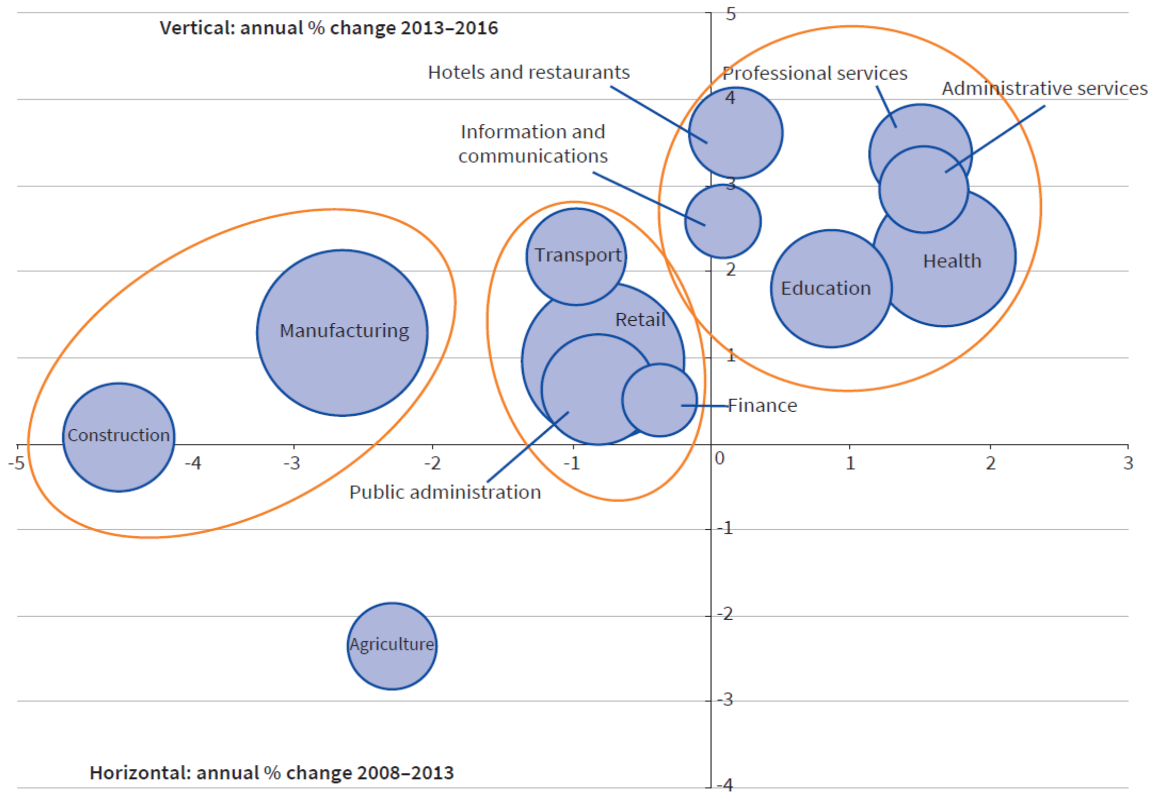


Source: European Jobs Monitor Survey, Eurofound (2016)

The impact of globalisation on employment, which is nowadays at the centre of the policy debate, is declining compared to the pre-crisis level

A recent contribution (Eurofound, 2016) explains that the impact of globalisation on employment, which is nowadays at the centre of the policy debate, is declining compared to the pre-crisis level. ERM data shows that off-shored jobs accounted for 7% of all announced job losses between 2003 and 2007 and declined to 4% between 2008 and2010 until 3% in 2015-2016. While estimates of effective jobs creation/destruction could be improved to shed more light on the relative importance of the EGF, data on sectorial employment shifts (Figure 8) suggests where re-training activities must be focused to foster movement of people among sectors and, if needed, among Member States[10]. Health services (both public and private) together with professional and administrative sectors have been growing during the crisis and are still characterized by a certain degree of skills that are difficult to replace with automatisation.

Figure 8: EU employment growth per annum by sector, comparing 2008-2013 with 2013-2016



Note: Bubble areas are scaled to sector employment in 2016 (for example, manufacturing = 33 million; hotels and restaurants = 10 million).**Source**: Based on ERM annual report (2016).

