

**Status report January 2006:  
The impact of EU Enlargement on labour mobility to the Nordic countries**

Semi-annual memo from a Working Group under the Labour Market Committee of the Nordic Council of Ministers<sup>1</sup>.

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<sup>1</sup> Many thanks to the members of the Working Group for helpful provision of statistics, good cooperation, and useful comments. For a broader analysis of the situation in Nordic countries one year after the enlargement – on which this memo is partly based – we refer to Dølvik & Eldring (2005), Arbeids- og tjenestemobilitet etter EU-utvidelsen: Nordiske forskjeller og fellestrekk. TemaNord 2005:566. <http://www.norden.org/pub/sk/showpub.asp?pubnr=2005:566>

(1) One and a half years after the EU enlargement a number of development trends can be ascertained with regard to labour and service mobility to the Nordic countries. *Individual labour migration* – which varies strongly between the Nordic countries – continues to increase, except in Sweden where a certain decrease in the number of granted residence permits for work exceeding 3 months is noted. The increase is strongest in Norway and Iceland. Labour migration to the Nordic countries related to service provision also seems to be increasing, thereby creating considerable challenges with regard to regulatory measures, circumvention and enforcement.

(2) In 2004, Denmark, Finland, Iceland and Norway chose to implement various types of *transitional arrangements* for the free movement of workers from the EU-8, while Sweden opened its labour market from day one. The transitional arrangements are valid until 1 May 2006, meaning that during the spring of 2006 the countries need to decide whether to extend these arrangements for up to three to five years, revise them, or repeal them.<sup>2</sup> It remains to be seen whether the Nordic countries at this juncture will opt for a more coordinated policy than that evident in the spring of 2004.

(3) The debate over the transitional arrangements is gaining momentum all over Europe. The influx of individual labour migrants varies greatly between the different countries. France, with its very strict transitional arrangement, has granted only 1,600 permits to Polish workers since the enlargement, while Ireland, with no transitional arrangement, has received more than 125,000 job-hunters and the United Kingdom more than 290,000. In February, the EU Commission will publish its report on labour mobility in Europe after 1 May 2004. The Commission and the social partners at European level have argued for repeal of the transitional regimes, while Germany, Austria and several other EU-countries have stated they will prolong current arrangements. As of the present time, Spain, Portugal and Finland have announced that they are considering repealing their transitional regimes.

(4) Experiences from the Nordic countries fully illustrate the *dilemmas* related to the enforcement of *strict rules for individual labour immigration* on the one hand, and *open doors for labour mobility through service provision* on the other. The differences in the regulations, costs and opportunities for control related to the different types of mobility have given rise to *strategic circumventions and distortions* that may partly contribute to reducing labour migration to the Nordic countries and may partly entail less orderly conditions and distortion of competition in the labour and service markets. The Nordic countries therefore face the challenge of developing *a coherent policy for labour migration*, taking into account the interplay between service mobility and individual labour immigration.

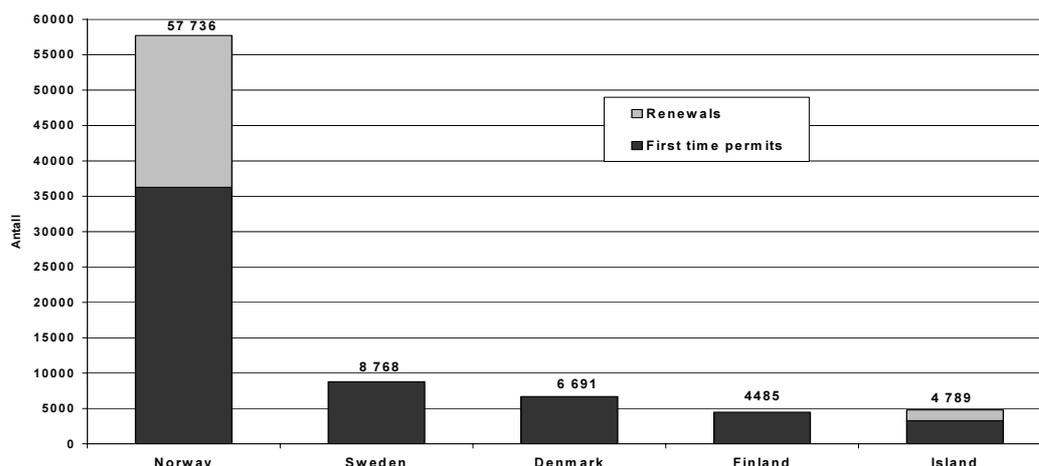
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<sup>2</sup> An additional aspect of the debate is that the Directive on free movement for third country citizens now should be implemented, meaning that the special treatment of citizens from the EU-8 will be further accentuated.

