

Informal Ministerial Meeting of the EU Accession Countries

EU Enlargement and the Free Movement of Labour

Geneva, June 14, 2001

The on-going negotiations on the eastern enlargement of the European Union has brought into focus the need for coordination of the employment and social protection systems of the existing and the prospective members of the Community. The objective of is to reach as early as possible a stage where all the four fundamental freedoms guaranteed by the Treaty of the European Union, namely the freedom of movement of goods, services, capital and persons can be fully extended to the accession states. Because of its social and political dimensions, the most involved negotiations appear to be over the free movement of labour. Under the Treaty of the European Union Member States must guarantee all EU citizens the right to look for and take up employment in any other Member State and to reside with his or her family in the host country. They are to enjoy full equality of treatment as regards working and living conditions, including equal entitlement and access to social and education services, housing, and equal treatment in civil law and taxation. While substantial progress has already been achieved over the past few years in aligning the policies of the accession states to those of the *Acquis Communautaire*, the process is understandably complex as it involves no less than the coordination of social and economic systems that derived from different political philosophies, political and economic institutions, and administrative culture.

Lake Balaton Conference

At the instance of the Hungarian Government and the support of the Portuguese Government, the representatives of the 13 candidate countries for accession to the EU together with observers from 6 EU member-states and representatives of the European Commission, met in Lake Balaton in June 22-24, 2000 under the auspices of the ILO to discuss the employment and migration issues raised by the enlargement process. This was seen as an important step in the co-operation among the accession states many of which had expressed shared concerns and expectations about the likely impact of EU enlargement on their economies and what this implied for economic and social policy adjustments. Since the spring of 1999 the accession states have involved the ILO in identifying the implications of free movement of labour, especially on what will be required to align their respective labour and migration policies more closely with those of the *Acquis Communautaire*.

The Balaton Conference had identified a number of important problems and issues in the area of employment and migration policy, which would need to be addressed by the accession states:

Concerns over unemployment

There was concern that at least in the short run accession to the EU would lead to a significant upswing in unemployment in the new Member States due to structural changes and trade imbalances.

Increased competition from technologically more advanced and financially stronger foreign competitors in an enlarged market is going to add to the difficulties already being experienced by enterprises of the accession countries which are implementing structural reforms. In Central and eastern Europe most of the accession countries have already reduced direct subsidies to enterprises and removed indirect subsidies in the form of special prices for production inputs. These have put pressures on these firms to cut costs by eliminating redundancies. Downsizing of the work force has

followed the restructuring and privatization of large state enterprises in coal mining, steel production, and other manufacturing industries. This was also observed in the financial sector where the recent spate of mergers and acquisitions have led to decisions to reduce redundant branches and personnel. At the same time competition from imported foodstuffs has cut deeply into the market of large state and co-operative farms.

While the situation varies considerably among the accession states, notably between the economies in transition on the one hand and Turkey, Malta, and Cyprus on the other, it is envisaged that certain strategies would be relevant to all. For example, employment promotion should include measures to stimulate the development of small and medium enterprises including start-up loans and subsidies, business support services, and management training.

Active labour market policies aimed at the needs of specific groups in different situations would need to be pursued. Supply-side measures are clearly required to deal with the high unemployment among certain groups like women workers, the youth, and some minorities. The unemployment problem is most severe for young workers especially those with low levels of educational attainment and without any work experience. Rates of unemployment among the young workers were about double those of the national average in most countries. See Table 2. However, all workers with tertiary degrees have much lower rates of unemployment than the national average. Reform of national education and training systems was deemed a high priority.

Policy should strike a balance between labour market flexibility and employment security.

While there is every justification to discouraging labour hoarding the states must respond to the need of the older workers who are laid off as a consequence of industrial re-structuring, privatization of large state enterprises, and strong competition from abroad. These older workers would need to be re-trained and equipped with skills needed in new enterprises and assisted to become more mobile internally. Moreover there would need to be specific measures to promote internal mobility of the population. At present internal mobility in most of Central and Eastern Europe is particularly low because of the high cost of housing in growth areas.

It is expected however that the enlargement process itself would inject dynamism into the accession economies. Net **foreign direct investments** were already significant in some of the countries both in absolute and relative terms. See Table 3. Affiliates of EU companies in Central and Eastern Europe are presently employing an estimated 750,000 people. According to the European Commission about half of EU investments in the region over the past decade went to non-tradable sectors. Integration into a single market is expected to increase investments in other sectors as more opportunities are created for relocation of production in specific sectors of industry. Increased trade and investments in the context of intra-industry specialization should have beneficial effects on existing industries and enable them to create more quality jobs.

The present EU working age population is approximately 250 million, and that of the accession states about 170 million, with Turkey accounting for over 64 million. Over the next 50 years the Central and Eastern European countries with the notable exception of Turkey are expected to either decrease or remain stable in population size. See Table 1. In all but four of the accession states negative population growth is projected over the next one and a half decades. Low fertility and greater longevity are combining to create an ageing population which suggests that the problem of unemployment would soon be viewed as one of having to extend the productive life of the workforce.

Concerns over migration

After the fall of the Iron curtain some 1.2 million moved to the EU from Central and Eastern Europe, but since then the flows have dwindled down, now involving mostly well educated and skilled young workers whose departure has already raised concerns over brain drain. From the 10 accession states in Central and Eastern Europe it is estimated that there are around 850,000 people currently in the EU

Member States, of whom 300,000 are permanently employed. These latter group represent just 0.2 per cent of the EU workforce. Moreover about 20,000 of these are self-employed. In addition there are some 2.6 million in the EU, especially in Germany, who originated from Turkey.