[10] The EU has already set a web portal that fosters and supports labour mobility across EU Member states plus EEA countries named EURES by providing language training, advice and information.

3.2 The EGF mid-term evaluation report

In compliance with Art.20 of the current EGF Regulation (EU No 1309/2013), the European Commission carried out a mid-term evaluation of the EGF performance in EU Members States[11]. The assessment serves as a basis for future reflections on how to improve the role of the EGF at the EU level eventually by shortening the application procedures and/or widening the scope of the applications and the co-funding share. Although the cases under assessments are relatively few (29 funded cases in ten member states in 2014 and 2015) to run any significant econometric estimates, the analysis can still provide useful insights thanks to other methodological tools, such as detailed case research, survey data provided by beneficiaries and open public consultation.

The average re-employment rate across 13 cases which have completed the implementation of the EGF programmes was estimated at around 50%

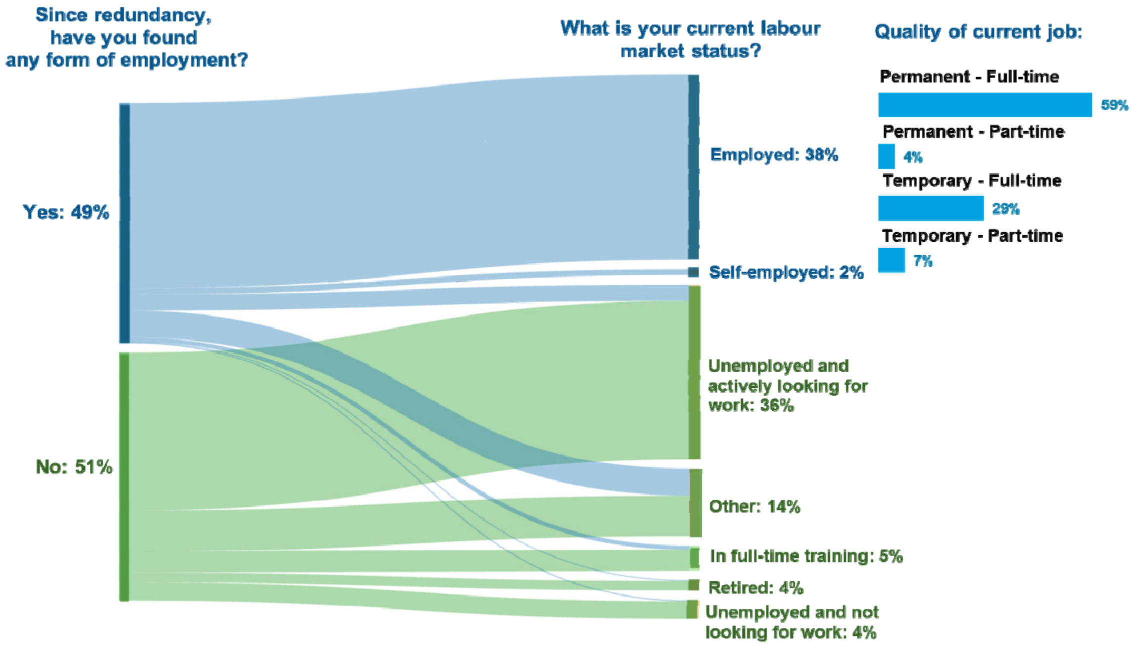
The most significant result of the analysis consists in the average re-employment rate across 13 cases which have completed the implementation of the EGF programmes that was estimated at 56%. In the previous assessment (ICF,2015), which was based on 73 EGF cases in the 2007-2013 period, the reported average rate was 49%. Most interestingly, half of the respondents of the beneficiaries' survey were again in employment at the end of the implementation phase, 59% of them with permanent jobs (see Figure 9). It is however difficult to assess in a straightforward manner whether those people managed to relocate themselves in a different sectors and if they have been up skilled compared to the starting position thanks to the EGF. What we simply know is that EGF might have been helpful but, clearly, the EGF intervention may not be seen as the only determinant of successful cases.