## The development of individual labour immigration during 2005 – experiences with the transitional arrangements

(5) One year after the enlargement, the workgroup summed up that as a whole there had been no major influx of job seekers to the Nordic countries, but that large variations between the countries were evident. Towards the end of 2005 we can ascertain that *the variations in the volume of individual labour immigration to the Nordic countries are continuing and are to some extent becoming more accentuated, while at the same time the influx is increasing, with the exception of Sweden (where only work for periods exceeding 3 months is registered)*. In the Nordic countries a total of almost 34,000 first-time permits were issued to new EU citizens during 2005, as well as 19,000 renewals, of which Norway accounted for the majority (see appendix, table 1). Compared to 2004, Iceland saw a strong growth during 2005 (more than tripling to 3,608, including renewals), Denmark saw a doubling (to 4,594), while the increase in Finland was moderate, and Sweden registered a decrease. Norway saw a growth of more than 40 per cent, totalling 37,203 issued permits (including renewals). As of the beginning of 2006, the Nordic countries had approved a total of at least 59,499 first-time permits/applications for EEA permits from citizens of the EU-8 since 1 May 2004, as well as 22,970 renewals. Norway has issued more than two thirds of the permits in the Nordic countries since 1 May 2004 – 36,276 first-time permits and 21,460 renewals – totally 57,736, including a considerable amount of short-term permits. While the *demand* for labour power obviously exerts a major influence on the direction of migration streams, it may seem as if *self-enhancing mechanisms* are evident in the migration networks.

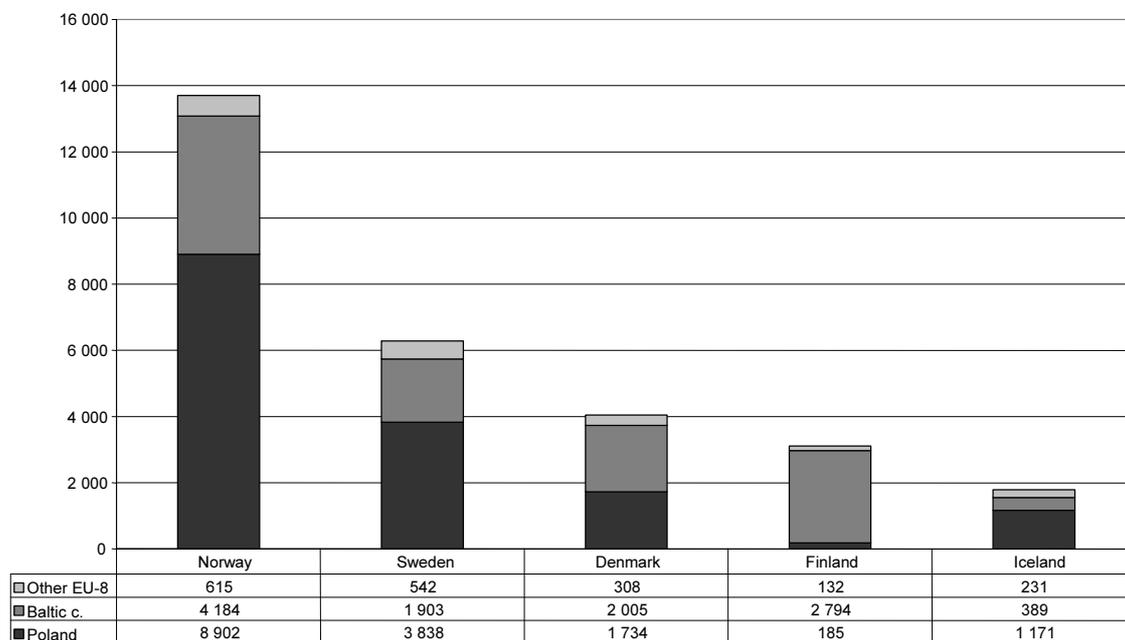
Figure 1 Number of EEA permits granted to workers from the EU-8, 1 May 2004 – 31 December 2005, by receiving country. (See appendix, table 1, for sources and specifications)



(6) As a consequence of national differences in registration practices with regard to permits with less than three months' duration, a comparison of the total figures will give a distorted impression. In Norway more than 60 per cent of the permits apply to work of less than three months' duration – in Sweden these are not registered. When comparing

the number of first-time permits with a duration of more than three months, the differences between the countries are reduced (see figure 2 below, and appendix, table 1). In the period 1 May 2004 – August 2005 the Nordic countries issued a total of 28,933 first-time permits with a duration of more than three months; of these close to half, or 13,701, were issued in Norway, 6,283 in Sweden, 4,047 in Denmark, 3,011 in Finland and 1,791 in Iceland.

Figure 2 Number of first-time EEA permits granted to workers from the EU-8, May 2004 – August 2005, by sending and receiving country. Permits with a duration of more than three months. Source: Directorate of Immigration, Norway.



(7) *Short-term and seasonal work* thereby still accounts for a dominant part of migration to Norway. The marked increase in the number of applications for renewals (from 3,558 in May-December 2004 to 17,902 during 2005) nevertheless reflects a drift towards *more lasting jobs*, and a transition from typically seasonal work towards other types of employment that to a greater extent cover the entire year. This trend is reflected in the increasing number of arrivals and family reunifications, mostly from Poland. The number of valid permits for every passing months shows a higher growth than the gross figures, and 1<sup>st</sup> January 2006 the valid permits numbered 12, 923, which was 55 per cent more than that noted one year earlier (7,201 1<sup>st</sup> January 2005).