In the short term it is expected that emigration will increase because of the demand abroad for highly skilled, and for young, well-educated workers, but the economically more advanced accession states are now themselves experiencing pockets of labour shortage in their labour markets and are attracting not insubstantial flows of foreign labour. Poland, for example, already issues some 10-15,000 work permits annually, mostly to managers from the west. The Czech republic has 111,000 foreign workers with work permits, including 61,000 Slovaks. Because cross-border migration by commuters and frontier workers are historically a large component of migration flows to and from the accession states more attention should be devoted to developing cooperation among them.

As in the case of earlier accession states like Greece, Spain and Portugal convergence of real incomes with the rest of the EU as a consequence of economic integration is expected to reduce emigration pressures. The long-run labour migration potential from candidate countries has been estimated at roughly 1 percent of the EU15 population. This estimate comes from a recent study which projects decades of steadily declining flows, from an estimated 330,000 a year over the first 10 years, then declining to 145,000 a year.

The Balaton Conference did recognize the need for policy adjustments to reduce discretionary powers of administrative units that may frustrate the intention of policy coordination especially on matters of admission, to guarantee all EU citizens equal treatment in working and living conditions, and to strengthen institutional capacities to manage migration.

Some candidate states have yet to insure that their rules on crossing external borders are consistent with the third country agreements that the European Community has entered. Acceding states must ensure that their national legislation permits the employees of Community-based companies to carry out service contracts on their territory without having to obtain labour permits.

Legal and administrative systems need to be strengthened in some candidate states in order to make effective distinctions between groups to be accommodated in the accession process. Accession states must have the administrative capacity to enforce the *Acquis Communautaire*. In the experience of the EU Member States this includes providing free legal aid, data base on the country of origin, and qualified interpreters. In many of the accession states current rules on expulsion are considered to be still extremely broad in comparison to those of the EU.

There is a need to coordinate policies regarding equal treatment of EU nationals in all matters of employment including social security and unemployment benefits. The **legislation** in respect of workers' freedom covers the following

- Mutual recognition of professional qualifications to insure that individuals can practice their chosen profession without hindrance due to qualification differences;
- Citizens' rights;
- Coordination of social security schemes particularly in relation to pension and illness
- The free movement of workers themselves

The treatment of non-national workers in the accession states, especially those in the informal sector, has raised questions regarding the adequacy of existing laws on discrimination.

On managing migration, there are several areas that would need attention. **Trafficking** remains a serious problem which need resolute action and strong political commitment. There has been a notable increase in the trafficking of persons, many from third countries, from and through some of the accession states. Illegal migration must be put under control through the development of positive, market driven migration policies. Poland has an estimated 150,000 to 200,000 foreign workers in an irregular situation, mostly from the Ukraine. Hungary has 100,000 mostly ethnic Hungarians from

neighbouring countries.

Finally, as the Balaton Conference had concluded, there is " a need to involve the tripartite social partners actively in all discussions over accession. They have an important role to play in designing policies on equal treatment, in protecting the rights of foreign workers and third country nationals, in spreading information, and in mobilizing support for needed changes in legislation."

Table 1 Declining Population of Accession States, 1998-2015			
	(in 000)		
	1998	2015	g/year
Bulgaria	8336	7526	-0.6
Cyprus	800	900	0.7
Czech R.	10282	9929	-0.21
Estonia	1429	1219	-0.94
Hungary	10116	9408	-0.43
Latvia	2424	2063	-0.95
Lithuania	3694	3521	-0.28
Malta	384	421	0.55
Poland	38718	39350	0.1
Romania	22474	21067	-0.38
Slovakia	5377	5466	0.1
Slovenia	1993	1916	-0.23
Turkey	64479	80284	1.29

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Table 2 Labour Force and Unemployment in Accession Countries								
	Labour			Unemployment Rate				
	Force	All ages		Among the Youth		Among Tertiary Education		
		1997	All	Male	Female	All	Male	Female
Bulgaria	4	13.7	26.3	28.1	27.4	7.3		
Cyprus	0.35		1.8	1.1	3	20.7	13.8	19.3
Czech R.	6	4.7	8.4	7.3	9.9	3.1		
Estonia	0.9	10	1.8	1.8	1.8	7.9		
Hungary	5	8.7	15.9	16.9	14.5	2.8	2	4.1
Latvia	1.4	14.4	27	26.4	28	7.9		
Lithuania	2	14.1	26.2	28.3	23	24.7	18.1	31
Malta	0.13	5	5.2	7.2	2.8	0.3		
Poland	20	11.5	24.6	21.9	28	4.6	3.7	5.4
Romania	11	6	17.8	15.5	21	5.9	5.2	6.6
Slovakia	3	11.6	22.2	22.5	21.9	3.3	3.1	3.6
Slovenia	1	7.1	18.1	16.5	20	4.3		

Turkey	27.5	6.4	15.4	14.2	17.5			
	82.28							

Table 3: Macroeconomic indicators for Accession States, 1997					
		Real GDP	Net Direct Foreign		Exports
	GDP	per capita Investments			as % of
	\$billion	\$ ppp	\$ billion	% of GDP	GDP
Bulgaria	10.1	4010	0.5	5.1	61
Cyprus	8.2	14201	0.17	2.1	
Czech R.	52	10510	1.3	2.5	58
Estonia	4.7	5240	0.26	5.5	77
Hungary	45.7	7200	2.08	4.6	45
Latvia	5.5	3940	0.42	7.6	50
Lithuania	9.6	4200	0.35	3.6	55
Malta	3.3	13180	0.11	3.3	84
Poland	135.7	4520	5	3.7	26
Romania	34.8	4310	1.22	3.5	30
Slovakia	19.5	7910	0.17	0.9	56

Slovenia	18.2	11800	0.32	1.8	57
Turkey	189.9	6350	0.61	0.3	25
	537.2		12.51		

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