Interestingly, the report shows that there is no correlation between the re-employment rate and allocated funding: other factors are also important for the successful re-integration of the redundant workers such as the education and skills profile of beneficiaries, the economic performance of the affected regions including the rate of unemployment, responsiveness of the measures with the needs of beneficiaries. Another encouraging finding from the beneficiary survey reports is that in almost half of the case studies, re-employed workers successfully shifted across economic sectors: the number is

[11] ICF (2016)

probably lowered by the fact that many EGF beneficiaries were close to the retirement age, reducing the motivation to re-locate in different sectors.

Figure 9: Labour market status from the beneficiary survey (2013-2015)



Source: ICF (2016)

Furthermore, in 50% of the cases EGF beneficiaries found a job for more than 12 months but due to data limitations, it's not possible to disentangle the exact contribution of EGF.[12] However, according to EGF beneficiary surveys, 64% of respondents said that EGF increased the likelihood of them finding a new job.

Box 2: The US response to trade shock: the Trade Adjustment Assistance Programme

One of the policy tools comparable to the EGF is the American Trade Adjustment Assistance Programme (TAA). The TAA is a federal programme that was first authorized by the Congress in 1962 and then subject to periodic amendments. The programme is designed to support US workers, firms and farmers that have been affected specifically by increased trade competition. The program includes three main sub-programmes lead by tree different authorities: the biggest one if for workers and is administered by the US Department of Labour, the second is for firms

[12] Given the timeline considered for this assessment, there are no data on long term sustainability

(TAAF) lead by the US Department of Commerce and finally the one for farmers administered by the US department of Agriculture.

The comparable programme is clearly the one for workers where, like for the EGF application, the US competent authority receives the application directly from the workers and checks whether the essential requirement to be eligible are met. While there is no minimum threshold of redundancies to be reached, the job losses incurred by a firm or a sector must be linked to trade–related circumstances such as increased imports; re-location towards other countries; and supply or downstream production to certain companies with TAA certified workers. Once eligible, the spectrum of benefits and services offered by the TAA is quite broad and it includes: employment management services, training, trade readjustment allowances (TRA), Jobs search allowances, relocation allowances, alternative trade-adjustment assistance (ATAA) and reemployment trade adjustment assistance (RTAA)[13].

Table 3 reports the number of application received between the 2013 and 2015, the correspondent number of workers covered by the programmes and allocated fund to training activities. The dimension of these variables must be framed into the broader contest of the American market labour. Each petition must be certified by the certification specialists to make sure that the firms suffered from trade issues. In 2015, for instance, out of 57631 workers who benefited from the TAA benefits and services, more than half received the training in the same year, 72% of participants who completed the programme found a new employment within three months and over 92% of them kept their job also after six months.

Table 3 TAA Applications from 2013 to 2015

	2013	2014	2015
Numbers of Petitions Instituted	1,480	972	1,024
Certifications	1,025	646	413
Estimated Workers Covered	104,158	67,738	57,631
Training Fund Allocations	$535,353,000	$306,268,000	$235,726,200

Source: United Stetes Department of Labor (2017)

The TAA programme has always been under Congress amendments in particular in the last period when the ratification of TPP has been seen by many as a threat for the US workers. Once again the discussion is whether a better policy response can be designed to compensate the *losers* of free trade without forcing the administration to 'isolate' the US economy by imposing

[13] A wage subsidy for up to two years that is available to reemployed older workers and covers a portion of the difference between a worker's new wage and their old wage (up to a specified maximum amount).

protectionist measures[14]. The debate in the US is particularly sensitive nowadays where Mr. Trump presidency attracted many votes from people unsatisfied with trade openness.

Beyond the legal and practical elements defining the structure and functioning of the EGF, the evaluation further identified other critical elements. Demand-side factors such as a smooth functioning of the domestic labour markets are also crucial to make any labour re-allocation strategy successful. The role of the Member States authorities as main responsible for the EGF application, as coordinator and co-sponsor of active labour market policies appears to be key for the success of the implementation phase.

Much can still be done to promote the use of EGF in countries where restructuring programmes are not well established

Chances of success are positively influenced by a good knowledge of the application procedure, well-established and targeted assistance and, most importantly, by well-functioning and already existing national restructuring framework programmes in which the EGF is integrated. Finally, the evaluation offers convincing evidence that even in countries where active labour market policies are already quite developed, the EGF contribution remains essential to reinforce and improve their efficiency.