(8) Certain industries stand out as users of labour from the East: *agriculture, horticulture and forestry (typically seasonal work)*, as well as the *construction industry*. However, even *manufacturing* (in particular food industry) and parts of the *service industries* (hotels/catering, cleaning and private households) are to an increasing extent recruiting labour from the EU-8. *Workers from Poland* still dominate, particularly in Iceland, Sweden and Norway. In Finland the majority originate in Estonia, while Denmark has an

approximately equal influx from the Baltic countries and Poland. *Unskilled or low-skilled labour* seems to dominate; in Denmark it has been concluded that apart from the health care sector the recruitment of skilled and other highly educated labour from the new EU member states has only been moderately successful.

(9) The marked *differences* in the influx of individual job-seekers to the Nordic countries are *not easy to explain*, in particular because no comparable information is available on the volume of labour migration taking place in the form of other types of mobility, especially posting of workers associated with service provision. Differences in the *demand for labour* are unquestionably important (cf. the moderate migration to Sweden and the differences between Denmark and Norway). *The transitional arrangements* can only explain part of the variations. Sweden has no transitional regime, and thus an unknown number of migrants working for periods less than 3 months, while Denmark and Norway have considerably more liberal policies than Finland and Iceland. All transitional arrangements demand 'national wage conditions and full-time employment'. Finland and Iceland in addition assess the demand for labour, a limitation that has probably served to reduce the influx of applicants. Since the transitional arrangements in Denmark and Norway are largely comparable, the cause of the marked differences cannot be found in the criteria for approval of permits, but rather on the demand side and/or in *the exercise of the entry control and the signal effects of the same* on the influx of applicants. Denmark's profiled "East Agreement" and its more systematic processing of applications and controls may have contributed to creating an impression of the Danish regime as stricter than its Norwegian counterpart. In addition, the strong growth in the Norwegian labour market as well as *established networks* created through increasing seasonal migration since the nineties and a relatively high wage level for unskilled labour may have contributed to the fast growth of labour migration to Norway during 2005. Nordic experience thereby indicates that the influx is demand-sensitive, and no countries report incidences of "social tourism", which was a prominent topic in the debate prior to EU enlargement.

#### *The countries have mixed experience with the transitional arrangements*

(10) None of the countries report any significant disturbances or imbalances in their labour markets. The transitional arrangements have unquestionably contributed to establishing *order and control* over the supply of labour, even though the limited individual immigration in some of the countries has spurred a debate over whether these arrangements exert an inappropriately *limiting effect on the recruitment* of desired labour.

(11) In **Sweden**, the authorities and the social partners have regarded the moderate influx as a confirmation of the correctness of the decision not to impose a transitional arrangement. The partners emphasise that formerly illegal work has become legalised, and even though there is little information on the short-term labour market (of less than three months' duration), it is pointed out that the high collective agreement coverage mainly serves to maintain orderly conditions, and that service mobility seems to be lower than in the other Nordic countries that have introduced a transitional regime for individual workers.

(12) In **Denmark**, the predominant view is that the transitional arrangement has been a success and that it has contributed to securing decent conditions for the migrants. Although there are indications that the Danish government might propose a continuation of the transitional regime, no political decision has yet been made over whether to prolong, repeal, or adjust the regime. However, it is considered to make the regime somewhat more flexible. In order to facilitate recruitment of labour by employers, measures are being considered to shorten processing time for applications, simplify decisions for approval and enhance recruitment efforts by the labour market administration.

(13) In **Norway**, the authorities have so far given no signs with regard to a possible extension/phasing out of the transitional arrangements. The relatively strong influx of workers from the EU-8 has been taken as evidence that the regime does not hinder the recruitment of labour, while the regime at the same time provides a certain safeguard against wage dumping in the labour market, which is covered by collective agreements to a lesser extent than in the other Nordic countries. The Norwegian trade unions and employers' confederations have so far not made a public announcement of their attitudes to an extension of the transitional arrangements, even if Fellesforbundet, which organises workers in the construction industries and large parts of the manufacturing industries, has voted to demand an extension.

(14) In **Iceland** there are no motions on the table with regard to the transitional arrangements after 1 May. The Icelandic regulations have undergone a simplification process during the initial period, in the face of a pronounced demand for labour. The assessment of future needs for labour is likely to be given emphasis in the decision to extend/phase out the transitional arrangements on Iceland.

