Box 5

CROSS-BORDER LABOUR MOBILITY WITHIN THE ENLARGED EU

The free movement of workers is one of the key principles of the internal market. However, following the enlargement of the EU in May 2004, a number of temporary restrictions were imposed on the movement of workers from eight of the ten new EU Member States (EU10)[1] to the old Member States (EU15). These restrictions were applied within the framework of transitional arrangements (TA) by most of the EU15 Member States, namely Belgium, Denmark, Germany, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland.[2] The TA can remain in place for up to seven years, split into three phases according to the "2 plus 3 plus 2" formula. The first two-year phase is due to end on 30 April 2006.

In February 2006 the European Commission adopted a Communication to the EU Council and other Community institutions reporting on the functioning of the TA.[3] On the basis of the Report, the Council must review the functioning of the TA. Upon completion of this review, the EU15 Member States must notify the Commission no later than 30 April 2006 of their intentions with regard to the second phase of the TA. If they fail to do so, Community law on the free movement of workers will apply from 1 May 2006. All EU15 Member States are required to implement the Treaty provisions on the free movement of labour by 30 April 2011, at the latest.

The Report provides the Council with evidence on the volume and the structure of labour migration from the new EU countries to the EU15 countries. The key findings can be summarised as follows:

(1) In the first quarter of 2005, the percentage of EU10 workers in the working age population of the EU15 was fairly small, ranging from 0.1% in France and the Netherlands to 1.4% in

1 No restrictions were applied to the movement of workers from Cyprus and Malta.
2 Ireland, Sweden and the United Kingdom decided not to apply any TA. However, it should be noted that Ireland and the United Kingdom imposed restrictions on access to their social security systems.
3 "Report on the Functioning of the Transitional Arrangements set out in the 2003 Accession Treaty (period 1 May 2004-30 April 2006)", Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, COM(2006) 48 final.

Table A Resident working population by nationality (2003 and 2005)

(percentage of the total working age population)

	Nationality			
	Foreign nationals from EU15		Foreign nationals from EU10	
Country of destination	2003	2005	2003	2005
Belgium	5.4	5.8	0.2	0.2
Denmark	1.0	1.1	.	.
Germany	2.7	2.8	.	0.7
Greece	0.2	0.3	0.3	0.4
Spain	1.1	1.2	0.2	0.2
France	1.9	1.9	0.1	0.1
Ireland	3.4	3.0	.	2.0
Italy	.	.	.	.
Luxembourg	37.2	37.6	0.3	0.3
Netherlands	1.5	1.4	0.1	0.1
Austria	1.7	1.9	0.7	1.4
Portugal	0.3	0.4	.	.
Finland	0.3	0.4	0.3	0.3
Sweden	2.2	2.3	0.2	0.2
United Kingdom	1.8	1.7	0.2	0.4
EU15	2.0	2.1	0.2	0.4

Source: European Commission, based on the Eurostat Labour Force Survey, 2003-2005 Q1, Ireland 2005 Q2.
Notes: Missing data due to unreliable data or small sample sizes. Italy is excluded, since it does not disaggregate by nationality. EU15 aggregate without Italy, and without Germany, Italy and Ireland for EU10 nationals.

Austria and 2% in Ireland. Table A also shows the share of EU10 workers in the EU15 countries in the years 2003 and 2005. The largest increases were 0.7 percentage point in Austria and 0.2 percentage point in the United Kingdom. For the EU15 as a whole, the share rose by only 0.2 percentage point over the two-year period and a considerable number of work permits were granted to only short-term or seasonal workers. The Commission notes that immigration from non-EU countries is generally a more significant phenomenon than intra-EU mobility.

(2) The sectoral composition and skill composition of EU10 citizens resident in EU15 countries suggest that migrants from the EU10 have not crowded out workers in the EU15. Instead they tend to play a complementary role in the EU15 labour markets, as the proportion of lower-skilled EU10 migrants in EU15 Member States is much lower and the proportion of EU10 medium-skilled workers is much higher than for EU15 nationals (see Table B). Furthermore, the broad sectoral composition of the national workforce did not change significantly between 2003 and 2005.

The migration of workers from the EU10 was also found to have had a positive impact on the EU15 economies, since it has alleviated labour market shortages in certain areas, as well as boosted employment and improved public finances. The Report notes that the countries that have not applied the TA (Ireland, Sweden and the United Kingdom) are “upbeat” about the impact of migration from the EU10 on the EU labour markets.

(3) There is no direct link between the temporary restrictions on labour migration from the EU10 and the magnitude of the migration flows from these countries. However, it is argued that the TA might have had negative labour market impacts, since they might have increased the occurrence of illegal work and created biased destination patterns.

Table B EU15 resident working age population by nationality and education level in 2005

(percentage share)

Education level	Nationality			
	Domestic	Foreign nationals from other EU15	Foreign nationals from EU10	Foreign nationals from non-EU
Low	31	36	21	48
Medium	46	39	57	35
High	23	25	22	17
Total	100	100	100	100

Source: European Commission, based on the Eurostat Labour Force Survey, 2005 Q1, France and Austria 2005 Q2.
Note: Educational level: low (lower secondary), medium (upper secondary), high (tertiary).

Notwithstanding this assessment, some countries have already announced that they intend to retain their TA for the second three-year phase. This means that they will be able to continue to regulate the migration flow to their country, even though a high degree of labour mobility is desirable in an integrated EU market in order to facilitate employment and adjustment to changing demand conditions. An inefficient allocation of labour resources may negatively affect the longer-term level and growth rate of potential output and, in the short-run, limit the pace at which an economy can grow. Furthermore, in the context of an enlarged euro area and the absence of country-specific monetary and exchange rate policies, restrictions on the migration of workers may reduce the ability of national labour markets to adjust efficiently in the face of asymmetric shocks and economic fluctuations.

From the perspective of the new Member States, labour migration may present a number of challenges as well as benefits, especially in the short run. Labour migration flows from the new EU Member States may squeeze the pool of young and educated workers. Labour shortages (e.g. in medical personnel) are already giving cause for concern in a number of these countries. Whether increased cross-border mobility will have a positive or negative impact on the new EU Member States depends mainly on whether labour migration is primarily temporary or permanent. Returning migrants may boost economic growth by bringing in capital, skills and new ideas acquired abroad, thus offsetting the initial losses caused by the “brain drain”.

The restrictions on labour mobility from the new Member States will only be temporary, as they have to be lifted by 2011 at the latest. However, the delay in liberalising the labour market may be costly for the EU as a whole, as it will hinder the optimal use of labour resources at a time of growing concern about Europe’s international competitiveness. Today’s East-West labour migration flows include a large number of temporary workers, some of whom work illegally. Such employment relationships deprive immigrants of the protection of employment laws and prevent the host country from collecting tax revenues. Furthermore, it would not be desirable for a significant number of the most talented and mobile individuals from the new Member States to be diverted to traditional migration centres outside Europe, rather than taking on employment in another EU Member State.