To conclude, although the cases analysis is limited, the evidence shows that EGF provides a substantial contribution to active labour market policies. The financial support is indeed additional but allows reinforcing and intensifying domestic re-allocation strategy. Much can still be done however, to promote the use of EGF in countries where restructuring programmes are not so well established.

[14] One of the possible policy responses is to reinforce the existing programmes like the ones devoted to firms, the TAAF which provides technical assistance to trade-affected firms to re-positioning them in the market and make them competitive again in the global system. In 2012, the Government Accountability Office (GAO) carried out the assessment of the TAAF; they found a "*small and statistically significant relationship between program participation and sales*." The financial contribution received through the federal programme improved the sales by 5-6% on average and productivity by 4%. Employment effects for the firm-specific TAAF were not found to be statistically significant (Fefer,2016).

4. Looking ahead: how should the EGF be redesigned to support EU workers affected by trade liberalization

After decades of open trade and investment, coupled with technological developments and widespread global supply chains across Europe and with the rest of the world, maintaining open markets is more important than ever for EU's economic competitiveness and leadership in world markets. However, as amply illustrated in the preceding sections, such deep integration processes also create temporary, sector-specific and localized negative adjustment costs in the EU labour force. Denying this simple fact or assuming that labour markets work perfectly and displaced workers find new jobs seamlessly, would jeopardize in the eyes of many the very economic legitimacy that made globalization and trade a major driving force for prosperity around the world.

Assuming that labour markets work perfectly and displaced workers find new jobs seamlessly would jeopardize in the eyes of many the very economic legitimacy that made globalization a major driving force for prosperity around the world

Based on this premise, the founding rationale for the European Globalisation Adjustment Fund, as one of the instruments offering a safety net for those workers that need to find a new job in a more efficient EU economy equipped to reap the benefits of global open markets, is stronger than ever.

Beyond this general argument, several other more specific elements plead in favour of a stronger and more effective EGF. Firstly, there is a *coherence* argument: under the EU treaties, European trade policy is an exclusive community competence. It is indeed logical that at least part of the financial responsibility for the negative side effects induced by EU policies should also be partly borne from the EU budget.

Secondly, there is an *economic* argument: some of the predicted benefits of EU trade policy would not materialise if the reallocation of capital and labour resources from less competitive firms/sectors to more competitive ones is not facilitated by active labour market policies such as the ones put in place thanks to the EGF.

Thirdly, there is the *cohesion* argument: EU trade policy may lead to bigger gains to be accrued in some Member States, sectors or regions, whereas the adjustment costs are concentrated in other Member States, sectors, or geographical regions. Having a trade-specific cohesion and redistribution instrument at EU level that ensures that losers in one country can be compensated by the winners in other EU countries makes both political and economic sense.

Last but not least, there is a *political* argument in favour of having a reinforced response to both real and perceived trade-related costs for the EU labour force: without such a credible response, the mounting of protectionist and anti-trade sentiments will erode the very benefits of open markets that millions of EU firms, workers and consumers have enjoyed in the past decades.

So, assuming these arguments provide a powerful rationale, what concrete improvements could lead to a reinforced EGF?

First of all, the scope of the EGF should reflect the current evolution of globalisation and assist redundant workers that are suffering from the uneven distribution of its effects. This means broadening the scope envisaged by the current regulation by including the effect of not only trade–related policies but also innovation-driven globalisation. As discussed in the previous sections, increasing GVC and knowledge transfer makes difficult attributing job losses to changes in trade flows between the EU and its commercial partners. The current framework is much more complex and firm-level data shows a more accurate picture than traditional statistics. The revision of the regulation for the financial framework might be an opportunity to envisage new approaches.

Besides the scope of EGF, perhaps the easiest sets of improvements that can be envisaged are procedural. One important element that has been seen by many as a procedural obstacle is the length needed to process an EGF application.

One way to shorten this process is to make the EGF part of the EU Multiannual Financial Framework and thus save precious months in approval procedures through the European Parliament and the Council on every single EGF application.