(15) All the countries share the experience that the *main challenges* in the labour markets following the enlargement are found in the *area of services*, and thereby in the *interplay* between the regimes for individual labour migration and service mobility. There are clear signs of *distortions and strategic circumventions*, caused by the fact that many enterprises find it to be more profitable to outsource projects to subcontractors from the EU-8 that bring their own labour (not comprised by the transitional arrangements), rather than hiring labour migrants on regular national terms. Particularly in **Finland**, where the barriers to individual labour migration have triggered marked growth in service mobility with a high incidence of irregular employment, this has influenced the debate on the transitional arrangements. The Finnish Minister of Labour has therefore expressed the view that the transitional arrangement should not be extended, with reference to the fact that it has hindered employment of labour in Finnish enterprises. Accordingly, the Finnish Government is currently engaged in negotiations with the social partners aiming to repeal or change the transitional arrangement. At the same time, the Government is preparing a bill seeking to promote equal treatment of foreign workers, safeguard an even playing field and equip the labour and service markets for the introduction of free movement.

## Service mobility: Volume and registration

(16) The transitional arrangements do not cover the free movement of services across borders. All Nordic countries report *continued growth in labour migration related to service mobility*, but similar to Europe as whole there are *no reliable statistics available* on the volume and composition of this mobility. Most of the service migration takes place as *posting/stationing* and *hiring out* of workers, and to some extent through self-employment. The main volume is still found in the construction industries, but increased use of subcontractors and hired labour from the EU-8 is also reported in manufacturing, the service industries and agriculture/horticulture/forestry.

(17) As of August 2005, the **Danish** customs and excise authorities had registered 404 enterprises from the new EU member states, but a certain under-registration is assumed. Around half of those registered did not have a permanent representative and a business address in Denmark, while 128 were self-employed individuals. The trade union of the BAT cartel has estimated, based on own observations, that the volume of posted workers and self-employed individuals since the enlargement eastwards comprises approximately 7,000 persons, equal to 1,735 man-years, while the number of registered E-101-forms indicates lower numbers. In **Norway**, the registration of posted workers from the EU-8 by the tax authorities documents a strong growth: in 2005 a total of 760 enterprises from the EU-8 were registered as having assignments, against 357 in 2004. While a total of 2,005 workers were registered in 2004, this number had grown to 7,330 in 2005, i.e. a tripling. The Central Office for Foreign Tax Affairs assumes a considerable under-registration, and that the real volume could be at least double this figure. The construction industry alone foresees that the current level of production requires at least 15-20,000 workers hired by foreign contractors and sub-contractors. In **Sweden** no more than around 1,000 individuals have been registered (through the "F" tax assessment notice) as arriving through the service area, while the number of posted workers is unknown. It is reported that the challenge resides not in the volume, but rather in the problems surrounding circumvention, i.e. that enterprises seek to avoid collective agreements, work environment regulations etc., as well as a certain element of clandestine work, which seems to be a problem even in other Nordic countries. In **Iceland** and **Finland** there is also uncertainty with regard to the volume of immigrant service providers, but there are indications that their number is considerable and increasing, far exceeding the volume of individual labour immigration.

(18) With regard to *the construction industries* the Nordic countries have long traditions for cross-border labour mobility, which has served as a buffer for national labour markets. At the beginning of 2006, there are reports of a boom in the construction sector in all the Nordic countries, a powerful growth in demand and increasing scarcity of labour. The stronger *synchronisation of the business cycles* in the Nordic (and European) construction sectors indicates that one can expect *lower intra-Nordic mobility* among construction workers and enhanced competition for construction workers from the EU-8. Finnish employers report that half of all construction enterprises experience the lack of skilled labour as a hindrance to growth, and that the country is now having the worst shortage of labour since the 1980s. An indication of the increased use of foreign subcontractors in Norway is the widening gap between the growth in turnover in the construction industries (33 per cent during 2002-2005) and the growth in employment during the same period (1 per cent). According to a recent survey conducted for The

Confederation of Norwegian Enterprise, 42 per cent of the enterprises in the industry plan to use labour from the EU-8 in 2006, against just over 30 per cent in 2005 – an increase of around 25 per cent. In the metalworking industries 35 per cent of the enterprises plan to hire labour from the EU-8, which is also a marked increase from previous levels.

(19) The Nordic countries have *no coordinated policies* with regard to regulatory measures, registration and control of the conditions offered to service providers and posted workers. All the countries have experienced this as a difficult area, and have continuously sought to develop arrangements and measures that in various ways involve the tax authorities, labour inspectorates and the social partners. At present, much work is left before a satisfactory information basis and statistics can be established on service mobility.

#### *Increased service mobility: Consequences and measures*

(20) *Low wage competition*: All countries face challenges related to securing control of labour conditions and wages on the one hand, and not creating obstacles to fair competition within the EEA area on the other. The mobility of services has contributed to increased production and flexibility in expanding sectors, but examples of dumping of wages and working conditions have highlighted vulnerabilities in the national regimes for regulation and control, as well as ambiguities and tensions in relation to EU legislation. The Nordic countries have implemented the Posting of Workers Directive (Dir 71/96EC) in different ways, and the national legislation and bargaining systems provide different instruments for establishing and enforcing demands for “national wage conditions” for posted workers.

(21) In **Denmark**, this complex of problems has been particularly debated in relation to “fictitious” service provision or posting as a method for circumvention of the transitional regulations or of the demand for a Danish collective agreement. Trade unions and employers’ organisations agree that Danish rules should apply in Denmark, but the trade unions perceive the enforcement of the regulations and disclosure of violations as highly resource-intensive. The trade union for construction workers, 3F, has since September 2005 carried out more than 30 blockades against foreign companies, and is presently part to around 70 collective agreements with foreign service providing companies, mostly from EU-8.

(22) **Sweden**, just as *Denmark*, has an extensive coverage of collective agreements, and the trade unions have the opportunity to initiate blockades/solidarity actions in order to force through agreements in foreign enterprises without a Swedish/Danish collective agreement. In the period from June 2004 to August 2005 a total of 91 agreements were made in Sweden with foreign construction enterprises. In the same period a total of 21 blockades were initiated, most of which in the construction industries. The highly publicised *Vaxholm affair* has turned into a touchstone with regard to how and to what extent the Swedish system can be practised without violating the requirements for equal treatment defined by EU legislation. The Swedish Labour Court has asked the EU Court of Justice to assess key aspects of the Swedish practice, and the process is followed with keen interest in the other Nordic and European countries. In the spring of 2005, the

Confederation of Swedish Enterprise (SN) and the Swedish Trade Union Confederation (LO) signed a framework agreement ('recommendation') that facilitates the adaptation of industry-specific agreements for foreign enterprises that post workers in Sweden. By joining the relevant employers' association and thereby being covered by Swedish collective agreements the foreign enterprise obtains industrial appeasement, while the trade unions gain access to information on wage levels and labour conditions among the subcontractors. Whether this also may solve the 'Vaxholm knot' remains to be seen.

(23) In *Finland* most nationwide collective agreements are applied to all workers, though it has often proven difficult to enforce these agreements for posted workers and numerous instances of irregular conditions have been discovered. The Government has recently submitted a bill seeking to ensure *minimum conditions in accordance with relevant collective agreements* for posted workers in those cases where generalised agreements do not apply. In addition, the bill foresees a number of measures to ensure more effective enforcement of these requirements, including an *ombudsman* for enterprises employing posted workers and *extended responsibilities* for building principals and main contractors, even in matters of pay. The challenges related to low-wage competition were brought to the forefront in Finland through the conflict over the re-flagging of a ferry belonging to the *Viking Line* shipping company. The ship-owners wanted to re-flag the ship to a subsidiary in Estonia in order to lower wage costs, thereby spurring industrial action by the Seamen's Union. The ship-owners' claim that this action was illegal was at first upheld in a British court, but this ruling was later reversed by the British Court of Appeal, which expressed strong doubt as to whether considerations for the right to free movement and cross-border trade in services may limit basic rights to take industrial action. The matter has been submitted to the EU Court of Justice for a statement. The shipping company has since agreed with the trade union to refrain temporarily from re-flagging in exchange for the employees' acceptance of certain exceptions from the prevailing collective agreement.

(24) In *Iceland* posted workers are covered by generalised agreements, though it has been observed that wages and conditions for workers recruited through manpower suppliers and service delivery often are ambiguous and difficult to monitor. This has directed increased attention to *the role of the manpower suppliers*, and a *committee* has been appointed to scrutinise this type of enterprises.

(25) In *Norway*, numerous examples of wage dumping have been revealed following EU enlargement, and the *Act relating to general application of wage agreements etc.* has for the first time been enforced in certain delimited areas. This Act is undergoing *evaluation*, and there is disagreement among both employers and trade unions over the efficiency and appropriateness of this kind of general application as an instrument for ensuring equal conditions for posted workers. Suggestions for a statutory minimum wage or simplified forms of generalising collectively agreed minimum wages have been put forward in this debate. As opposed to the other Nordic countries there is a pronounced *disagreement between the social partners* as to whether posted workers should and ought to receive "Norwegian wages". Furthermore, questions have been raised pertaining to whether the current practice of the Norwegian Act mentioned above complies with the requirements for equal treatment defined by EU legislation. So far little practical experience of compliance with the decisions pertaining to general application has been gathered, but there are indications that strategic adaptation, circumvention and

enforcement will pose significant challenges. The trade unions have signalled that measures for preventing social dumping will represent *a key aspect of the collective bargaining round this spring*, and the rights of union officials related to outsourcing, the use of temporary manpower and access to the wage conditions among subcontractors will be core issues in this context.