Improving the ability of Member States to put together the necessary documentation, developing best practices and clearer practical guidelines on the various indicators and information needed for the European Commission to process the EGF applications would also help.

Another procedural improvement that could be more effectively used as part of the EGF mechanisms is to identify and advocate more forcefully "best EGF practices" across Member States or sectors. The ex-post evaluation carried out so far identified clear cases where certain initiatives are very effective in ensuring a high re-employment rate, or activities with optimal cost-benefit ratios. Such best practices can be then deployed and adopted by other Member States. Beyond procedural fine-tuning, there are more fundamental issues that should be perhaps discussed with all relevant stakeholders interested in the future shape of the EGF.

One often heard reason for the low utilisation of the EGF is the relatively high ratio of co-financing by Member States. For those Member States with tight budgetary constraints and under-developed active labour market institutions in place, putting in place all the necessary resources for a successful EGF case can be quite demanding. Hence, the requests for EGF assistance are less numerous that otherwise.

A promising way to reduce the EGF co-financing burden for eligible Member States having tight budget constraints is to cover the national co-financing requirements with EU Cohesion funds

This can be addressed either directly (reducing the national co-financing rate) or indirectly. A potentially promising indirect way to reduce the burden for those Member States eligible under the Cohesion Fund and having tight budget constraints is to cover the national co-financing requirements under the EGF rules with Cohesion funds. For the 2014-2020 period, the Cohesion Fund concerns Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. Using the Cohesion Fund to remove a budget constraint on the EGF applications by certain Member States would represent a very small fraction of the total of €63.4 billion available under the Cohesion Fund. Moreover, the objectives pursued under both funds can be very complementary since in many cases improving the transport infrastructure or the environmental sustainability of various manufacturing activities can provide for a natural transition of displaced workers in a related economic sector.[15]

In this respect, the EGF could also facilitate the cross borders movement of workers (when they are willing to do so) from shrinking sectors located in some Member States to expanding ones in other Member States. This should help the EGF to act as shock absorber across sectors offering a broad range of employment opportunities. In order to coordinate this process, social actors at the EU level can play an important role, allowing them to be more involved in the functioning of the EGF. The ETUC expressed interest in being more actively involved and consulted in the functioning of the EGF from its very launch (ETUC, 2006). Therefore, similar in a way to the procedure used in trade

The EGF could also facilitate the cross borders movement of workers from shrinking sectors located in some Member States to expanding ones in other Member States

[15] The European Trade Union Confederation (ETUC) also emphasized the need for greater co-ordination between the various existing EU instruments, something that would also support the idea of combining different EU funds, whenever necessary (ETUC, 2006).

defence instruments, whereby the request for EU intervention under the antidumping rules is made by a group of firms representing a critical mass of the EU sector in question, one could imagine a "critical mass" of trade unions or other labour or professional associations requesting the launch of an EGF case, without necessarily the financial contribution of Member States being requested. In such cases the EGF could finance a proportion of the total cost of active labour market policies, with the rest being financed by trade unions themselves or by other EU funds, in consultation with Member States.

Moreover, to continue the parallel with TDI cases, one could also envisage a situation where the two policy instruments could be linked. In the specific antidumping cases where under the EU TDI rules, a decision is taken under the "Union interest test" not to pursue with the antidumping proceedings despite evidence of such practices, then the workers that would be negatively affected by the non-imposition of antidumping duties would then automatically qualify under the EGF rules for active labour market policies.

Finally, since the importance of self-employed workers is recognised in the EGF eligibility criteria, improving the coverage of the fund to the area of SMEs and start-ups could create a new promising field that would also promote entrepreneurship, another key priority where some EU Member States are sometimes lagging behind.

Obviously, these are simply some generic proposals that would need to be discussed in greater details with all the key stakeholders involved. As already indicated some proposals are fairly straightforward, others less so. As always, not all possible ideas are translated in policy priorities but one thing is sure: as mentioned in the EU "Trade for All" strategy, trade and jobs will remain key European priorities and finding the optimal policy mix to ensure benefits are well distributed across the European continent is critical to ensure that EU policies are in sync with the current concerns and future priorities of EU citizens.

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