(26) *Registration and control*: Several of the industries that are the main users of foreign service providers and posted labour – not least the construction industries – have faced major challenges with regard to clandestine work, unserious businesses, work environment and safety. The increased supply of subcontractors from the EU-8 has exacerbated the problems in these fields. Facing possible shortages of labour in some of the sending regions there is a risk that *unserious businesses*, partly with connections to economic crime, to an increasing extent will enter the market for supplying labour power. In view of these developments, new measures have been launched in most Nordic countries. Keywords are: suggestions for the introduction of a statutory registration, ID cards, strengthening the labour inspectorates, information in East European languages, coordinated campaigns by the police, the tax- and immigration authorities and the social partners, joint and several liability, requirements for local representatives/ombudsmen for foreign enterprises, pre-qualification arrangements (Startbank) etc. A controversial point in the proposed *EU Services Directive* concerns the prohibition against host countries setting requirements to service providers regarding advance notice, registration, address etc. This may serve to exacerbate existing difficulties related to enforcement and control in volatile service markets with long chains of subcontractors. As regards labour conditions and wage levels, the authorisation of the host country principle in the Posting of Workers Directive will still be in effect. Attention and efforts related to matters of control and enforcement have been intensified in all the Nordic countries following EU enlargement, but the challenges seem to grow faster than the capacities and competence of the control authorities.

(27) Among service purchasers, at least in Norway, there seems to be a growing concern for matters of *health, environment and safety*. Accordingly, one of Norway's largest construction companies recently announced that it would terminate all use of manpower suppliers and subcontractors from the new EU member states from the fear of becoming responsible for accidents and illegal conditions.

### **Final remarks: Phasing out the transitional arrangements accentuates the need for coherent approaches to labour and service mobility**

(28) The development in the open markets for labour and services poses a number of demanding *dilemmas* for the Nordic countries. In the longer term – and to an increasing extent even in the shorter term – there is an increasing demand for access to labour. In several of the new EU member states currently experiencing high labour emigration the population is aging faster than in the Nordic countries, and wage levels and prosperity are increasing. One may therefore assume that in the years to come there will be a *growing competition for labour* in the European labour market, and that one may come to witness a 'seller's market' in the field of labour-intensive service assignments. The debate over the phasing out of the transitional arrangements and the development of a coherent policy for labour and service mobility – that will be discussed in the following

paragraphs – should therefore take the challenges posed by this type of scenario into account.

(29) The assessments of whether the *transitional arrangements* for free movement of labour in the EU/EEA should be extended for some years, made more flexible or repealed, should accordingly be viewed in the context of the development of *service mobility*. With the exception of Sweden, the situation in the Nordic countries is such that while regular labour migration and employment in national enterprises are subject to more or less strict regulation and control, there is an open door for migration in the field of services. Because migration in the field of services is also less burdened with social obligations and costs for employers it should come as no surprise that many enterprises choose this alternative over hiring new EU citizens in their enterprise. To the individual enterprise this may be a rational choice in the short term, but in the light of the scenario described above this may constitute a *vulnerable strategy* for industries and national economies that are dependent on an increased supply of competence and labour. If the increased import of low-cost services takes place at the expense of recruitment and training within the industries – and serves to reduce regular labour immigration – this may in the long-term perspective *lead to increased dependence on external suppliers and weaken the development of the local competence and skill base*.

(30) If the Nordic countries wish to *facilitate more permanent, balanced labour immigration from EU/EEA member states* it will therefore be important to *avoid distortion of competition* between labour and service mobility. This can be realised through a lowering of the external thresholds for recruiting individual labour immigrants and through ensuring equal competitive conditions for domestic and foreign service providers to the highest extent possible. Following this line of reasoning, phasing out the transitional arrangements will put more rigorous demands on internal regulations and control of the rules of the game in the labour market, both in order to prevent the emergence of a new domestic low-wage segment in the labour market and to ensure that the service providers comply with host country wages and working conditions. The transition to *an open labour market in the EU/EEA* – to be implemented no later than 2011 – thereby demands that *the main emphasis in the regulation and enforcement of preconditions for labour migration is shifted from access control on borders to a strengthening of the domestic regime of regulation and control in the labour market*.

(31) In countries where service providers to a large extent can operate legally on the basis of wage conditions in the home country or country of origin – as in Norway – there is a need to further develop national regulations and instruments with a view to complying with the host country principle in the Posting of Workers Directive. This would probably presuppose development of a type of *minimum wage regulation* based on agreements and/or legislation, which also can serve to counteract the emergence of a low-wage segment for individual labour migrants following the repeal of the transitional arrangements. In other Nordic countries the challenges pertaining to service mobility seem to be related to *enforcement and control*, but also to the exploitation of the latitude provided by the EU's Posting of Workers Directive. In their implementation legislation, none of the Nordic countries have made use of *the directive's article 3.8*, referring to wage levels and labour conditions embedded in *collective agreements that are generally*

*applied*<sup>3</sup> within the relevant geographical/professional area of service provision. This reflects national principles of governmental non-interference in wage determination, but in the light of the forthcoming ruling on the Vaxholm affair by the EU Court of Justice and preliminary experience, as well as in the light of available alternatives – the introduction of mechanisms for generalisation of collective agreements or a statutory minimum wage – this option could be worth investigating.

(32) When taking into account that the free movement of labour should be implemented no later than five to seven years from now, this phasing out of the transitional arrangements accentuates critical questions concerning *the timing, progression and sequencing* in the adaptation of instruments, as well as *coordination across borders*. Because the development of labour immigration and service mobility are so inextricably linked, the phasing out of the transitional arrangements should take place in parallel with the adaptation of the domestic regimes for regulation and control in order to achieve an adequate *'regime change effect'* that could influence the behaviour and expectations among those who are active in the market. It may seem as if this is targeted at Finland, where the government and the social partners are searching for a *political compromise/exchange* that can accommodate political desires for increased labour immigration from the EU/EEA, the elimination of discrimination of EU citizens and the partners' desire for competition on equal terms and equal conditions for foreign workers, irrespective of whether they arrive as job-seekers or service providers. Because national actors may have *conflicting interests* related to the different elements of these readjustments, simultaneity in the implementation may serve to enhance the opportunities for achieving balanced *give-and-take solutions* that could ensure broad support and legitimacy.

(33) It is reasonable to assume that the longer distortions in the relationship between the regimes for service mobility and labour migration are allowed to become established practice, the harder it will be to change accepted norms, behaviour patterns and adaptations among both enterprises and job-seekers. This may favour a relatively quick phasing out of the transitional arrangements, and that a postponement of this matter may entail costs – not least for parties who have no guarantee that the preconditions for a mutual compromise may be available when the transitional period finally expires and the political terms of exchange are changed. In this connection, it is worth pointing out that repeal of the transitional arrangements is not a matter of now or in three, five or seven years – plans can also be made to phase out the arrangements in the form of an agreed process during the coming years.

(34) The potential *advantages and disadvantages related to waiting* – and the chance that these will occur or not – is attached to how other countries choose to act. If a country fears that it will be less attractive in the competition for labour power in the open European market, it may have reason to steal a march on the other countries and position itself as a possible and accessible target country with favourable wage levels and labour conditions. If the situation is the opposite – and there is a fear of strong labour immigration – there may be reasons for awaiting the strategies of other countries.

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<sup>3</sup> For a closer discussion see for example SOU 1998:51 p.85, or Stein Evju, 'Evaluering av allmenngjøringsordningen – høring' (Oslo 13 January 2006) <http://odin.dep.no/filarkiv/269805/Evju.pdf>

There may also be reasons for taking into account the fact that the business cycle influences the capacity of the domestic labour market to absorb immigrants.

(35) This type of reasoning illustrates the fact that *the consequences of the choice of strategy by each country are influenced by action taken by the other countries*. This invites game-type situations of the kind observed during 2004, where there is a low probability of an outcome that is favourable for most of the actors. This is a classic situation in which coordination and cooperation would reduce the risk of undesirable distortions of the migratory patterns and other ‘worst hand’ effects. Because Germany and Austria have reported that they will maintain the transitional arrangements due to their location and history as main recipients of migrants from Eastern Europe – and many of the ‘old’ EU member states have followed suit – time has now run out for a coherent European solution.

(36) This does not mean that the best alternative solution is for each country to follow individual strategies. If a *critical mass of countries coordinates their strategies* – like the Iberian countries seem to do – this may *increase the advantages and spread the risk* of implementing a relatively quick transition to free movement, whether this repeal is implemented in 2006, 2007 or 2008. Based on their common location, interest in increasing labour migration to the region and fairly similar labour market regimes, the Nordic countries may constitute such a critical mass. The opportunities for strengthening the relations to the neighbouring countries on the other side of the Baltic Sea and developing this Northern region as a growth area in Europe will also be in common Nordic interest. This kind of coordinated strategy could also serve to enhance the Nordic countries’ weight in the negotiations over labour market and service policy within the EU, and influence the phasing out of the transitional arrangements in the other countries.

(37) Even though *weighty arguments can be made in favour of developing a coordinated Nordic strategy* for rapid transition to the free movement of labour and for improved regulation of the conditions for service providers, *time is short* and there are *many hindrances created by domestic policy* against the enactment of this strategy by 1 May 2006. However, this does not prevent the Nordic countries – perhaps with Finland as a front runner and arena for learning – from quickly setting themselves the task of hammering out goals, frameworks and time schedules for the implementation of this kind of strategy over the coming years. Even with a flexible plan for design and implementation, the indication of such a common direction and framework for policy development and exchange of experience may serve to make the substantial, practical and domestic policy issues involved more manageable in the years to come.

## Appendix

Table 1 Number of EEA permits granted to workers from the EU-8, 1 May 2004 – 31 December 2005, by receiving country

	2003 (1 May-31 December)	2004 (1 May-31 December)	2005 (January-December)	TOTAL 1.5.2004-31.12 2005
Denmark	776	2 097	4 594	6 691
Finland	6 747	2 169	2 316	4 485
Iceland	230	515 (+666 renewals)	2 764 (+844 renewals)	3 279 (+1 510 renewals)
Norway	12 404 (+784 renewals)	16 975 (+3 558 renewals)	19 301 (+17 902 renewals)	36 276 (+ 21 460 renewals)
Sweden	2 096	3 963	4 805	8 768
<b>Total</b>	<b>22 253</b> <b>(+784 renewals)</b>	<b>25 719</b> <b>(+4 224 renewals)</b>	<b>33 780</b> <b>(+18 746 renewals)</b>	<b>59 499</b> <b>(+22 970 renewals)</b>

### Sources and specifications

Denmark: Arbejdsmarkedsstyrelsen/Udlændingestyrelsen. The number for 2003 is for January-December, and also includes self employed persons, but this is probably a very small amount of the total number. The number for 2005 is for January-November. Numbers do not include renewals.

Finland: Arbetsministeriet. Agricultural work with duration less than 3 months is not registered after 1.5.2004. Numbers do not include renewals.

Iceland: Arbejdsmarkedsstyrelsen Island (Vinnulastofnun). The number for 2003 is for January-December.

Norge: Utlendingsdirektoratet (UDI). 7493 of the permits in 2004 had a duration above 3 months, for the whole periode (1.5.2004-31.12.2005) 40 percent of the permits had a duration of more than 3 months.

Sverige: Migrationsverket. Numbers do not include work with duration less than 3 months after 1.5.2004. Numbers include applications, not granted permits, but approx. 95 percent of all applications are approved. Persons with employment for 1 year or longer get a 5-year permit, if employment is for a shorter period than 1 year, the duration of the permit will equal the employment period.

All countries: Seasonal work and work with duration less than 3 months is included if registered. National differences in registration routines must be considered when countries are compared.

Figure 3 Number of first-time EEA permits granted to workers from the EU-8, May 2004 – August 2005, by receiving country. All permits, and permits with a duration of more than three months. Source: Directorate of Immigration, Norway.

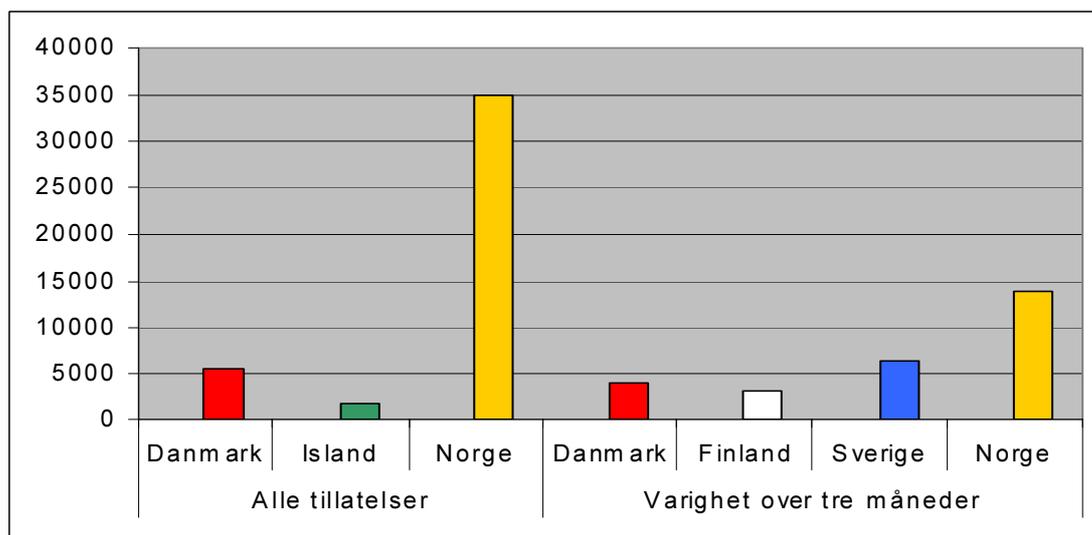


Table 2 Number of first-time EEA permits granted to workers from the EU-8, May 2004 – August 2005, by sending and receiving country. Permits with a duration of more than three months.\* Source: Directorate of Immigration, Norway.

	Denmark	Iceland	Finland	Sweden	Norway	Total	Percent
Poland	1 734	1 171	185	3 838	8 902	15 830	55
Lithuania	1 479	262	73	1 048	3 017	5 879	20
Estonia	124	62	2 594	520	591	3 891	13
Latvia	402	65	127	335	576	1 505	5
Hungary	149	24	86	288	120	667	2
Slovakia	73	146	13	90	318	640	2
Czech R.	74	60	31	145	162	472	2
Slovenia	12	1	2	19	15	49	0
<b>Total</b>	<b>4 047</b>	<b>1 791</b>	<b>3 111</b>	<b>6 283</b>	<b>13 701</b>	<b>28 933</b>	<b>100</b>
<b>Percent</b>	<b>14</b>	<b>6</b>	<b>11</b>	<b>22</b>	<b>47</b>	<b>100</b>	

\*Numbers for 2005 are preliminary

Figure 4 Number of first-time EEA permits granted to workers from the EU-8, May 2004 – August 2005, by sending country. Permits with a duration of more than three months. Source: Directorate of Immigration, Norway.

